



European Communities
Commission
Background Report
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20 Kensington Palace Gardens
London W8 4QQ
Telephone: 01-727 8090
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ENERGY SITUATION IN THE COMMUNITY

Summary

The World Economic Summit, due to be held in July this year in Bonn, is expected to review energy policy in the Community and the rest of the industrialised world.

In anticipation of this the Commission has submitted a Communication* to the Council of Ministers outlining the energy situation in the Community and the outlook for 1978.

It warns that though in 1977, due to economic recession, oil was available in abundance, this should not lull the Community into a false sense of security about its energy situation. Over the next ten years there is likely to be intense competition for oil with a consequent rise in prices. It is already Community policy to aim to lessen dependence on oil for energy purposes, and efforts to achieve this through conservation, indigenous production from conventional and new sources, and alternative external supplies, must not be allowed to slacken.

The Commission suggests that, apart from more positive policies on conservation, there should be urgent action to support the Community coal industry and to encourage increased coal burn; there should be greater support for research and development of new energy sources, including exploration for oil, gas and uranium; that the role of gas should be maintained and increased; and that there must be steady development of nuclear generating capacity. The Community will also have to watch carefully - and influence as appropriate - international developments in the energy field which have a bearing immediately or in the long term on its own situation.

Background Position

In 1977 there was a sluggish demand for energy in the Community of just over 1 per cent compared with 1976. This was mainly a result of low economic growth - with Gross Domestic Product (GDP) rising by about 2 per cent - and to some extent a reflection of a continuing energy conservation effort.

The use of energy sources differed; demand for oil and coal in 1977 fell by 2.0 and 3.0 per cent respectively, while consumption of natural gas rose by 6 per cent and the demand for electricity by 3.4 per cent.

The Commission estimates that in 1978 there will be a growth of Community GDP of around 3 per cent - well below the 4½ - 5 per cent annual target for the Community in the medium term. It

* COM (78) 101 final,

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expects energy demand to grow by about 3 per cent with the demand for oil rising by about 2 per cent, natural gas by 9.9 per cent (reflecting increased availability), and electricity by about 3.9 per cent. The demand for coal is expected to increase only marginally.

Oil

Excluding the State trading countries, world oil consumption rose by about 3 per cent in 1977, the fall in Community demand being offset by a 5 per cent increase in the USA and Japan.

The demand for OPEC oil, however, rose by only 1-2 per cent, because much of the increase in consumption was covered by new production in the North Sea, Alaska, and other non-OPEC areas. U.S.A. imports increased by nearly 12 per cent to a total of 380 million tons in 1977. World consumption in 1978 - apart from the State trading countries - is expected to rise again by 3 per cent, most of it covered by non-OPEC producers.

In the European Community consumption of oil products fell from 540 million tons in 1976 to 530 million tons in 1977. This was due almost entirely to the reduced demand for fuel oil, in power stations; demand for motor fuels continued to increase.

Community crude oil production more than doubled between 1976 and 1977 rising to 47.4 million tons and representing 10 per cent of consumption. This, with the fall in demand, reduced imports from 519 million tons in 1976 to 485 million tons in 1977, but because of an increase in crude oil prices the total cost of imports to the Community rose by nearly \$3,000 million to \$49,250 million. With EC crude oil production expected to reach 85 million tons in 1978, the net import requirement is expected to be about 455 million tons, about 6 per cent below that of 1977 and 24 per cent below that of 1973.

Natural Gas

Community gross internal production of natural gas in 1977 at 182,000 million cubic metres (144.2 million tonnes oil equivalent) represented, at 1.5 per cent, the lowest annual growth rate recorded in the Community since the big gas discoveries at the beginning of the 1960s. Gross internal consumption, however, rose by 6 per cent. The gap was covered by a 34 per cent increase in imports from third countries, representing 10.5 per cent of the total natural gas supplies of the Community.

Plans at various stages of development to tap further resources of natural gas include a pipeline to link Algeria to the north of Italy, the development of three new terminals and improved underground storage capacity.

In 1978 while internal production is expected to show the same marginal growth as in 1977, demand is expected to grow by 9.9 per cent. The deficit will be met by a higher level of imports so that in 1978 imported gas will represent 18.7 per cent of total supplies.

Coal

In 1977 coal consumption in the Community fell by 3 per cent to 250 million tonnes (174.2 million toe), mainly due to the depressed state of the steel industry.

For the first time in 1976 the use of coal for electricity generation outstripped coke manufacture for steel, and through a further slight rise in coal burn this lead was maintained in 1977.

Community energy policy seeks to encourage coal burn for electricity power stations rather than oil, but the Commission notes that over 90 per cent of all coal burned was used in only three countries: the UK (53%), Germany (28%) and France (13%).

The coke producers of the Ruhr, however, were not able to switch supplies from the steel market to the market for power generation. The high cost of coking coal made it uncompetitive with power station coal available on the world market. Further, much of the increase in coal-fired electricity generation took place in regions more cheaply and conveniently supplied by sea than from North West Germany. Thus, despite surplus indigenous supplies, there was a marked increase in coal imports from third countries. In 1977 these amounted to nearly 45mtce (31.5mtoe).

In 1977 the Community produced about 218mtce (152mtoe), roughly 4 per cent lower than the previous year. In the UK, France and Belgium most indigenous output was absorbed inside the country but, for the third year in succession, production in Germany, traditionally a supplier of coking coal and coke to the steel industries of other member countries as well as its own, could not be fully disposed of, despite the fact that production has been kept at some 10 per cent below capacity because of the market situation.

The Commission sees little change taking place in the industry in 1978, while very high stocks of coal will be a major problem for German coal producers.

Electricity

- (a) Demand: Overall demand for electricity in the Community in 1977 increased by about 3.4 per cent. This was mainly due to demands of householders and commerce where consumption increased by 6.1 per cent in 1977 over 1976; industrial demand grew by less than 1 per cent.

The Commission foresees a further 6 per cent growth in domestic and commercial consumption in 1978, with a slight improvement in the industrial sector of 1.8 per cent.

- (b) Conventional thermal power stations

In 1977 there was a small decline in oil burn and gas fired power stations compared with the previous year, but in 1978 these are expected to return to a somewhat higher level as power stations ordered before the oil crisis of 1973 come on stream.

(c) Nuclear energy

Only some 3,300 megawatts (MWe) were added to the Community network in 1977, less than half of what was estimated a year before. By the end of 1977 the Community's total nuclear capacity reached 22,400 MWe and the nuclear contribution to total electricity production reached 10 per cent.

With new plant coming into operation in 1978 in France, Italy and West Germany the total nuclear capacity in the Community is expected to exceed 27,000 MWe and the contribution to electricity production to reach 12 per cent.

Regarding nuclear fuels no important transactions took place in the natural uranium market in 1977, in part because the relatively slack situation among users and the slowing down in the achievement of nuclear programmes meant that stocks in hand were sufficient; in part because of the embargo imposed on uranium supplies by certain countries, such as Canada.

Following negotiations, however, the Euratom/Canada agreement of 1959 was updated and agreed in January 1978, bringing to an end the embargo on exports of Canadian uranium to Community countries which had interrupted deliveries since January 1977. The Euratom/US agreement which runs until 1995 has been put in question by the US Nuclear Non-Proliferation Act which requires all US nuclear agreements to be renegotiated in accordance with the Act. It is expected, however, that accommodation will be found satisfactory to both parties.

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