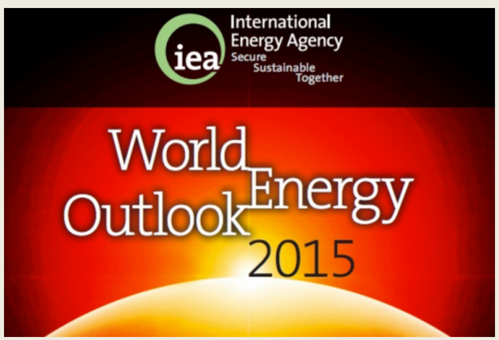
UNIVERSITY OF ECONOMICS IN BRATISLAVA

„CHINA RE-TUNES THE ENGINE OF GLOBAL ENERGY DEMAND – CONSEQUENCES FOR EUROPEAN INDUSTRY“

WORLD ENERGY OUTLOOK 2015 – PANEL II



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WEO 2015 - KEY MESSAGE

WEO 2015 has brought many important messages for the global economy. As the dominant feature of the energy sector is its globalization, those messages have substantial impact all national economics, either developed, industrialized or LDC´s. The most important features for years 2014 and 2015 could be as follows:

1.Oil prices fell sharply. With the prices of other fuels moving in tandem in many parts of the world. Countries including India and Indonesia took advantage of the oil price decline to move ahead. Iran, one of the world’s largest hydrocarbon resource-holders, returned to oil markets.

2.Renewables contributed almost half of the world’s new power generation capacity in 2014 and expanded to more than a quarter of global consumption.

3.Non-OECD countries account for the increase in global energy use, reducing collective consumption in OECD countries from the peak reached in 2007. Declines are led by the EU (-15% over the period to 2040), Japan (-12%) and the U.S. (-3%).

WEO 2015 - KEY MESSAGE

4. China's role in driving global trends is changing as it enters a much less energy- intensive phase in its development. It remains by a distance the world's largest producer and consumer of coal throughout the *Outlook* period; by the 2030s is the biggest consumer of oil and has a larger gas market than the EU. Structural shifts in the economy, favoring expansion of the services sector rather than heavy industry (both steel and cement production are likely to have peaked in 2014), mean that 85% less energy is required to generate each unit of future economic growth than was the case in the past 25 years.

5. Fossil-fuel subsidies were around 490 bil. $ in 2014, but would have been 610 bil. $ without reforms that have been enacted since 2009. Low oil price give the chance for it.

Abovementioned trend had, have and will have substantial impact on economical and political position of the EU Members. It is shown, that there is growing dependance of EU on the strategy direction of the Chinese economy. It is confirmed by following facts:

China gained dominance in the international trade, inward and gradually in outward FDI as well. Besides natural comparative advantages rooted in its economic scope, it is important to mention that:

- Long-term economic and energy development strategy
- Favourable development of the global environment and better adaptation in the aftermath of global financial crisis then its counterparts (EU)
- Positive impact of so called *"Greater China"* (Hong Kong, Singapore, Taiwan, Macao) regarding the inward of investment resources and import of energy resources

China is the second biggest producer and consumer of energy resources after US. It is biggest global coal importer (53 % of global exports) and 2nd biggest crude oil importer (4-5 million barrels per day). Its influence on the development in international markets is growing. For example, It is position of the world's largest importer of coal has main influence on its world prices and on the prices of oil and gas, too. Its supplies were payed by Chinese finished goods, which were produced with its own comparative advantages, mainly low labor costs. A decrease in its imports (13 % in 2014) caused the decrease its world prices to under $ 50 from about $ 220/metric tons. Quantification of adverse consequences for its exporters have far-reaching negative, direct and indirect consequences on the situation on international markets and global demand.

Decrease of coal import has translated into decrease of GDP growth and economic position of this commodity exporters. It is expected, that Australia and Indonesia will lose its GDP growth by 2 % and 1 % respectively due to lower demand for coal.

Global coal prices development (2007-2015, in USD)

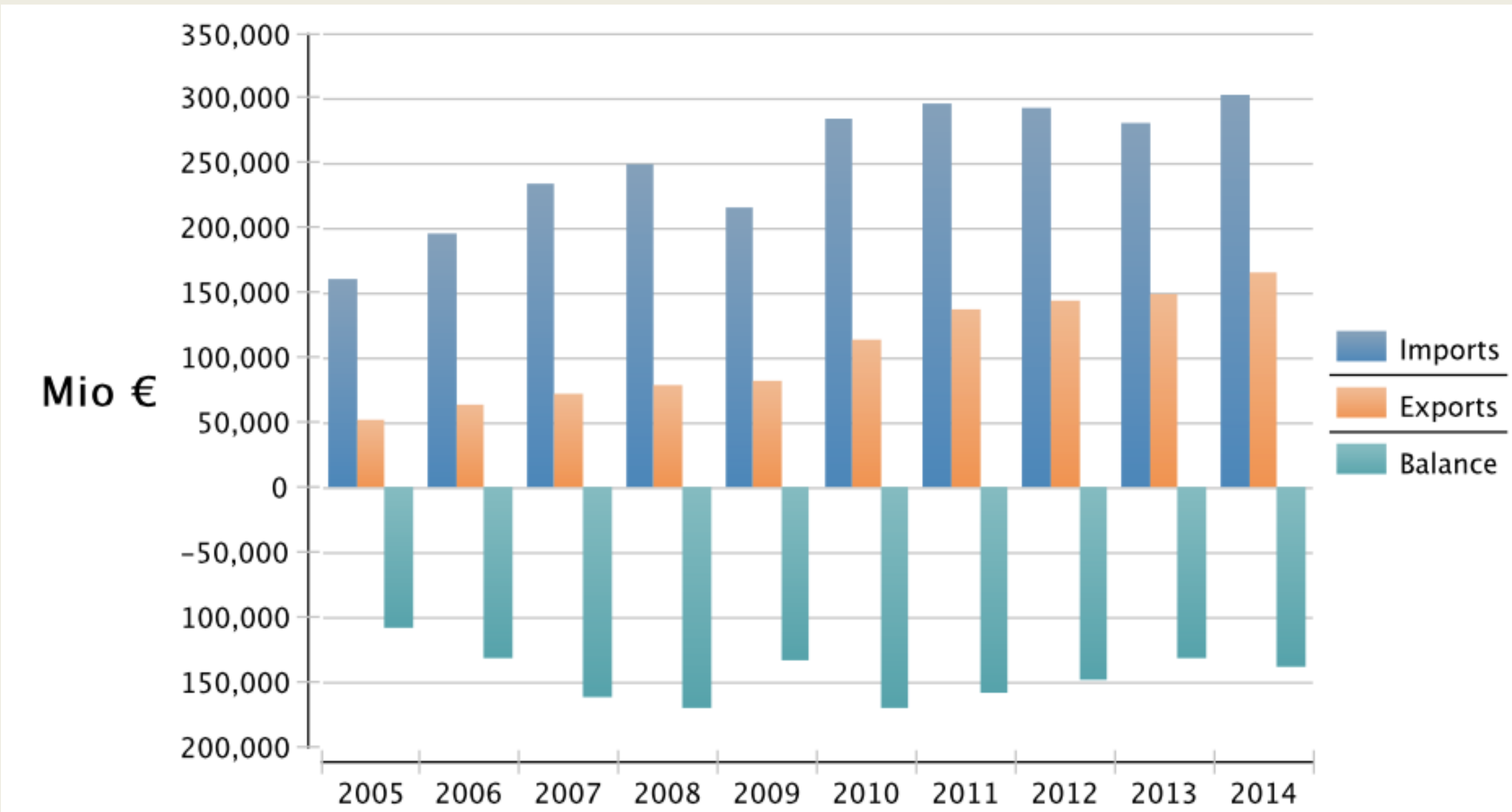
Source: Bloomberg.2015

IS IT IMPORTANT TO MENTION THOSE FACTS AND CONNECTIONS? YES, IT IS!

Coal (coke) is one of the most important inputs in steel production. Steel is one of the most significant export product of many EU Member States and the steel industry forms the backbone of e.g. German economy and employed approximately 0.5 mil. jobs. Long-term experiences of the EU in its technological development is applied. It has significant impact on the overall quality and production price „*made in EU*“. Closure of this industry would affect approximately 3.5 million jobs with further consequences for producers and end customers in EU and on the overall economic growth.

China was the key importer of steel production and steel materials from EU. However, thanks to own production capacities build on low labor costs and imported coal, it position has change and it is exporting its overcapacity abroad.

EU-China Trade Flows and Balance (2005-2014, EUR bil.)



Source: Eurostat, DG Trade 2015

WHAT IS THE SITUATION IN THE EUROPEAN STEEL MARKET?

European steel industry is under pressure of cheap imports from China since 2014. It is under threat of irreversible damage. China produced half of the total global steel production in 2014 (1.6 bilion ton) and exported 93 mil. tons, mainly to US and EU (even tough its current overcapacity is 250 mil. tons).

European coal production based on huge subventions, while wholesaler electricity prices (mainly from renewable sources) are subsidized in different ways as well, significantly increase the price of EU steel production which is loosing its competitiveness.

There is no doubt that even in the case of the EU, China has fixed priorities and identified ways how it will fulfil them. More doubt can be expressed with regards to the readiness of European Community member states to these new developments. It seems that under pressure of other problems, EC loose sight of the fact that just maintaining their own competitiveness will ultimately be the decisive element in not only the overall economic progress of the continent and its position in the world, but also the prosperity and living standards of their population.

Chinese status as a developing country in the WTO would be changed at the end of 2016. It will became the developed economy and EU and US (NAFTA) will gradually loose its options to further protect its markets through non-tariff barriers in line with WTO rules. This would mean the complete abolition of anti-dumping duties, which aim is to protect imports produced for the prices under the prices in EU. Ultimately, this would disrupt the whole energy strategy of EU, specifically in regards to existing price level.

WHAT ARE THE LESSONS LEARNED FROM WEO 2015 FOR THE ECONOMY OF THE SR AND EU

EU underestimates risks from developments in the global economy and on the international energy markets. Although in case of developments in energy prices especially oil, there is no reason to worry, it is shown, that fundamental economic reforms in its future are necessary.

Slow internal convergence, low ability to subordinate national economic interests to unitary ambitions, but also decreasing influence of EU in the world energ , just for the benefit of Asia, or the absence of a purposeful promotion of common long-term strategies which can be build on existing comparative advantages can be transformed into a definitive loss of competitiveness the whole region.

Thank you for your kind attention

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