CANADA - KOREA ENERGY RELATIONS

ISSUE

Since 1979, Korea has been Canada's second (to Japan) largest export market for coal. It is a growing market for both metallurgical and thermal coal. Our main competition in the Korean coal markets comes from Australia and the United States.

BACKGROUND

The Korea Electric Power Corporation (KEPCO) has forecast that the oil share of total imported energy for Korea will remain at 47% until 2001, then decrease to 43% in 2010, with LNG and nuclear energy being increasingly used as oil substitutes. Coal will also be substituted for oil for industrial and electrical generating purposes, whereas LNG will be favoured in residential, commercial and clean (light) industrial sectors.

The recent hostilities in the Gulf have served to underline to Korea that a 55% dependency on imported oil to meet its aggregate energy requirements leaves its aggressive economy vulnerable to factors beyond its control. With a projected increase in energy demand of 30% annually, coupled with the fact that Korea sources 75% of its petroleum from the Middle East, Korean authorities seek to reduce this high degree of dependence.

The Korean Economic Planning Board (EPB) has estimated that every one dollar increase in international oil prices translates into a 5.0% increase in Korean oil prices which in turn translates into a 3.7% increase in wholesale prices which will swell Korea's annual import bill by some US $330.0 million.

Korea's energy vulnerability presents opportunities for alternative sources such as nuclear and coal, energy conservation, and efficiency technologies. Canada is well placed in the Korean market should coal requirements expand and the nuclear program accelerate. There are however, some constraining factors such as the time lag between the construction of new energy facilities and the present pressing energy demand, the negative economic impact of higher priced oil with its ripple effect throughout the Korean and international economies, and the growing Korean trade deficit. The Korean trade deficit has grown from $4.8 billion in 1990 to over $8 billion in the first half of 1991.

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