European Community

News Release

BACKGROUND NOTE

THE OIL MARKET AS SEEN BY THE EUROPEAN COMMISSION

I. The oil market

1. How things stand

Taking the twelve Member States of the European Community as a whole, the average supply cost of crude oil fell from U.S. $28/barrel in December 1985 to about U.S. $11/barrel in July 1986, i.e. by about 61 per cent. Supply still exceeds demand and the market is volatile.

Next to taxes, consumer prices of petroleum products are a fairly good reflection of the fall in world market prices. For example, net-of-tax prices of premium gasoline have dropped by 31 per cent since 1 January, prices of diesel fuel are down by over 28 per cent and light domestic heating oil by 28 per cent.

The extremes :

Premium gasoline : Federal Republic of Germany (FRG) (-41%) and Portugal (-22%)

Diesel fuel : Spain (-38%) and France (-19%)

Light domestic heating oil : Spain (-42%) and France (-14%)

Afterwards, however, substantial differences between the Community countries emerged, as some governments raised the tax level to compensate for their loss of revenue from oil products. As a result, prices paid in national currencies

Delegation of the Commission of the European Communities
Press and Information Service

.../2

350 Sparks Street, Suite 1110, OTTAWA, Ontario, Canada, K1R 7S8/telephone: (613) 238-6464/telex: 0534544 EURCOM OTT

by consumers fell by only 9 per cent in the case of premium gasoline between 15 January and 15 May. The extremes were -22 per cent for consumers in the FRG and +7 per cent for Danish motorists.

Pump prices of diesel fuel are now 10.6 per cent lower on average in the Community as a whole. Here again, though, variations are considerable. The Benelux countries have the most attractive prices for motorists : -22 per cent in the Netherlands and Luxembourg and -20 per cent in Belgium.

Danish consumers, however, have seen diesel prices increase by 13 per cent, as of 15 May, compared with 15 January. Similar variations are in evidence with light domestic heating oil. While the average price paid by the European taxpayer was down by 19 per cent, the best off were the Belgians and the Irish (-32 per cent) and the worst off were the Danes (+13 per cent).

2. Outlook for oil

The oil-consuming industrial countries have kept a watchful eye on the situation. At all levels - Council of Ministers of the Twelve, International Energy Agency meetings, OECD meetings, the Western Summit in Tokyo - they have agreed not to take any specific steps without prior consultation. In every quarter there has been emphasis on the need to attain long-term energy strategy objectives (with particular stress on the least possible dependence on oil).

Despite continuing uncertainty about future oil price movements, some slowdown can be seen in the rate of production in non-OPEC areas. The combined effect of seasonal restocking and the expected increase in consumption might push up demand for OPEC oil and trigger a gradual hardening of prices.

Owing to the war between Iran and Iraq, however, it cannot be ruled out that severe dissension will continue to plague OPEC; this will make oil markets highly volatile for months to come.

II. Crude oil to stay at U.S. $15 up to 1990

E.C. Commission departments have made their first analysis of the Community's energy situation (i.e. for the twelve Member States) based on crude staying at U.S. 15/barrel up to the year 1990. The first conclusion is that the Twelve could use 35-70 million tonnes of oil more than in 1985.

.../3

In this scenario, oil prices (in European Currency Units (ECU)) would be only slightly more than half their 1985 level for the rest of this decade, with all the resulting macroeconomic benefits for the Community. There are no precedents on which to base really reliable forecasts of probable reactions to a price fall of this magnitude. In these circumstances it is very difficult to make energy supply and demand projections. In view of this, the results are in the form of brackets of values for the principal aggregates. The results reflect the specific uncertainties affecting economic growth, the structure and energy-intensiveness of industrial production, the reaction of household consumers and motorists to a fall in energy prices and a rise in income, how fast the prices of other fuels (particularly natural gas) align with those of their oil-based rivals, the prospects for using natural gas (and oil) in electricity generation and the impact of the fall in coal prices on the Community's coal industry.

Based even on favourable assumptions for the probable growth in energy demand and the competitiveness of other fuels, the demand for oil in the Twelve can be forecast to rise by 35 million tonnes oil equivalent between 1985 and 1990 and, on less favourable assumptions, additional requirements might be twice as large.

Energy demand

		EUR-12	Million tonnes oil equivalent
	1985 (provisional)	1990 (information from the Twelve	1990 (oil at U.S. $15/barrel)
Gross energy demand*	1048	1094	1128-1169**
Oil	484	486	520-554
Natural gas	184	186	194-207
Solid fuels	238	254	233-245
Nuclear energy Hydro-electricity, etc.	142	167	168-169
Net oil imports	335	360	400-434

* Including bunkers

** The bracket total primary energy demand is less than the sum of brackets for the individual fuels; this is due to competition between fuels. In other words, the top limit of the bracket for oil presupposes less than the maximum demand for natural gas and coal and vice-versa.

This would result in a major change from earlier estimates which forecast stable oil demand up to 1990. If this were the case, oil's share in meeting energy demand would increase to 46-48 per cent, compared with 46 per cent in 1985 and the 44 per cent previously forecast for 1990 (based on information from Member States) and would reduce the share of solid fuels. According to how indigenous energy production evolves, dependence on imported energy might rise to 50 per cent or more, compared with the 47 per cent forecast earlier and dependence on net oil imports to 35-38 per cent.

III. Oil refining : the picture by 1990

By 1990, overcapacity in the European Community oil-refining industry will have reached 40, 65 or 95 million tonnes depending on whether crude oil prices settle at U.S. $15, 20 or 25 a barrel.

In any case, the E.C. oil industry has unveiled plans to shed around 40 million tonnes of capacity by then.

In January 1986, refining capacity in the European Community totalled 615 million tonnes.

These are the main conclusions set out in a Commission communication recently submitted to the Ministers of Energy of the Twelve as a sequel to last year's analysis of the same subject.

- 30 -

For additional information, please contact Finn Olesen, David Levy or Roy Christensen, Press & Information Service, at (613) 238-6464.

NR (86) 17
July 23