



Energy's Role in Europe's Trade Deficits

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On February 16th, the Eurostat released its [first assessment of external trade balances for 2006](#) (pdf), making clear that energy is imposing an important burden on the Union's economy. They key figures:

During 2006, **euro area** trade recorded a deficit of 8.2 bn¹ euro, compared to a surplus of 16.2 bn in 2005. The **EU25** recorded a deficit of 172.6 bn in 2006, compared with -111.8 bn in 2005.

The trade balance of a country is calculated as the amount of money earned in all products exported minus the amount of money spent in all products imported. If the result is positive the country shows a healthy economy where a money surplus provides for an increase in social standards. By the contrary, a negative result means a faltering economy that loses money, putting at risk the current life standard; in such case the problem can be mitigated by attracting foreign investment or borrowing money, but it is never a desirable situation. A growing trade deficit is a scenario that if not properly and timely addressed, is unsustainable, eventually translating into the loss of individual purchase power and of the overall life standard.

The Eurostat's news release focus on November and December of 2006, makes the first estimate for 2006 as a whole and portrays detailed results for the January – November of 2006 period. This is probably the worst external trade balance since the Euro currency came to be, and there's no mistake why:

The [EU25] energy deficit grew strongly (-259.7 bn euro in January-November 2006 compared with -202.3 bn in January- November 2005), while the surpluses rose in the chemicals sector (+72.4 bn compared with +64.9 bn) and for machinery and vehicles (+103.4 bn compared with +91.2 bn).

The energy trade deficit rose 25% in a single year; at this rate it will top 500 bn € before 2010. And the overall picture is not so bad because in the other sectors (transformation industries) there were positive balances. This increase in industrial activity brought some economic growth reflected on an overall trade increase:

EU25 trade flows with its major partners grew. The most notable increases were for exports to **Russia** (+27% in January-November 2006 compared with January-November 2005), **China** (+24%), **Norway** and **India** (both +14%), and for imports

from **Russia** (+27%), **China** and **Norway** (both +21%), and **India** (+19%).

Again, large figures, indicating which foreign partners will dominate future external trade. And of course Norway and Russia are here present mainly as energy suppliers. Individual figures for major partners are provided:

*External Trade balances with key partners, January – November
(values in bn €)*

	2006	2005
USA	84.6	80.9
Switzerland	14.0	15.3
South Korea	-14.4	-12.2
Japan	-28.8	-27.4
Norway	-38.0	-29.4
Russia	-61.2	-48.0
China	-117.1	-97.4

The picture is only improving with the United States, a partner that could go into recession in the coming months. In that case the deficit can only worsen, with the trade flow across the Atlantic cooling down.

The news release also contains figures for the individual states with more weight on the overall balance:

*Trade balances in individual states, January – November 2006
(values in bn €)*

Germany	151.0
Netherlands	33.0
Ireland	29.9
Sweden	15.2
Italy	-20.5
Greece	-31.2
France	-31.9
Spain	-81.4
United Kingdom	-116.6

At the bottom of the table is the United Kingdom, which is ironically the EU's largest oil producer. [As reported by Chris](#), the country is failing to adapt to its depletion rates, digging very rapidly an energy gap that translates into a three digit bn € trade deficit. Changes are needed fast to invert the trend; the role that an independent currency might have or have not in that is yet to be seen.

But the toughest cases are those of Spain and Greece, which although have a lower deficit in volume, represent smaller economies meaning a higher deficit compared to GDP (or on a per

capita basis). Spain in particular might be headed for rough times, with one million new homes being built presently and a policy of low taxes on petroleum products - a recipe for trouble. Other states not mentioned might also be in trouble, like Portugal, which has a trade deficit not far from that of Italy, for a much smaller economy and population.

In the last few months Europe has been experiencing some economic growth, which is also observable on a year\'s end trade balance recovery. This seems to be an exceptional period where oil prices dropped (lowering import costs) and so the euro currency against the dollar (facilitating exports). With the new year the euro came back in strength against the dollar, something that has the double impact of making exports costlier for importing partners, but at the same time easing the energy imports bill. Even if a strong currency allows for some more years of heavy energy imports, the economy will continue in peril from the exports side.

Europe\'s economy consumes energy and crude materials, producing manufactured goods and services, and having an even balance on the food sector. This economic fabric simply cannot function properly in a world with diminishing energy available for trade. Europe not only needs a new Energy Policy, it might need a completely different Economic Paradigm to face the years ahead.

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¹ bn is used in this post and in the Eurostat news release to express 10⁹.



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