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**Article — Digitized Version**

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Intereconomics

*Suggested Citation:* Matthies, Klaus (1983) : Government influence on energy prices, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 18, Iss. 2, pp. 90-96, <https://doi.org/10.1007/BF02928491>

This Version is available at:

<https://hdl.handle.net/10419/139854>

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## Government Influence on Energy Prices

by Klaus Matthies, Hamburg\*

**There is now widespread agreement that, in the interest of energy conservation and substitution of oil, consumer prices for energy should reflect world market prices while taking account of longer-term trends. Are the energy policies of the major industrialised countries in conformity with this demand?**

Even the first dramatic increase in the price of crude oil in 1973-74 prompted many and varied efforts to restrict energy consumption and to find substitutes for oil. Simultaneous attempts to keep the increase in the prices of energy products as small as possible were somewhat at variance with these efforts. Since then, however, the public has grown more aware of the function of "correct" energy prices. This change stemmed partly from the fact that administrative solutions often proved to be an unsatisfactory tool and that delay in adjusting prices had even led to temporary supply difficulties. The governments of the industrialised countries are now unanimously agreed that consumer prices for energy should reflect world market prices – which strictly speaking only exist in the case of oil at present – while taking account of longer-term trends.<sup>1</sup> This is to be taken into consideration wherever the state has direct control or indirect influence over energy prices.

There continue to be substantial differences in the level of national energy prices. In several countries this has caused businessmen to complain repeatedly of competitive disadvantages due to high energy costs in comparison to those of their foreign competitors. In the United Kingdom for this reason an Energy Task Force was set up within the National Economic Development Council to examine price differences in the industrial field among European countries.<sup>2</sup> The fact that petroleum is an easily traded commodity with relatively low transport costs, at least in relation to its present commodity value, tends in principle to prevent the development of large differences in national energy price levels. That being the case, the question arises as to the effect of national energy policies in the seven major western industrialised countries on the level and trend of energy prices in recent years.

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The possibilities for state influence on the energy markets are numerous, encompassing direct state participation in companies in the energy sector, volume controls, price regulation and the imposition of taxes and duties on domestic and foreign sources of energy.

In countries where the state has a relatively large stake in industrial firms, such as Italy, France and the United Kingdom, the same generally applies in the energy sector. The extent of state participation in energy companies is not, however, an adequate indicator of the state's influence over the energy markets. State energy concerns in many countries in fact enjoy far greater entrepreneurial autonomy than private companies in other countries. In some instances this is due to fundamental differences in the economic and social systems. In Japan, for example, the government traditionally exerts decisive influence over the domestic oil industry – and all other industrial sectors as well – through the system of "political guidance" without needing any legal basis to do so. Even apart from this factor, however, the parameters of energy policy in the various countries are more important than the position regarding ownership. Governments influence energy prices in a variety of ways: directly via price controls, indirectly via excise duties, other levies and subsidies and also ultimately via quantitative import restrictions.

A strong motive for state intervention that overrides energy policy aims such as the protection of resident energy consumers is the desire for revenue to finance state expenditure. This finds expression in the taxation of fuels, which was already relatively high before the first

<sup>1</sup> Cf. the Annex to the Resolution of the Council of Ministers of the European Communities of 9th June 1980, in: Official Journal of the European Communities No. C 149 of 18. 6. 1980, and the Communiqué of the Meeting of Ministers of the IEA of 15th June 1981.

<sup>2</sup> Cf. Report of the NEDC Energy Task Force, London, February and November 1981.

oil crisis and which in some countries is earmarked expressly to finance road-construction. It was only when the aim of reducing the dependence on imported oil was added to these traditional objectives after the massive rise in oil prices that the curbing of oil consumption became an additional motive for raising the duties on oil products.<sup>3</sup> Nevertheless approaches such as these often meet with resistance for general economic or social reasons.

### Energy Price Controls

Dissimilarities in the general orientation of economic policy and also the different importance attached to possibly competing motives for state intervention lead to marked differences among countries in the choice of energy policy measures. Four countries – the Federal Republic of Germany, the United Kingdom, Japan and the USA – at present have no price controls for energy products, if one ignores gas and electricity rates. In the USA natural gas constitutes an important exception; its price will continue to be “regulated” until the mid eighties as a relic from earlier years. In the United Kingdom the state exerts indirect influence over coal, gas and electricity prices via its power to issue guidelines and the budget’s financial limits on state enterprises in this field; oil prices are based on the world market price, both for exports and domestic sales. In Japan the government introduced “price checks” for petroleum products and set upper ceilings in 1979; this system was abolished in April 1982, but the government retains indirect influence on the market via production quotas for the refineries.

The most far-reaching systems of price regulation are to be found in France and Italy. In both countries, however, the general price controls on petroleum products have been relaxed – in 1980 in Italy and in 1982 in France – with the introduction of more flexible procedures, such as guidelines or formulae for “automatic” price adjustment.

Canada is a special case. The prices of Canadian oil and gas were cut free from developments on the world market while prices were low and they are to be brought closer to the world market level only in stages. Canada is the only IEA country that does not intend to comply fully with the Agency’s recommendation to “take steps

<sup>3</sup> Cf. in this connection the proposal of the Board of Experts (Sachverständigenrat) in the Annual Assessment for 1979/80, Bundestagsdrucksache 8/3420, paragraphs 437 ff.

<sup>4</sup> Cf. IEA: Energy Policies and Programmes of IEA Countries, 1981 Review, Paris 1982, p. 146.

<sup>5</sup> Excluding subsidies for the conversion of coal into electricity (Third Electricity-from-Coal Law); the contributions paid in this regard are raised from electricity consumers via the coal levy (Kohlepfennig).

to increase domestic oil prices to world market levels”<sup>4</sup> either now or in future.

The systems for taxing and subsidising energy differ widely among the industrialised countries. Apart from sales taxes, which are levied in all countries – albeit at different rates and only on certain sources of energy – there are special excise duties, especially on petroleum products. The main burden of taxation falls on motor fuels – in Japan and the USA the revenue is earmarked for road-construction – and hence on the consuming sector with the least opportunity for substitution over the short and medium term; this points to the pre-eminence of the revenue-raising motive. Heating oil, on the other hand, attracts relatively low rates as a rule. The taxes, which are mostly levied on a volume basis, have been increased at very irregular intervals in most countries. Even if allowance is made for this, the burden of taxation differs considerably from one country to another, so that price differences are generally larger after tax than before. This is particularly true of motor fuels; here the rates of taxation are highest in the European countries, with Italy in the forefront. Motorists in the USA have by far the lowest burden of tax; the Federal gasoline tax remained unchanged from 1954 to the end of March 1973. It is conspicuous that in deference to the transport industry Italy has kept the duty on diesel fuel very low in comparison not only with rates in other European countries but also with Italian duty on petrol. Other sources of energy are generally taxed much less heavily than petroleum products. Only in a few cases do the resultant differences serve recognisable energy policy objectives.

In all countries certain uses of energy are partially or wholly free of specific duty and individual energy sources are subsidised. The coal-producing countries of the EC and Japan subsidise their hard coal production in order to preserve the industry, partly for reasons of employment and regional policy and partly on energy policy grounds. Within the EC subsidisation down to the level of coal import prices is permitted. Just as production costs differ from one country to another, so too does the level of subsidy. If we consider grants for current production, subsidies in 1981 ranged from DM 17 per tonne of hard coal in the United Kingdom to DM 31 in Germany<sup>5</sup> and DM 58 in France.<sup>6</sup> If all subsidies are taken into account, including the sometimes considerable payments in respect of miners’ social security, the differences are even greater: on this basis British coal was subsidised to the tune of DM 20 per

<sup>6</sup> Cf. Commission of the European Communities: The Community Coal Market in 1981 and the Outlook for 1982, in: Official Journal of the European Communities No. C 131 of 24. 5. 1982, Table 16.

tonne in 1981, while in Germany and France the figures were DM 160 and DM 280 respectively.<sup>7</sup> In addition to providing subsidies, Germany protects the domestic coal industry by means of statutory restrictions on third country coal imports partly linked to sales of indigenous coal. In France the government also sets quotas and a state agency handles coal imports. No statutory regulation exists in the United Kingdom, but there is a generally recognised code of practice that limits coal imports to the strictly necessary quantities of special grades of coal.

Apart from subsidies for coal mining, there are also concessions for a series of consumers of petroleum products, chiefly on structural policy considerations. These apply to rail traffic, public passenger services, inland waterways, aviation, agriculture and fisheries. Most of the exemptions cannot be justified on energy policy grounds.

#### National Characteristics

Viewed in terms of the current price formation mechanisms, four of the countries under examination – Germany, the United Kingdom, Japan and the USA – can at present be regarded as countries without state control over the prices of petroleum products and most other forms of energy, the main exception being electricity and gas rates.

In France, Italy and Canada the governments continue to apply controls. Nevertheless, in recent years the systems of regulation have been modified so that domestic energy prices more closely reflect the level and trend of world market prices. The country to which this applies the least is Canada; it is the only country in which the prices of indigenous crude oil and natural gas continue to be held well below world market levels by state regulation.

However, cursory examination highlights the fact that direct government intervention in price formation mechanisms is generally not the most important influence on the level of energy prices in a country. Tax provisions, such as the relatively high taxation of motor fuels in the western European economies, play a much greater role. Quantitative controls can also cause the price of an energy source to diverge far from the world market level without direct state intervention in price formation, as the example of hard coal production in Germany shows.

In view of the numerous influences mentioned above, the price effects of national energy policies are difficult

to determine or quantify without serious reservations. The remainder of this article will investigate the extent to which a link can be ascertained in the individual countries between the level and trend of energy prices on the one hand and energy policy on the other.

#### Energy Price Levels in Major Countries

Since the first oil price crisis there have been several attempts to compare national energy price levels, most of them conducted by international organisations that have the easiest access to the necessary data. Comparisons of this nature face a number of formidable problems. The very data on which they are based are inadequate in two respects – the information on prices is incomplete and the figures that are available are often not comparable. In spite of great efforts to improve price data, especially by the EEC and the IEA, price transparency remains low over broad areas. The most reliable data relate to the prices of motor fuels and of those energy products for which demand comes primarily from households. The industrial sector, on the other hand, is difficult to assess, for in most countries the prices paid by large consumers are negotiated individually and such contract prices, which affect the greater part of the consumption of energy by industry,<sup>8</sup> are not normally published. As a rule of thumb, it may be said the more important the consumer the more scanty the price information.

Apart from the problem of inadequate data, there is the question of the appropriate conversion factor, which arises in every international price comparison. It would seem logical to take the US dollar as a basis, chiefly because crude oil is priced in that currency on the world market. In analysing the results, however, one must not overlook the fact that conversion at current exchange rates not infrequently leads to distortions. The exchange rate effects of changes in inflation differentials are often outweighed by other factors such as shifts in current account positions or interest rate disparities, particularly over the short term. The consequent changes in purchasing power parities – represented by movements in real exchange rates – also affect the relationship between the energy prices paid by final consumers in the currency areas under comparison. The incomplete, or at least delayed, adjustment of prices for domestic sources of energy plays a role in this.

The latest comprehensive IEA comparisons of national energy price levels in the seven major

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<sup>7</sup> Estimated on the basis of the NEDC Report of November 1981, *op. cit.*, the Annual Reports of Charbonnages de France and the UK National Coal Board and press reports.

<sup>8</sup> In the United Kingdom 1 % of industrial users of gas account for 70 % of industry's total gas consumption for energy purposes. Cf. NEDC, November 1981, *op. cit.*, p. 13.

industrialised countries relate to 1980.<sup>9</sup> The calculations are based on final consumer prices for the principal energy products weighted according to consumption volume and including taxes. The procedure cannot be reconstructed in detail, especially as only the ratios for the countries under review have been published. Japan stood out as the country with the highest energy prices. In western Europe there were only small price differences among the countries considered. By comparison, the USA and especially Canada had much lower energy prices; in Canada they averaged only about half those in Germany<sup>10</sup> (see Table 1).

In itself, a single year is not a reliable yardstick for such a comparison because of the existing and often rapidly changing distortions in exchange rates, as measured in accordance with purchasing power theories. Nevertheless, even in a multi-year comparison the IEA study shows the prices of energy products to be highest in Japan and lowest by a long chalk in North America, although the differences are not so pronounced nor consistent in every year. In western Europe, on the other hand, a further distinction is evident in the years up to 1980 in that energy prices in the United Kingdom and Italy are markedly lower than those in France and Germany.

As far as the price relevance of energy policies in the countries in question is concerned, it can be seen that in the period under review countries with a high degree of

price freedom appear both in the upper portion of the energy price scale – Japan and Germany – and in the lower part – the USA. Among the other countries only Canada's low price policy had any clear impact, whereas France, for example, was one of the countries with relatively high energy prices in the period under review in spite of stringent price controls. In some but by no means all cases the different level of taxation on important energy products, such as the relatively high rate of duty on motor fuel in western European economies, helps explain the disparities.

### Developments since 1973: Crude Oil

The scale of the oil shocks can be seen from the fact that the average export price of crude oil rose from \$ 2.50 to 35 per barrel between 1972 and 1981. Leaving aside transport costs, the increase in the price of crude oil for importing countries was of the same magnitude, subject to slight variations according to the grade and country of supply.

There were very substantial differences in the price rise expressed in national currencies owing to movements in exchange rates. Measured on this basis, the average price of imported crude oil rose by a factor of eight and a half in Germany and tenfold in Japan between 1972 and 1981 but increased nineteenfold in Italy; in the other countries the increase lay between these figures.<sup>11</sup> As movements in exchange rates are determined largely by relative inflation rates, the differences mainly reflect inflation differentials among the economies. Measured in relation to the increase in the GNP deflator for each country, the rise in the import prices of crude oil in the period in question was between fourfold and sixfold for almost all of the countries examined; only in the USA was the figure somewhat higher.

The increase in the price of petroleum products was slightly smaller than that in crude oil in view of the domestic value added it contains. According to IEA calculations for the period from 1970 to 1980 relating to the seven countries under consideration, every 1 % rise in the import price of crude oil led to an average increase of 0.4 % in the price of petrol, one of 0.7 % in the price of heating oil consumed by households and small consumers and one of 0.8 % in the prices of fuel and gas oil for industry.<sup>12</sup> The underlying effect of differences in the rate of duty was partly responsible for this, as nowhere did it even remotely keep pace with the

**Table 1**  
**Absolute Nominal Energy Prices to Final Users**  
**in Major Countries, 1974-80**  
USA = 100<sup>a</sup>

Years	Federal Republic of Germany	France	United Kingdom	Italy	Japan	Canada
1974	159.6	143.4	123.1	129.1	152.5	90.6
1975	157.2	157.2	137.7	138.3	158.9	91.0
1976	148.7	138.8	116.7	122.9	155.2	99.0
1977	140.8	133.5	113.5	128.1	155.0	91.8
1978	153.9	147.2	120.7	133.1	170.1	91.1
1979	144.8	140.5	122.1	120.9	141.6	73.0
1980	127.0	133.7	129.8	126.9	153.3	66.7

<sup>a</sup> Converted at current exchange rates.

S o u r c e : OECD: Economic Outlook 29, Paris, July 1981, p. 47.

<sup>9</sup> Cf. OECD: Economic Outlook 29, Paris, July 1981, Table 24, p. 27.

<sup>10</sup> A calculation by the International Monetary Fund, to which there will be further reference below, comes to broadly similar conclusions. The most important difference lies in the fact that Germany and Japan are shown to have the highest energy prices, although the gap between them and the other western European countries is relatively small. Cf. IMF: World Economic Outlook, Washington, D.C., June 1981, p. 148.

<sup>11</sup> The import values were calculated on the basis of the OECD foreign trade statistics, Series C and Microtables.

<sup>12</sup> Cf. IEA: World Energy Outlook, Paris 1982, p. 81.

rise due to the price of oil. Whereas in 1973 the rates of duty on premium petrol ranged from 32 % of the net price in the USA to 287 % in Italy, by the beginning of 1983 they had fallen to 12 % and 158 % respectively, with a similar development occurring in the other countries.<sup>13</sup>

A comparison between countries shows that over this period there were repeated large short-term shifts in the relative price of petrol that partly reflected differences in the timing and scale of increases in duty. However, government price policy was clearly another significant factor. For example, in 1974 and 1979 petrol prices in Germany reacted much more strongly to the oil price rises than did those in the other industrialised countries. This was probably due to the fact that in most countries the market for petroleum products was not left quite as open to world market forces as it was in Germany. Over the entire period, however, this did not lead to corresponding shifts in relative prices. If duty is included, petrol prices have in fact risen slightly less in Germany than elsewhere.

In the case of fuel oil the declining effect of taxation on price developments was evident only in the industrial sector, where in some countries duties are also by volume, although at a much lower rate. By contrast, the relative rate of duty fell only slightly in the household sector because of the effect of value added tax, which is expressed as a percentage rate. The rise in the gross price of heating oil was therefore noticeably higher than that in petrol prices in all countries.

### Other Sources of Energy

Increases in the price of crude oil, the most important energy source, affect not only the prices of petroleum products but also those of other sources of energy, as events since 1973 have demonstrated. Suppliers exploited the potential for price increases all the more, as until 1973 there had been little or no possibility of passing cost increases on to the consumer in view of the cheapness of oil. The prices of coal, electricity and especially gas therefore to a large extent emulated the movement in the prices of the main petroleum products. In the countries examined, natural gas prices charged to industrial users increased by almost as much as the

prices of petroleum products. Overall, the prices paid by households reacted less strongly than those for industrial consumers.<sup>14</sup>

There was some delay, however, before the prices of other energy sources adjusted to the sharp rise in those of petroleum products. In 1974, the year after the first oil price explosion, they increased by about two-thirds as much as oil products.<sup>15</sup> To some extent the time-lag was caused by the terms and conditions of contracts; this was true in the case of natural gas, for example. The gap gradually narrowed in the years that followed. In the wake of the second oil price explosion, in other words since 1979, the sympathetic rise in the prices of energy sources other than oil seems to have been less pronounced – at least so far. This may be partly due to the fact that the pent-up costs pressure on energy producers was probably less than at the time of the first oil price shock and their earnings position better. Moreover, in the intervening years the initially rather inflexible range of other sources of energy has been expanded.

Energy policy has undoubtedly had an influence on the increase in the prices of other sources of energy induced by the oil price rise. In general this has meant that increases have come later than would have occurred had there been no price regulation, partly because of the time required to reach decisions but also because of the attempt to hold down price increases, particularly in the early years. However, it is impossible to quantify the effect of policy in the various countries. In view of the greater insight into the problems caused by artificial restraints on energy prices, its influence has clearly declined in importance over the last few years.

Against the background of the energy problems caused by the oil price explosion of the seventies, one of the key questions is whether the development of energy prices during the entire period since 1973 has been noticeably affected by national energy price policies. Any attempt to arrive at an answer is immediately beset by the difficulties associated with measuring the level of energy prices. The above-mentioned study by the International Monetary Fund, which traces the development of prices from the first quarter of 1973 to the final quarter of 1980 (see Table 2), suffers from the shortcomings of a "snapshot" comparison that have already been described. To this extent the results can be regarded only as an approximation; nevertheless, many of its assertions are borne out by the IEA calculations available from 1974 onwards.

According to the IMF data, energy prices in the four western European countries rose threefold in dollar

<sup>13</sup> Cf. for EC countries: Commission of the European Communities: Energy Pricing – Policy and Transparency, Brussels, October 1981, and the Commission Oil Bulletin; for the other countries: International Petroleum Annual; Statistical Abstract of the USA 1981; DOE: Monthly Energy Review; IEA: Energy prices in the third quarter of 1982, Paris, December 1982.

<sup>14</sup> IEA: World Energy Outlook, op. cit., p. 85.

<sup>15</sup> Ibid., p. 86.

terms during the period under review. The differences from one country to another were small in spite of the disparities in their energy industries and energy policies. The rise in energy costs was steeper in the USA, simply because it began from a low level; in absolute terms the increase was actually smaller than in western Europe. By far the largest rise occurred in Japan. Apart from the low initial level of prices here, too, a contributory factor was Japan's extremely high dependence on imports, which made the country particularly vulnerable to world market forces. At the other extreme is Canada, where the abundance of indigenous energy resources has enabled the country to sever the link with world market prices by means of energy policy measures, although not entirely without problems.

The increase in the cost of energy products in relation to that of other factors of production in individual countries is decisive for the spur to conserve energy. The real energy price level shown in the IMF calculation can serve as a rough indicator. During the period under review it doubled in Japan and rose almost as much in the USA, while in most of the other countries it increased by about 40-50 %. By contrast, real energy prices rose hardly at all in the United Kingdom<sup>16</sup>; this is all the more remarkable as the British Government set the prices of domestic crude uncompromisingly at the world market

<sup>16</sup> An OECD calculation for the period 1973-81 reaches similar conclusions. Only Italy, with an extraordinary increase in the initial years, shows an almost inexplicably large deviation. Cf. OECD: Economic Outlook 30, Paris, December 1981, p. 52.

level. The smallness of the real increase in energy prices clearly reflects to a large extent the real appreciation of the pound sterling – particularly in 1979 and 1980 – which curbed the rise in a price that is strongly determined by the world market in relation to the increase in the prices of other goods. The strength of sterling itself derived from the pursuit of a monetary policy aimed at stabilisation combined with an improvement in the UK current account owing to the growth of the oil sector. As a rule it is clear that the outcome of energy price policies ultimately depends to a large degree on other factors.

### Barely Discernible Link

Bearing in mind the reservations expressed about the meaningfulness of the available comparisons, a link between the longer-run trend of national energy prices and a country's energy policy is only barely discernible. The exception to the rule is Canada, with its policy of low energy prices based upon abundant resources. In the USA influences such as these seem to have checked the rise in energy prices, in absolute terms and in US dollars, during the period under consideration (the deregulation of oil prices had not been completed by 1980). The United Kingdom is an example of the opposite tendency; although the country is now self-sufficient in energy, world market forces were allowed to have a considerable influence on energy prices. In the other countries the high dependence on imported energy clearly made it impossible to sever the link with

**Table 2**  
**Increase of Energy Prices in Major Countries**

1st quarter of 1973 to 4th quarter of 1980

	Federal Republic of Germany	France	United Kingdom	Italy <sup>a</sup>	Japan	Canada	USA	Together
	percentage increase							
<b>Import price of petroleum and petroleum products<sup>b</sup></b>								
in US dollars	791	991	999	956	1042	1278	1125	1067
<b>Energy prices to final users</b>								
in US dollars <sup>c</sup>	219	211	231	193	442	137	270	261
in local currency	120	209	244	368	314	184	270	257
in real terms (in relation to the general price level <sup>d</sup> )	51	49	13	38	107	38	81	71
	in US dollars per tonne of oil equivalent							
<b>Energy prices to final users</b>								
1973 <sup>e</sup>	163	156	140	148	95	97	94	109
1980	521	485	464	435	514	230	346	392

<sup>a</sup> Energy prices for private households only. <sup>b</sup> Unit values. <sup>c</sup> Calculated from data named in the source. <sup>d</sup> Weighted average of producer and consumer prices. <sup>e</sup> To be regarded as approximations in view of the indirect method of calculation.

Source: IMF: World Economic Outlook, Washington, D.C., June 1981, p. 148. For details of the calculation, see the source.

world market prices. It is open to doubt whether the relatively moderate increase that the calculation shows for energy prices in Italy is significant in view of the incompleteness of the data for that country. Nonetheless, it was precisely in Italy that the periodic supply difficulties caused by a low price policy demonstrated the limits of such manipulation. For all that, the movement of energy prices in relation to those of other factors of production, which is of crucial importance for the adjustment to the rise in the cost of energy, still depends to a large extent on developments not connected with energy policy.

Quite apart from the methodological limitations of the comparative figures used here, the fact should not be overlooked that the process of adjustment in the energy sector and in the economy as a whole requires considerable time and that there was a further escalation in oil prices at the end of the period under review. It is not possible to take the analysis further at this stage, but when that is done it will again be severely hampered by the problems resulting from substantial shifts in real exchange rates owing to the trend of the US dollar.

### Energy Price Policies in a Dilemma

In spite of fundamental agreement about the aim of promoting energy conservation and the substitution of oil with the help of world market-related prices, there continue to be differences in the intensity and form of the influence that national energy policies exert on energy prices. The differences stem partly from distinctions in prevailing economic principles, historical market structures and, not least, supply conditions. In addition, energy price intervention, taxation and subsidisation are the result of decisions based not only on purely energy policy objectives but also on other considerations such as cyclical, fiscal and structural policy. Adjustment to the oil price explosion by turning to alternative fuels and by conserving energy often calls for measures that conflict with short-term economic policies aimed at stabilising prices, strengthening competitiveness and also avoiding friction in the process of structural adjustment. The dissimilarities in the energy policies and, especially, energy price policies pursued by the various countries are to a fairly large degree an expression of the different solutions to these conflicts.

The differences in national energy policies may have appeared to be of little consequence for the actual long-

term trend of energy prices in most countries in the past, but the increasing attention paid to the role of market-oriented prices has favoured the removal of administrative obstacles and hence accelerated the adjustment of national prices to world market developments. The fact that substantial differences have remained not only in the structure of energy prices but also in their level can come as no surprise, given the contrasting supply conditions. Governments are not even seeking uniformity, provided that the differences reflect the "true" market situation or are an expression of political priorities that do not conflict with the common objectives of energy policy.<sup>17</sup>

Nevertheless, the general orientation to world market prices and the attention paid to longer-term cost developments does not chart a clear course for energy policy. On the contrary, the need to predict the long-term trend in the costs and prices of the various energy sources throws up difficult questions. This has become particularly clear in the last two years, when expectations of the long-term movement in the price of oil and hence of energy in general have reflected, to a certain extent, the dramatic changes in the situation on the world crude oil market. Nevertheless, shortages must continue to be expected over the medium term, so that a further rise in real energy prices remains probable. In these circumstances, use of the prevailing world market price as a benchmark becomes problematic if it shows a downward trend, as has been the case with the price of crude oil since 1981, for it is highly likely that the temporary decline in prices, which may nevertheless last for several years, will have a noticeable dampening effect on consumers' long-term energy price expectations and thus hamper efforts to conserve energy and promote oil substitution. Energy policy is then faced with the question whether government measures to raise energy prices – in the shape of specific excise duties or import levies – are a suitable instrument for ensuring the necessary process of structural adjustment.<sup>18</sup> Even if the answer is in the affirmative, the chances of implementing such a policy, which goes much further than orientation to prevailing world market prices, are to be regarded as slim in the light of experiences to date.<sup>19</sup>

<sup>17</sup> Cf. in this regard the Annual Assessment for 1982/83 by the Board of Experts, which "in principle" endorses special duties to correct market developments if current prices and price expectations do not adequately reflect the scarcity of energy; see: Bundestagsdrucksache 9/2118, paragraph 270.

<sup>19</sup> Recently there have been indications of a change of mind: the Italian government just announced plans to impose or increase duties on refinery products in order to prevent the passing through of falling crude oil prices. Motor fuel taxes have already been raised several times when pump prices were about to fall. Cf. Rom will Ölpreiseinsparungen abschöpfen, in: Frankfurter Allgemeine of 15. 3. 1983.

<sup>17</sup> Cf. the remarks of the Council of Ministers of the European Communities of December 1981, quoted in: Commission of the European Communities: Energy Pricing: Developments in Community Policy for 1981-82, Brussels, October 1982.