

REVISION OF THE COMMUNITY COAL MARKET FORECASTS FOR 1979

This is a revision of those parts of 'The Community Coal Market in 1978 and Forecasts for 1979' (¹), compiled at the beginning of the current year, which require comments in the light of developments during the first half of the year.

The numbering of the text and tables repeats that of the original document. The text is devoted primarily to drawing conclusions for the whole of the current year on the basis of performance during the first six months and attempts to provide explanations where performance is likely to diverge from the original forecasts. The tables give figures for the first six months of the current year and, for purposes of comparisons, for the same periods in 1977 and 1978.

I. Summary survey

The degree of recovery of the Community's coal market so far this year has been slightly greater than originally forecast.

The anticipated improvement in the performance of the steel industry has been accompanied by a larger than expected increase in pig iron production, with consequent beneficial effects on coke consumption. In the field of electricity generation, the forecast rate of growth has been exceeded, and the problems of oil supplies and steeply rising oil prices during the first half of this year have led to additional demand for coal by power stations.

Indications are that these trends will be maintained for the rest of the year.

II. General economic outlook

The first six months of the current year have seen a consolidation of economic revival in the Community, but the short-term outlook is damaged primarily by the impact of the oil price rises on inflation and output.

The rate of economic growth has slowed down to 3 % in the first half of 1979 compared with some 4 % in the last half of 1978. This deceleration can be attributed mostly to the effects of the severe winter on industrial production and investment, and in some countries to industrial disputes. The Federal Republic of Germany, France and Italy have witnessed strong

growth in private consumption and, except in the case of France where residential construction has been particularly depressed, in fixed investment. The Benelux countries have suffered in particular from the bad weather conditions. In the United Kingdom, the sustained rapid rate of private consumption growth contributed strongly to the substantial growth of domestic demand.

The rate of inflation in the Community has noticeably quickened. This has been the result of increases in food prices, connected with the bad winter, and in the prices of services and public utilities. Import prices, particularly of petroleum products, have hurt all Member States, but especially the Federal Republic of Germany.

The outlook for economic activity, dominated by the oil price rises, shows some other disquieting factors. The investment cycle is likely to peak in the Federal Republic of Germany, the United Kingdom and the Netherlands within the second half of this year. Investment may already have peaked in Italy, Ireland and Luxembourg. Stockbuilding will probably fall in several Member States. Furthermore, the effects of expansionary policies undertaken in certain Member States over the last 10 months may be weakening. Budgetary measures adopted in the United Kingdom by the new government and in Denmark will probably bring growth of economic activity near to zero in the second half of 1979 and in the first half of 1980.

The reversal in the trend towards lower inflation rates has now become more pronounced. The June oil price rise has added to domestic inflationary pressures mainly in France, Ireland, Italy and the United Kingdom. Further inflationary impulses would follow adjustments of nominal incomes designed to compensate the loss in real incomes caused by the higher oil prices, with adverse consequences on investment and employment. The Community's current account surplus is likely to decline with the deterioration in the terms of trade.

The general picture is thus characterized by a falling rate of growth of economic activity accompanied by rising inflation.

III. Coal demand by sectors

1. *Steel Industry* (Tables 4 and 22)

During the first half of 1979, crude steel production was slightly below 70 million tonnes, a rise of about

(¹) OJ No C 120, 14. 5. 1979, p. 1.

2 % over the same period last year. Projected over the whole year, this percentage increase would be in line with that originally forecast, but the rise in steel production may prove to be somewhat higher.

Due principally to the situation in the scrap market, the tonnage increase in pig iron production during the first half of 1979 over the same period last year was double that for steel. This is a complete reversal of last year's trend and has had a marked effect on demand for coke.

Accordingly, coke oven coke consumption by the steel industry may exceed 55 million tonnes for the whole year, a rise of some 6 % over 1978, about twice the increase originally forecast in the annual report on the Community Coal Market published earlier this year.

2. Power Stations (Table 8A)

Electricity production grew by 4.7 % in 1978 compared with 1977, with all sections of consumption expanding. This increase is slightly above the estimate in the annual report on the Community coal market published earlier this year.

During the first half of 1979 there was a further significant increase in electricity production over the same period in 1978, representing a substantial improvement on the growth during the first half of 1978 compared to the same period of the year before. This suggests that the increase of 5.5 % forecast for 1979 may be exceeded.

In spite of some 4 GW (gross) of additional nuclear capacity having come into operation in the course of 1978 and slightly above average hydraulic conditions during the first half of the current year, there is evidence of continuing growth in conventional thermal production and of substantial increases in coal consumption in most Member States. As a result, the forecast rise in coal consumption for electricity generation in the Community of 5.4 million tonnes or 3.4 % is likely to be exceeded, probably by a substantial margin.

IV. Community coal production

(Tables 11, 13 and 14)

Coal production in the United Kingdom is running according to plan but in Belgium and France it is unlikely to reach the levels originally forecast for

1979, while in Germany it is expected to be over two million tonnes (t=t) higher. The result of these countervailing developments is likely to be total Community coal production in 1979 close to the level originally forecast, namely around 241 million tonnes. It will thus have changed little over a period of three years.

V. Coal prices

List prices of Belgian steam coal were raised by 10 % to 18 % on 1 July 1979 and for anthracite by from 3 % to 16 % depending on quality.

List prices in all German coalfields were raised for all products by 0.6 % to 2.6 % on 1 January 1979 and by 5 % on 1 September 1979.

French list prices were increased in three successive phases: on 1 April for industrial and domestic coals, and then on 1 September and 1 October 1979 for all products. On average, prices on 1 October 1979 were 27 % higher than those reached after the increase on 1 July 1978.

In the United Kingdom, prices for domestic coke rose by 6.5 % to 7 % on 1 February 1979. On 1 March, list prices for coking coal were raised by 8 % to 11 %, for steam coal by 8 % to 9 %, for anthracite by 9 % and for coke other than for domestic purposes likewise by 9 %. Lastly, there was a further slight rise in the price of domestic coal on 1 May 1979, followed by another round of price increases on 1 July 1979, amounting to 7.5 % for coking coal, 13.5 % for steam coal and between 6 % and 14 % for anthracite.

The Commission's indicative price for third country coking coal per tonne ARA rose from \$63.95 on 1 January to \$64.85 on 1 April and to \$66.05 on 1 July 1979. This compares to \$62.25 on 1 July 1978.

Furthermore, since the latter half of last year, some third country steam coal prices have risen by up to 25 %, touching \$40 cif ARA, with the average at about \$36 during the second quarter of the current year. Rising cargo rates have played a significant part as they represent a higher proportion of landed costs than for coking coal.

VII. Trade in coal and coke

2. Imports from third countries

Information received for the first six months of the current year suggests that imports from third

countries will certainly reach the 50·6 million tonnes originally forecast and will probably be higher.

Some of the increased imports result from improved performance by the steel industry. This is reflected particularly in a degree of recovery of imports of coking coal from the USA which had been depressed during the first half of last year by strikes in the USA coal industry and railways.

Severe weather conditions in Eastern Europe early this year caused problems, particularly in transport, with the result that imports from Poland and the USSR were much lower than during the same period in 1978. As a result, it is doubtful whether the levels of imports from these two countries originally forecast for 1979 will be reached.

The main component in the additional imports during the current year has been coal for electricity generation. These reflect both long-term policies by electricity generating concerns and reactions to the market situation created by events in Iran early this year and the consequent steep rise in oil prices. The principal sources of these rising imports have been Australia and South Africa, and quantities imported from these two countries can consequently be expected to exceed those originally forecast.

VIII. Coal and coke stocks

The problem of periodically excessive producers' coal and coke stocks in the Community is primarily one of the German coal industry.

After reaching nearly 39 million tonnes in March 1978 — coke being calculated at its coal equivalent and including 10 million tonnes stocked on Government account — there since has been a fairly consistent downward movement. Whereas in 1978 this was achieved principally through cutting back production combined with a very active sales policy in intra-Community sales of coal and third country sales of coke, the revival of demand by the steel industry and rising requirements for electricity generation have been the main factors in 1979. So far, the most notable movement has been a reduction in coke stocks by some 3·5 million tonnes from the beginning of 1979 to the end of June.

By contrast producers' stocks in the United Kingdom at around 11 million tonnes in March 1978 were only some three million tonnes above what the coal industry considers proper working levels. However, these have shown a rising trend since then, standing at around 14 million tonnes by the end of June 1979. Nevertheless, in terms of output, the excess stocks above working levels represent barely 5 % of annual production and are likely to be absorbed by increased deliveries to power stations during the rest of the year.

In both Belgium and France, producers' stocks were at their working levels at the end of June.

A point of special interest are the very large stocks carried by the Danish electricity generating industry for reasons of security of supplies. At the end of June 1979, they stood at 200 days' consumption and will be augmented by a further 0·7 million tonnes during the rest of the year in preparation for further coal-fired generating capacity coming into operation in 1980.

TABLE 2

Gross domestic product in terms of volume
(% variation compared with previous year)

	Revised figures 1977	Revised figures 1978	January forecast (1979)	June forecast (1979)
Belgium	1.3	2.3	2.8	2.5
Denmark	1.9	0.9	2.6	2.8
Germany	2.8	3.1	4.0	4.0
France	3.0	3.3	3.4	3.4
Ireland	5.5	6.0	5.0	3.8
Italy	2.0	2.6	4.6	4.9
Luxembourg	1.7	3.2	2.2	2.3
Netherlands	2.4	2.7	2.1	2.5
United Kingdom	1.4	3.3	2.3	0.8
Community	2.3	3.0	3.4	3.2

TABLE 4

Steel and pig iron production

(in 1 000 tonnes)

	1	2	Difference 2-1	
	First six months 1978	First six months 1979	t	%
A. STEEL				
BLEU	8 671	9 597	+ 926	+ 10.7
Denmark	435	409	- 26	- 6.0
Germany	21 354	22 568	+ 1 214	+ 5.7
France	12 295	11 208	- 1 087	- 8.8
Ireland	36	37	+ 1	+ 2.8
Italy	12 555	12 070	- 485	- 3.9
Netherlands	2 602	2 826	+ 224	+ 8.6
United Kingdom	10 365	10 877	+ 512	+ 4.9
Community	68 313	69 592	+ 1 279	+ 1.9
B. PIG IRON				
BLEU	6 979	7 871	+ 892	+ 12.8
Germany	15 546	17 068	+ 1 522	+ 9.8
France	9 903	9 257	- 646	- 6.5
Italy	5 754	5 661	- 93	- 1.6
Netherlands	2 122	2 380	+ 258	+ 12.2
United Kingdom	5 913	6 456	+ 543	+ 9.2
Community	46 217	48 693	+ 2 476	+ 5.4

TABLE 8 A
Gross electricity production

(in TWh)

	First six months 1978	First six months 1979	Initial forecast 1979	Difference % 1979/1978
Belgium	24.9	26.7	52.5	+ 7.1
Denmark	10.4	12.6	24.8	+ 21.5
Germany	175.6	191.5	368.0	+ 9.1
France	117.4	125.0	248.5	+ 6.5
Ireland	5.1	5.7	10.9	+ 12.6
Italy	87.4	92.1	187.9	+ 5.4
Luxembourg	0.6	0.7	1.4	+ 4.0
Netherlands	30.5	32.3	63.3	+ 5.7
United Kingdom	151.2	160.7	295.0	+ 6.3
Community	605.1	647.3	1 252.3	+ 7.0

TABLE 11
Hard coal production

(in 1 000 tonnes)

	1	2	3	4	Difference 2-1		Difference 3-2	
	First six months 1977	First six months 1978	First six months 1979	Initial forecast 1979	tonnes	%	tonnes	%
Belgium	3 879	3 541	3 399	6 825	- 338	- 8.7	- 142	- 4.0
Germany	45 414	45 458	47 712	91 800	+ 44	+ 0.1	+ 2 254	+ 5.0
(National Series)	(41 952)	(42 167)	(44 000) (1)	(85 000)	(+ 215)	(+ 0.5)	(+ 1 833)	(+ 4.3)
France	11 840	10 996	10 216	19 175	- 844	- 7.1	- 780	- 7.1
Ireland	27	18	18	50	- 9	- 33.3	-	-
United Kingdom	61 863	61 488	61 293	122 000	- 375	- 0.6	- 195	- 0.3
Community	123 023	121 501	122 638	239 850	- 1 522	- 1.2	+ 1 137	+ 0.9
(National series)	(119 561)	(118 210)	(118 926)	(233 050)	(- 1 351)	(- 1.1)	(+ 716)	(+ 0.6)

(1) Provisional.

TABLES 13 and 14

Personnel employed underground and output

	End of June 1978	End of June 1979	Difference	
			Absolute	%
<i>Personnel (1) (in 1 000s)</i>				
Belgium	18.0	17.0	- 1.0	- 5.6
Germany	121.5	119.4	- 2.1	- 1.7
France	35.8	33.1	- 2.7	- 7.5
United Kingdom	190.0	185.0	- 5.0	- 2.6
<i>Output (in kg/h) (1)</i>				
Belgium	287	269	- 18	- 6.3
Germany	519	553	+ 34	+ 6.6
France	331	336	+ 5	+ 1.5
United Kingdom	364	361	- 3	- 0.8

(1) New definition.

TABLE 22

Coke oven coke production

(1 000 tonnes)

	1	2	3	Difference 2-1	
	First six months 1978	First six months 1979	Initial forecast 1979	tonnes	%
Belgium	2 880	3 320	6 030	+ 440	+ 15.3
Germany	13 023	12 966	25 400	- 57	- 0.4
France	5 441	5 900 (1)	11 150	+ 459	+ 8.4
Italy	3 615	3 600 (1)	7 770	- 15	- 0.4
Netherlands	1 133	1 233	2 650	+ 100	+ 8.8
United Kingdom	6 309	6 139	13 550	- 170	- 2.7
Community	32 401	33 158	66 460	+ 757	+ 2.3

(1) Estimates.

A

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