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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

on the consequences of the war in Iraq for energy and transport

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The war in Iraq will have major repercussions, and not all the implications can be measured at this stage. This Communication is only a first reaction to the consequences of the war in terms of energy and transport. Clearly, in the light of the course of events, adjustments may be necessary.

In order to prepare the analysis of the Commission in these sectors, a Task Force to analyse risks in the fields of energy and transport was set up by the Directorate-General for Energy and Transport last December. Its terms of reference were to provide information for the Commission's other rapid reaction centres (DG RELEX's Crisis Room and DG ENV's Alert Centre). Its mission is mainly to identify the sources of risks and the degree of vulnerability of energy and transport infrastructure in the EU, the candidate countries and neighbouring countries.

In anticipation of the war in against Iraq, a series of measures were prepared to deal with the most immediate problems.

1. AIR TRANSPORT

European civil aviation is likely to be affected by the war in Iraq. The impact on the air sector is likely to be manifested in at least three ways:

- closure of airspace in the region of the conflict and the rerouting of traffic, essentially through Russia;
- congestion of airspace above Europe on account of the priority given to military operations over civilian traffic;
- and, last but not least, a reduction in demand. The aviation industry anticipates a fall in revenue at world level of around EUR 6 billion in the event of a war lasting three months (IATA¹ data). However this fall in revenue could rise if the war were to be extended beyond expectations.

The impact of the war on the situation in the civil aviation sector, which is already confronted with a need for consolidation, should not, however, be overestimated (see Annex I on the present situation in the sector). The reduction in flights to the Near and Middle East will not necessarily spread to all routes. It is clear that it will depend on the overall economic slowdown and the usual psychological hesitations normally observed in a period of conflict.

The Commission is examining a series of measures to support the sector. However, the Commission cannot accept measures which would have the effect of creating

¹ International Air Transport Association.

distortions between States and companies, or accept that the present situation might serve as a pretext to delay necessary restructuring. The importance of strict compliance with the rules of the EC Treaty concerning State aid should be reiterated. The Treaty provides for the possibility of dealing with extraordinary events (Article 87(2)(b)). The Commission has already had recourse to this provision in the air transport sector when circumstances so justified.

As a reminder, during the first Gulf War in 1991 and especially following the attacks of 11 September 2001, the Commission had already taken, for a limited period, a series of measures designed to enable the airlines to deal with short-term difficulties:

- favourable examination of certain types of State aid intended to offset the additional costs of security insurance;
- possibility for the Commission, on a case by case basis to authorise, under the competition rules applicable to air transport certain cooperation agreements between airlines; in particular favourable treatment for service coordination agreements aimed at ensuring satisfactory services on less frequented routes or during low periods;
- more flexible rules concerning the allocation of airport slots.

The industry reacted well to these difficulties, and traffic resumed shortly after the war. However traffic was slow to recover after 11 September.

A series of similar measures should now be envisaged.

1.1. Financial support for airlines

After 11 September, the insurance companies, without notice, withdrew coverage of terrorism and war risks, obliging the Member States to stand in for them and the Commission to monitor their intervention in the context of the supervision of public aid, but in this case the consequences will, in all expectations, be more limited.

In anticipation, on 10 March 2003 DG TREN convened the *ad hoc* group of Member States' insurance experts set up after 11 September. This group took stock of the market situation. Most of the Member States' representatives considered that withdrawal of third party liability cover is not to be expected. The experts anticipate a major increase, but limited in time, in premiums for flights to the Gulf region. Certain Member States have, however, requested the Commission to examine the possibility of reintroducing a mechanism for the monitoring of aid in the event of a significant increase. The Commission departments will continue to monitor the development of this situation, day by day, so as to be in a position to react and coordinate any reactions by the Member States.

In parallel, the US Administration, and also other third countries are likely to adopt direct aid measures for their companies. It will then be necessary to verify the impact of these support measures on European companies. In this context, mention should be made of the Commission's March 2002 proposal concerning unfair air transport practices. The aim of the proposal is to give the Commission a commercial anti-subsidy defence instrument similar to that which exists for other sectors. It is therefore essential that the Council and the European Parliament should adopt this

proposal rapidly in order to avoid any distortion of competition with regard to third country companies.

1.2. Security measures

Immediately after the 11 September attacks, the Commission submitted a proposal for a Regulation establishing common rules concerning airport safety. The Regulation was adopted by the Council and the Parliament in January 2003. It lays down common rules for the inspection of luggage and passengers and organises control procedures. As from July 2003, the Commission will assume responsibility for surveillance of effective compliance with the Regulation throughout Community airports.

The war in Iraq could necessitate stepping up day-to-day cooperation between the national security authorities and the Commission so as to have a collective response capability in the event of special problems at a particular location on Community territory.

In the Commission's opinion, the responsibility for strengthening security measures should be assumed by the public authorities. It goes without saying that if certain measures are imposed directly upon the airlines and other operators in the sector, such as airports, the ground handling assistance service providers and air navigation service providers, their financing by the public authorities must not give rise to operating aid incompatible with the Treaty.

1.3. Slots

The Community Regulation concerning the allocation of slots provides that an air carrier may keep slots assigned to it only if it has used them during at least 80% of the period (season) for which they were allocated.

However, the Regulation also accepts the exceptional circumstances, i.e. unforeseeable and inevitable cases over which the carrier has no control, which may have an impact on the use of slots and justify not losing its slots for the following season.

Following the 11 September attacks, the Commission had proposed that airlines keep their slots not used for exceptional reasons. The Commission is examining the advisability of a similar approach for the 2003 summer season.

2. MARITIME TRANSPORT

The impact of the war on world trade will have undoubted repercussions on maritime transport the margins for which are now extremely small. However, it is especially the security shortcomings which are likely to be put in the spotlight.

Maritime transport has, late in the day, realised how vulnerable it is, following the attacks of 11 September, after which all modes of transport were assessed by the public authorities.

In this context, a communication on maritime safety will be adopted shortly. It includes a proposal aiming to transpose the recent international instruments

concerning security (amendment of the SOLAS²Convention and a new International Ship and Port Facility Security Code) negotiated at the International Maritime Organisation Diplomatic Conference last December. Once adopted, this proposal should enable significant progress to be made with regard to the security of ships and port facilities.

However, additional work is needed in other international arenas (World Customs Organisation, G8, International Labour Organisation) and within the Community in order to deal with the problem as a whole and counteract any counter-productive bilateral initiatives. Obtaining a negotiating mandate on 18 March to replace the American unilateral approach to containers (Container Security Initiative) is an important step in this respect. In the same vein, it is essential to ensure the effective implementation by our Member States of the measures adopted, so as to be in a position to require third parties to recognise our security levels and ensure the reciprocity of measures.

Lastly, additional action should rapidly be taken in order:

- to support the work of the International Labour Organisation with regard to the identification of seafarers for the purposes of immigration control and anti-terrorist action,
- to define additional security measures to be introduced within Community ports (securing of port areas and staff) and draw up appropriate legislation.

3. GALILEO

The attitude of the American authorities regarding the availability of the GPS signal during the conflict is open to question. Several options are possible: limited scrambling of the signal in the war area and a reduction in signal quality worldwide for all civilian users. The impact of their decisions on transport and other sectors dependent on satellite navigation will need to be carefully analysed.

In this context, the Commission would point out that the European Council meeting on 20 and 21 March 2003 requested that the Barcelona conclusions concerning Galileo should be implemented fully and without delay.

4. OIL

4.1. Oil Price

An increase in oil prices has been underway over the past few months in anticipation of a possible conflict: this increase has continued in spite of a decrease in the basic price per barrel declared by OPEC, a clear indication, if one was needed, of the strong role of speculation on prices.

Oil imports from Iraq to the European Union account for less than 3.5 % of our overall imports (cf. annex II). A sudden interruption of Iraqi oil would therefore not

² Safety Of Life At Sea.

have any dramatic consequence on the stability of our supplies, especially in view of the declarations of Saudi Arabia which accounts for 12 % of EU imports and has committed itself, in coordination with other OPEC members, to compensate for any shortfall from Iraqi exports. The production of the first two oil exporters to the EU, Norway with 22.9 % and Russia with 22.5 % will not be directly affected by the conflict in Iraq.

The consequences of a conflict on oil production and the evolution of oil prices are very difficult to predict. According to many analysts, the current price (cf. annex III) includes already a war premium not justified by the market situation. The following factors will in any case play a key role:

- the length of the war will have an immediate effect on the prices:
 - in case of a short conflict it can be expected that prices will peak highly fluctuate
 - in case of a more prolonged conflict, price levels will remain more volatile and reach a higher level. No serious disruption of supply can be envisaged, but it can be expected that speculation will keep the prices high.
- the spread of the conflict will have an impact on prices and on security of supply:
 - a localised conflict in Iraq, even if prolonged, would not have direct effects on the offer, even in case of destruction of Iraqi oil fields
 - a conflict that spread to other countries in the region would on the other hand raise the issue of supply security and lead to shortages and high prices.

4.2. Management of oil stocks

Oil prices may be affected by other developments, notably a release of the American strategic oil reserves: the International Energy Agency (IEA) could also envisage a coordinated intervention on stock release. This last option is at this stage unlikely due to the difference of views within the IEA and its traditional reticence to act due to its wide membership which includes numerous non-European countries³: many of these member countries have in the past preferred unilateral action rather than coordination through the IEA.

The Commission has held a meeting of the Group of Oil Supply experts on 13th march to review the state of oil stocks and expectations of Member States. All Member States have confirmed that oil stocks in the Community are healthy at an average of 115 days of needs, well above the minimum 90 days set by the IEA.

³ The International Energy Agency has 26 members including the 15 EU Member States plus the USA, Canada, Japan, Australia, New Zealand, Switzerland, Turkey, Hungary, Norway (which has a special agreement), the Czech Republic and the Republic of Korea (in 2002).

In case of conflict or sharp price fluctuations, the experts could be reconvened by the Commission at short notice in order to review coordination of national measures. Measures could also include agreement on energy saving provisions: it could be considered whether such measures should be the object of a Commission's proposal.

The proposal for Directives for the "communautarisation" of oil and gas stocks, adopted by the Commission last September 11th, are still under discussion in the Council and Parliament: it is however already possible to coordinate Member States' action on the basis of existing legislation and their more general obligations under the Treaty.

In this context it should be recalled that the Commission has the power to make proposals to face severe difficulties of supply. These proposals based on Article 100, can be adopted by qualified majority⁴.

It should also be envisaged to coordinate Member States position within the IEA in order to put forward common European proposals and strengthen cooperation with the IEA.

4.3. Coordination of fiscal measures

In case of high oil prices leading to a sustained increase in fuel price, Member States have shown in the past a tendency to adopt unilateral fiscal measures to reduce the pressure on the transport sector. At all events, as the Commission has already pointed out, in the event of a rise in the price of oil, measures should be taken to discourage the temptation to offset the price rise by a reduction in taxation. This approach, supported by the informal Ecofin Council in Versailles in September 2000, was not actually followed up by a number of Member States which reduced excise duties on motor fuel following the rise in the price of oil.

4.4. Security Measures

Security of energy infrastructure is primarily a responsibility of the Member States: each country has its own national plans. In the current international context, it would be useful to bring together national authorities in charge of such plans in order to share expertise and foster a common understanding of major threats and the interaction of national provisions.

5. NUCLEAR SAFETY AND SECURITY

In the aftermath of September 11th, the Commission had already reviewed measures to be taken to strengthen nuclear safety and security. The Commission has a clear responsibility under the Euratom Treaty, for all matters relating to non-proliferation, control of nuclear materials, and health protection against radiation: 300 inspectors carry out regular controls on all nuclear installations in the Union and verify that the

⁴ *Article 100 (*)*

1. Without prejudice to any other procedures provided for in this Treaty, the Council, acting by a qualified majority on a proposal from the Commission, may decide upon the measures appropriate to the economic situation, in particular if severe difficulties arise in the supply of certain products.

quantity and use of nuclear materials correspond to the declared purposes. The Union is assured of the best non-proliferation control system in the world.

To strengthen nuclear safety and security further measures could be envisaged for what concerns other aspects of nuclear safety and security, such as physical security of nuclear installations, the use of radioactive materials other than those in nuclear programmes (in medicine or industry) and a tightening of controls at all stages. Member States could consider:

- a ban on flights over sensitive installations
- a temporary ban on transport of nuclear material from plant to deposit sites: radioactive material is under strict control within nuclear plants and once it reaches a deposit. It is however more vulnerable in the transportation phase: a temporary ban could therefore be envisaged. The maps in annex show the distribution of nuclear plants and depository sites across the Union (cf. annex IV).
- set up and coordinate a permanent alert system within existing means,
- strengthen security controls and access to all installations
- proceed to stricter controls of all radioactive materials which are not used as nuclear fuel (and are therefore already under strict control procedures). There are in the Union significant quantities of radioactive materials employed in the sectors, which are not subject to the same stringent criteria imposed on the nuclear industry. Many of these radioactive sources may not be officially declared and therefore escape official controls and proper disposal: it could be envisaged to recommend to the Member States to impose an automatic declaration of all radioactive sources on all operators, with sanctions for non-compliance.

Annex I: Situation of the main European airlines

Annex II: Oil imports 2002

Annex III: Recent oil price trend

Annex IV: Nuclear power plants and disposal facilities in the EU.

ANNEX 1

SITUATION OF THE MAIN EUROPEAN AIRLINES

Passenger traffic trend in 2002

This trend can be measured in terms of:

- RPK (*Revenue Passenger Kilometres*). This statistic is obtained by adding the kilometres travelled by each paying passenger. It therefore measures the level of an airline's business in real terms;
- seat occupancy: this is a statistical measurement of the match between supply and demand.

The data in question are set out in the table below for the main European airlines. The figure in brackets is the trend compared with the previous period (percentage change compared with 2001 in the case of RPK, rise/fall in the number of percentage points in the case of the seat occupancy coefficient):

2002	BA	AF	LH	IB	KL	RY
RPK (million)	99 103 (- 4.1%)	98 527 (+ 2.%)	93 642 (+ 5.2%)	40 416 (- 2.1%)	58 590 (+ 2.5%)	Not available
Seat occupancy	72.7 % (+ 3.3 p.)	76.1 % (+ 1.2 p.)	77.1 % (+ 5.2 p.)	73.0 % (+ 2.3 p.)	80.3 % (+ 2.5 p.)	81,0 % (+ 4,0 p.)

Airlines: British Airways (BA), Air France (AF), Lufthansa (LH), Iberia (IB), KLM (KL) and Ryanair (RY).

Air traffic demand fell dramatically in the last months of 2001. The general improvement in seat occupancy indicates that the airlines concerned were able to adapt their supply to the fall in demand.

The RPK trend is more varied. Ryanair's figure is not known, but has undoubtedly increased significantly. Consequently, four airlines out of six have increased their business. Iberia has suffered a slight reduction. The special case of British Airways, which was more severely affected than the others because of its great dependence on the trans-Atlantic market, should be noted. However, this airline has implemented a stringent restructuring plan welcomed for its scale and results by many analysts.

These figures reflect the effectiveness of the measures taken by most of the airlines to rationalise their networks and adapt their supply commercially. They indicate a stabilisation of the situation following 11 September 2001 and even real signs of a recovery.

Financial results (company financial years closed during 2002 - it should be noted that only Lufthansa and Iberia closed their accounts on 31 December)

The same overall impression emerges from the financial results published by the airlines concerned. The table below sets out two main type of data (turnover and operating results) taken from their financial statements. The figure in brackets indicates the change compared with the previous financial year (2001):

2002	BA	AF	LH (9 months)	IB	KL	RY
Turnover	8 340 (- 10.1%)	12 528 (+ 2.0%)	12 641 (+ 2.7 %)	4 700 (- 0.8%)	6 532 (- 6.1 %)	551 (+27.3%)
Operat. result	- 110 (- 129 %)	235 (-47 %)	790 (+ 172 %)	249 (not signif)	-94 (- 234%)	163 (+ 43%)

Data in millions. For British Airways, figures in pounds sterling, for the others, figures in EUR.

Airlines: British Airways (BA), Air France (AF), Lufthansa (LH), Iberia (IB), KLM (KL) and Ryanair (RY).

Lufthansa's complete results for 2002 will be published on 20 March 2003.

These results illustrate to what extent and how quickly the efforts made have paid off. Several airlines are making significant profits. Lufthansa's performance is quite striking: its results were better after 11 September 2001 than before (the periods compared are the months of January to September for the years 2001 and 2002)! Some carriers are recording losses. However, these seem to be under control, even for the most exposed airlines such as British Airways.

ANNEX 2

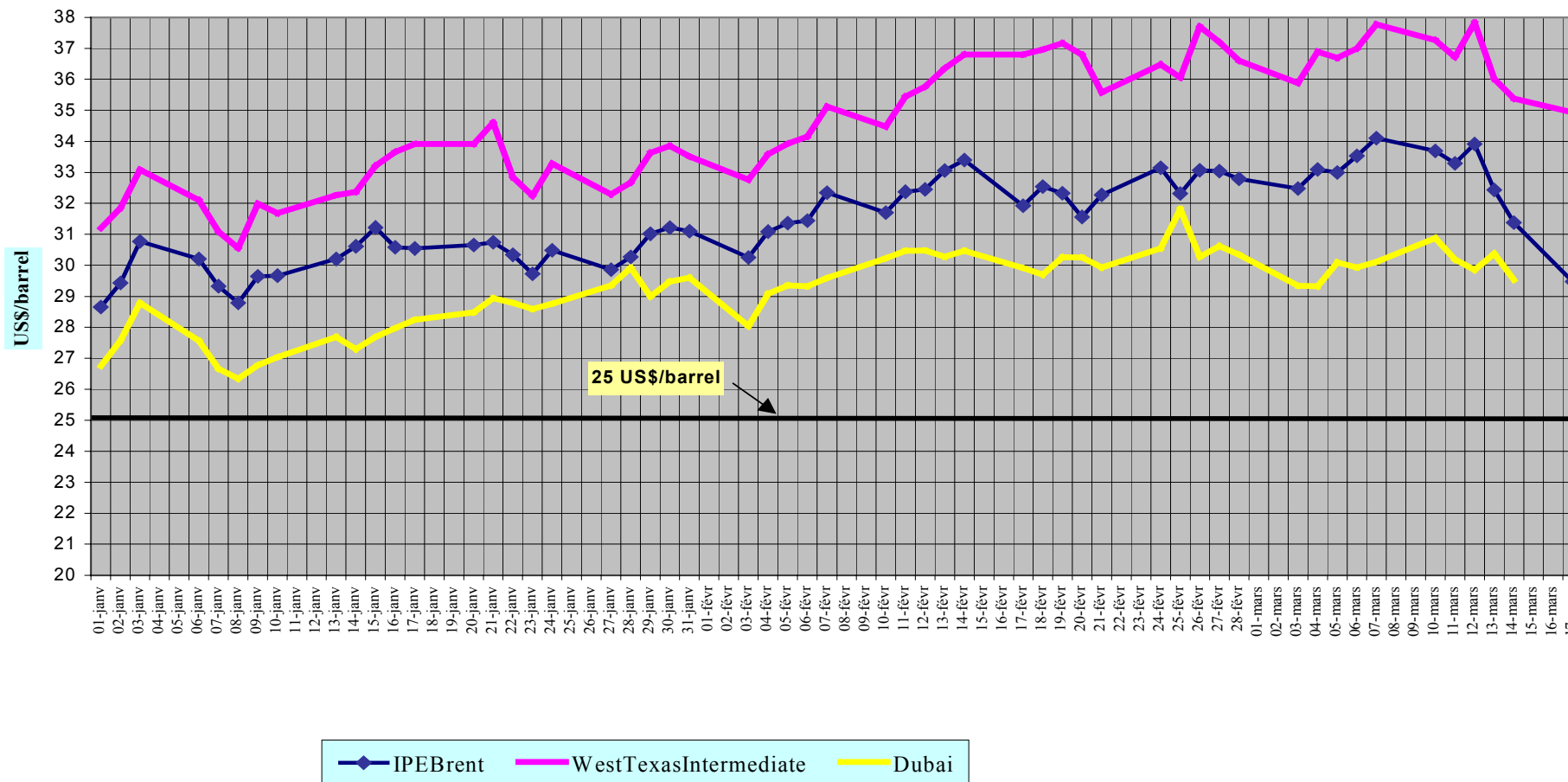
REGISTRATION OF CRUDE OIL IMPORTS AND DELIVERIES IN THE COMMUNITY ENREGISTREMENT DES IMPORTATIONS ET DES LIVRAISONS DE PETROLE BRUT DANS LA COMMUNAUTE

ANNEXE

European Union		Jan. - Nov. 2002		11 months
Country of Origin Pays d'origine	Volume (1000 Brl)	Total value (\$ 1000)	CIF price Prix CAF (\$/Brl)	Share of Imports in %
Norway	722903	17895404	24,75	22,89
Russia	710276	16722860	23,54	22,49
Saudi Arabia	353369	8340338	23,60	11,19
Libya	249891	6148228	24,60	7,91
Iran	165558	3871407	23,38	5,24
Nigeria	125254	3149539	25,15	3,97
Syria	125192	2985072	23,84	3,96
Algeria	106717	2679861	25,11	3,38
Iraq	100413	2394334	23,84	3,18
Kazakhstan	84320	2079088	24,66	2,67
Mexico	60850	1317553	21,65	1,93
Angola	56954	1386451	24,34	1,80
Venezuela	46376	1012825	21,84	1,47
Kuwait	40551	952301	23,48	1,28
Other Africa	36012	839302	23,31	1,14
Azerbaijan	31584	806163	25,52	1,00
Egypt	27886	644306	23,11	0,88
Cameroon	23788	565666	23,78	0,75
Other Europe	18402	435165	23,65	0,58
Brazil	16677	366741	21,99	0,53
Congo	13837	307697	22,24	0,44
Tunisia	11952	290663	24,32	0,38
Other FSU	7927	172715	21,79	0,25
Gabon	5157	101049	19,59	0,16
Colombia	3479	81007	23,29	0,11
Zaire	2208	50822	23,02	0,07
Ukraine	2132	44883	21,05	0,07
Other Middle East	1910	43352	22,70	0,06
Argentina	1557	28659	18,41	0,05
Oman	1347	35911	26,66	0,04
Other Latin America	1037	18977	18,30	0,03
United States	890	20559	23,10	0,03
Yemen	547	13046	23,85	0,02
Vietnam	379	9577	25,27	0,01
Qatar	227	4511	19,87	0,01
TOTAL	3157556	75816031	24,01	100,00

ANNEX 3

Crude oil - International Quotations



ANNEX 4

Nuclear Power Plants and disposal facilities for low- and intermediate-level waste

