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BACKGROUND INFORMATION

## COMMON MARKET ENERGY DEMAND SPURRED BY ECONOMIC BOOM

WASHINGTON, D.C., April 8, 1970 -- The growth of economic activity and the exceptionally high activity of the steel industry in the Common Market during 1969 were determining factors in the European Community's 7.6 per cent growth in energy use, according to a summary of a report on "The Energy Situation in the Community."

The full report, one in a series of annual surveys of the energy market prepared by the Commission of the European Communities, will be published, with its appendices, towards the middle of 1970. The summary, recently released in Brussels, provides an outline of the report's main features: economic factors influencing the energy situation, energy requirements and supply, and forecasts for 1970.

### Unusual Activity in Steel Helps Energy Demand

The growth of economic activity in the Community, one factor determining the trend of energy demand, accelerated considerably in 1969. The Community's gross product (GNP) rose by an estimated 7.4 per cent in 1969 (compared to a 5.8 per cent growth rate in 1968) as industrial production went up by 12.5 per cent (against 8.7 per cent in 1968). Preliminary U.S. figures show that U.S. GNP increased by 7.6 per cent in 1969 and that U.S. industrial production rose by 5 per cent. The Community's steel industry, a major

energy consumer, showed exceptional activity. Ingot steel output rose by 9 per cent, passing the 100 million to mark (about 108 million tons in 1969, compared to 98.6 million in 1968).

The Commission's view, however, was in 1970 the growth of economic activity could be expected to gradually slow. Output will be hampered by insufficient production capacity and a shortage of labor. By the end of 1970 expansion may slacken in a number of sectors as a result of the cooling of the world economy. For the Community as a whole, the GNP is expected to grow by 4.6 per cent and industrial production to increase by 8 per cent.

#### Energy Consumption Exceeds Past Years' Average

Energy consumption in 1969 grew by 7.6 per cent, exceeding the average for recent years. Internal consumption rose to an estimated 722 million tons hard coal equivalent (hce) and total needs to 907 million tons hce (including quantities for bunkers, exports, and non-energy use, as well as for internal use). These total requirements were met 62 per cent by oil, 23 per cent by hard coal, and 6 per cent by natural gas, the remainder by primary electricity and lignite.

#### Coal

Coal demand remained at the same level as 1968, despite this fuel's general tendency to regression. Internal demand for coke, as a result of the steel industry's expanding activity, exceeded the 1968 level by 1.7 million tons. At the same time, the consumption of hard coal by thermal power plants increased by 1.8 million tons hce. As coal production fell off, large amounts were taken from stocks to meet demand.

The world-wide strains on coking coal supplies were specially notable in the Community due to the use of some coking coal as fuel, mainly in electric power plants. In Germany, amendments to the laws favoring hard coal consumption in such power plants and enlargement of import quotas

for coals from non-member countries will tend to remedy this situation.

Coalfield prices rose sharply as a result of higher production costs. Short supplies in the face of strong demand also helped raise coke and coking coal prices. The currency adjustments in France and Germany perceptibly altered the price ratios between the coals produced in the different member countries.

#### Oil

The supply of oil was abundant and was able to meet the still high growth of demand. Among the requirements has been the mounting use for non-energy purposes, which grew by 14.2 per cent. Prices in 1969 for petroleum products gradually dropped back to their pre-Suez level. In Germany, revaluation raised diesel oil prices, though this increase tapered off. In Belgium and Holland, prices dropped, largely because of competition from natural gas.

#### Natural gas

Natural gas is growing more important and already covers nearly 25 per cent of internal consumption in the Netherlands. Dutch production increased by half in 1969, and the rapid growth of this form of energy is reflected in the slackening growth of liquid fuel consumption in the Netherlands, Belgium, and parts of Germany.

#### Nuclear energy

Although nuclear energy's share in meeting requirements is still modest, nuclear power plant capacity is expanding. Thus, in Germany, nuclear power plants represent the major proportion of orders for plant to come into service in 1974-75.

#### Natural uranium

The short-term situation of natural uranium supply for Community users is satisfactory. During 1969 the quantity of reasonably certain reserves in French territory rose, while those controlled by French firms in Africa reached a volume similar to that of home reserves. Also, German and Italian

firms have broadened their prospecting activities in a number of countries outside the Community.

Electricity demand had a higher growth rate than did energy consumption as a whole. The increase in household consumption was particularly noticeable as was industrial consumption.

#### Outlook for 1970

The economic outlook for 1970 was promising, the Commission found, although expansion must be expected to slow down somewhat. Energy consumption should continue to grow at a high rate (6 per cent) but less than in 1969 and should reach 766 million tons hce. Total requirements will amount to 953 million tons hce (up 5.1 per cent). Certain difficulties of adjustment to the economic situation must be expected, however, particularly in coking coal and coke. The technical and economic characteristics of the Community's coal industry are such that it cannot respond to a rapid rise in demand, especially as in the long term it is tending to shrink.

Stocks of hard coal and coke are at a low level, and the strains of 1969 are likely to continue in 1970 unless supply and marketing conditions can be improved. Particularly if coals now used for fuel in electric power plants cannot be sent for coking. A fall in demand which might develop in 1970 would mean a return to more normal supply conditions. The present tension in coking coal has repercussions, too, on supplies to the household sector, especially in Germany where certain amounts of coke are used for heating. The use of other solid fuels, such as coal and lignite agglomerates -- production of which adjusts readily to temporary demand rises -- should help meet these requirements in the future.

The problem of coking coal supply influences the supply of conventional power plant fuels, which is sensitive to price differences between energy

sources. Within the limits of substitution, and subject to measures taken by public authorities, this sector's policy is based on the search for the cheapest input calorie. To the extent that amounts of coal for use in power plants are processed by cokeries then sold at higher prices, difficulties may occur in 1970 in the supply of coal for steam generation, leading to a change in the ratios of fuels used in thermal power plants. The development of price ratios between coal and its competitors, oil and natural gas, would encourage this trend.

Another factor is that recently there have been exports of heavy fuel oil with a low sulfur content to North America to meet the increased demand due to American requirements for fuels that will pollute the atmosphere less. Continuation of this trend could put an additional burden on the power plant fuel market in the Community.

Imports from non-member countries is also a factor influencing the energy balance sheet. Although imports supply a growing portion of the Community needs, the Community is increasingly diversifying its external sources of hydrocarbon supplies, thus making deliveries more secure. The growing use of supertankers also helps to stabilize crude oil transport costs and, to a certain extent, supply costs. Natural gas, the Commission found, would penetrate the market more extensively and affects the sales of other energy forms.

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THE COMMUNITY'S OVERALL ENERGY BALANCE SHEET

(in millions of tons hard coal equivalent)

	Requirements				Coverage of Requirements		
	1968	1969	1970		1968	1969	1970
Internal consumption	671.01	721.76	765.65	Internal resources	305.18	317.29	324.59
solid fuels	234.17	235.90	234.60	solid fuels	201.47	199.82	198.33
liquid fuels	354.62	392.13	425.45	liquid fuels	21.31	21.22	20.32
natural gas (1)	38.03	50.41	60.68	natural gas	42.07	55.68	64.86
primary electricity (1)	44.19	43.33	44.92	primary electricity	40.33	40.58	41.08
Exports	65.66	83.24	75.59	Imports	510.43	576.23	620.19
Bunkers	32.46	36.89	38.90	solid fuels	24.29	27.15	31.10
Non-energy products	45.45	51.93	59.22	liquid fuels	480.10	543.58	580.23
Stock variations (conversion + consumer) + 2.41	- 0.22	-	-	gas	0.54	<b>0.59</b>	3.41
Gap due to phasing out	+ 7.73	+ 12.96	+ 13.61	electricity	5.50	4.92	5.44
Total requirements	824.71	906.56	952.97	Stock variations (producers & importers)+9.10		+ 13.04	+ 8.19
				Coverage of requirements	824.71	906.56	952.97

(1) including foreign trade balance