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Western Europe: Natural Gas Demand Outlook

If the West Europeans made the decision to do so, their gas requirements for at least the 1980s could be met without importing additional Soviet gas. The main reason is that rising gas prices are depressing demand well below what the West Europeans had expected. Moreover, new gas supplies outside Europe will be coming on stream both to offset possible declines in domestic production and to meet future growth in gas needs.

Gas Demand Outlook

The six nations negotiating for Soviet gas are officially projecting gas requirements of 3.6 million b/d oil equivalent in 1990, compared with about 3.0 million b/d oil equivalent last year.

- West Germany, the Netherlands, and Italy would need little if any additional gas from the USSR or elsewhere given anticipated levels of domestic production and firm import contracts.
- France, Belgium, and Austria would need to contract for some additional gas supplies from the USSR or other sources, but only if these official demand projections prove correct.

Demand, however, will be far less than the official forecasts indicate.

- Gas use fell four percent in 1980 with the largest declines occurring in Germany and the Netherlands; demand has fallen again this year.
- Sluggish economic growth and the sharp rise in gas prices have been responsible for the drop.
- All of the decline has occurred in the industrial and electricity generating sectors, residential use was stagnant.

The decline has led to major downward revisions in private forecasts of future requirements.

- The reductions in forecasted gas needs--200,000 b/d oil equivalent or more--is equal to at least 40 percent of the volume of incremental Soviet gas supplies.
- Given the lagged effect of price increases on energy use, further reductions in energy and gas requirements will probably occur, particularly if gas prices continue to increase more rapidly than prices for other fuels.

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Gas Supplies

Although European domestic gas supplies are limited, domestic production is still expected to account for almost 60 percent of gas needs during the 1980s even without major policy changes in the Netherlands, Norway, or the United Kingdom.

- The Dutch, who supply the bulk of present European gas needs, are not renewing contracts as they expire, arguing that they will need their limited gas resources for future domestic needs. Dutch gas reserves -- some 62 trillion cubic feet -- have increased slightly over the past 2 to 3 years, but the Hague has not yet altered its long-term strategy.

- Present UK policy to use North Sea gas at home seems unlikely to change.

- Norway has 43 trillion cubic feet of gas but Oslo's present development plans will not yield a major increase in supplies during the decade. Some of the largest fields are extremely remote and will only be available during the 1990s after a lengthy and expensive development program.

While domestic gas is limited, there is substantial potential in other areas for increased supplies.

- Algeria offers the greatest potential and indeed, could provide as much additional gas as the proposed Soviet line. Europeans are concerned about Algerian demands for excessively high prices and question Algiers' reliability as a supplier. We expect Algeria to soften its hard-line pricing stance as the need for gas revenue increases, however.

- Nigeria has contracted to sell 130,000 b/d oil equivalent to Western Europe and could double this volume by 1990 if planned sales to the US market fall through.

- Cameroon probably will be exporting as much as 130,000 b/d oil equivalent by the late 1980s.

- Canada, Trinidad and Tobago, and Qatar are also potential sources of liquefied natural gas (LNG) late in the decade.

Taken together, these potential supplies are more than sufficient to meet European gas needs without additional Soviet gas -- even under the relatively high demand projections now being used by the Europeans.

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