LATIN AMERICA

May 15, 1957

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Latin America was probably the only major area relatively unaffected by the Middle East crisis which shook the world oil industry for nearly six months. The reason lies, of course, in the facts that (a) Latin America depends only to a very limited extent on Middle East oil and (b) that (except for deliveries of Kuwait crude to Curacao) oil shipments from the Middle East to Latin America go around the Cape of Good Hope even in normal times so that the blockade of the Suez Canal and the pipelines to the Mediterranean did not affect oil shipments from this source.

Total shipments of Middle East oil to Latin America amounted to about 62,000 b/d in 1956, or approximately 5.5 percent of the area's total internal consumption of nearly 1.1 million b/d. The entire quantity was accounted for by the imports of five countries which brought in the following quantities of Middle East oil in 1956:

<table>
<thead>
<tr>
<th>Country</th>
<th>Middle East Oil Imports</th>
<th>Estimated Domestic Consumption</th>
<th>Middle East Imports as percentage of Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>30,150 b/d</td>
<td>223,000 b/d</td>
<td>13.5%</td>
</tr>
<tr>
<td>Brazil</td>
<td>27,685</td>
<td>192,000</td>
<td>14.4</td>
</tr>
<tr>
<td>Curacao</td>
<td>3,600</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Chile</td>
<td>375</td>
<td>42,000</td>
<td>0.9</td>
</tr>
<tr>
<td>Uruguay</td>
<td>334</td>
<td>29,000</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>62,144</td>
</tr>
</tbody>
</table>

Only Argentina and Brazil now rely for a significant part of their oil needs on the Middle East (all Kuwait crude). Both these countries have continued to receive some supplies from there throughout the crisis, though on a reduced basis. In the first three months of 1957 their combined total receipts of Kuwait oil amounted to 37,500 b/d.

Of course, by comparison with Europe no Latin American country depends on Middle East oil to any significant degree. However, the oil requirements of the two areas are not fully comparable since in Western Europe oil accounts for slightly less than 20 percent of total energy requirements while in Latin America it supplies about 53% of total fuel needs (or 75 percent if only commercial fuels are considered). Therefore, the impact of an oil shortage of any given magnitude would be considerably stronger on Latin America than on Europe.

That no such shortage developed is largely due to the sustained high production in Venezuela which now supplies some 44 percent of Latin America's oil consumption. This ratio was more than maintained during the Suez Canal crisis. Figures for the first three months following the Canal blockade show that Venezuelan oil exports to other Latin American
countries (exclusive of shipments to Aruba and Curacao) were 16.4 percent higher than during the same period of last year. This despite the fact that Venezuela was called upon at the same time to step up its deliveries to Europe and Africa from the immediate pre-Suez level of about 600,000 b/d to about 1,000,000 b/d by March 1957.

Shift in Latin American Oil Exports

If Latin America did not suffer as a result of the Middle East oil crisis its oil industry was nevertheless directly affected by it since all Latin American oil producing countries helped to bolster Europe's dwindling oil supply during the emergency period. A good illustration of this is provided by comparing Latin America's share in the oil imports of Britain, Europe's largest oil consumer, during the first two months of this year with the same period of 1956:

<table>
<thead>
<tr>
<th></th>
<th>January-February 1957</th>
<th>January-February 1956</th>
</tr>
</thead>
<tbody>
<tr>
<td>Venezuela</td>
<td>15.7%</td>
<td>9.9%</td>
</tr>
<tr>
<td>Dutch West Indies</td>
<td>5.5%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Trinidad</td>
<td>5.5%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Colombia</td>
<td>1.8%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Peru</td>
<td>0.5%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Total L.A.</td>
<td>29.0%</td>
<td>21.2%</td>
</tr>
</tbody>
</table>

Most other European countries along the Atlantic Sea coast experienced also an increase in the share of oil imports from Latin America. Now that the Suez Canal and the Iraqui pipelines are once again open for oil traffic, Latin America's share in Europe's oil imports is bound to decline again. However, not all of the gain may be lost. There are many indications that Europe will try to diversify its source of oil imports as a result of its recent experience. Of course, it can not reduce its dependence on Middle East oil to a major extent but it may be able to make a dent in it by developing imports from Latin America.

Higher oil exports from Latin America are possible because the area's oil production is growing at a more rapid pace than its consumption. In the four-months period ending last February (the latest month for which figures are available) Latin American oil production was 17 percent above the level of a year ago:

<table>
<thead>
<tr>
<th></th>
<th>Nov. 1955-</th>
<th>Nov. 1956-</th>
<th>Increase (in percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Feb. 1955</td>
<td>Feb. 1956</td>
<td></td>
</tr>
<tr>
<td>Venezuela</td>
<td>2,307</td>
<td>2,745</td>
<td>19.0</td>
</tr>
<tr>
<td>Other Latin America</td>
<td>597</td>
<td>653</td>
<td>9.4</td>
</tr>
<tr>
<td>Total Latin America</td>
<td>2,904</td>
<td>3,398</td>
<td>17.0</td>
</tr>
</tbody>
</table>
During the same period Latin American internal oil consumption increased by about 10 percent to slightly over 1.1 million b/d, thus increasing the area's net exportable surplus by nearly 400,000 b/d. Of course, the size of this increase would have been less, had it not been for the Middle East crisis. But some increase in Latin America's net exportable oil surplus would have been shown in any case.

Oil Exports to the U.S.

The bulk of this surplus is, of course, absorbed in the northern half of the western hemisphere. But Latin American petroleum sales to the United States - though increasing in both volume and value - are declining as a share of our total oil imports. In 1954 Latin America's $485 million oil shipments to the U.S. accounted for 58.5% of our total oil imports. In 1955 the value increased to $548 million but the share of the total dropped to 53.4%. And last year's $656 million Latin American oil imports accounted for only 51.7% of the total. In fact, if it had not been for the drastic reduction in our Middle East oil imports in the last two months of 1956, Latin America's share may well have dropped to the record low of just 50% of the value of our total oil imports.

This year Latin America will undoubtedly account for a larger share of our oil imports than last year. But this will be only due to a temporary factor, namely the virtual elimination of all Middle East oil imports during the first four months of 1957. Beyond next year, the magnitude of Latin America's oil shipments to the U.S. as well as its share in our total oil consumption will depend largely on the government's approach to the problem of oil imports. The new Trade Agreement Act to be enacted next year may well set the framework for our long-range oil import policy.

THE PANAMA CANAL

The Suez Canal affair has also focused attention on the world's other great waterway, the Panama Canal. There is very little danger that the Panama Canal will share the fate of the Suez Canal in the foreseeable future. However, the question of whether the U.S. has a perpetual right of sovereignty in the Canal zone is being publicly debated with increasing frequency as a result of Egypt's action.

The present Panamanian President Ernesto de la Guardia has stated that the question of seeking nationalization is "not a public issue at this time". However, Panama's last previous foreign minister has declared at a recent panel discussion that the idea of treaties "in perpetuity" has no meaning in international law. Therefore the U.S., according to the ex-foreign minister, can not claim any permanent automatic right in the Canal Zone.

For the time being all debates on the subject are strictly on the academic level. But there are indications that a certain sympathy for Col. Nasser's action exists in Panama. A recent request of the
Panamanian government that all Panamanian flag ships pay Suez Canal tolls directly to Egypt and not to any user's association or blocked account reflects this sentiment. A pamphlet just issued by the British Labor Party, suggesting that the U.N. be given "supervisory right" over the Panama Canal and other international waterways, also portends the possibility that a more earnest debate over the future of the Panama Canal may be in the offing.

Oil Shipments via the Canal (Also see Annex p. 18)

The stake of the oil industry in the future of the Panama Canal is not nearly as great as in the Suez Canal. But it is nevertheless significant. In the Atlantic-Pacific shipments oil is by far the most important commodity. In the last half of 1956 about 2.51 million long tons of oil (104,000 b/d) were shipped in the westerly direction. This was a 12% increase over the same period of last year and represented almost one fifth of the Canal's total Atlantic-Pacific freight traffic. Oil traffic in this direction has increased fairly steadily throughout the postwar period and amounts now to about five times as much as in the highest prewar year (1938).

About 40% of these shipments go from Venezuela, the Dutch West Indies and the U.S. East Coast to the west coast of Latin America, the most important consumers there being Chile, Central America, Peru and Southern Colombia, in that order. Shipments to Far Eastern countries also loom fairly large in the total, particularly to Australia. However, the biggest single recipient of westward oil shipments through the Panama Canal is the U.S. West Coast which received in the year ending June 1956 about 42,600 b/d (incl. 29,500 b/d crude) via the Canal, mostly of Caribbean origin. This was equal to 38% of all Atlantic-Pacific oil traffic.

These shipments reflect the U.S. West Coast's growing domestic oil deficit which has caused its crude oil imports to jump to 180,000 b/d last year. This is double the quantity imported last year and 3-1/2 times the 1954 figure. Yet, though Venezuelan crude oil shipments to the U.S. West Coast have increased very sharply last year, their share in the region's total oil imports is expected to decline from now on in favor of Canadian and, to a smaller extent, Middle and Far East imports. Last year Canada accounted already for 38% of total West Coast crude imports, the Middle East for 22% and Venezuela and the Far East each for 20%. According to figures submitted to the U.S. Office of Defense Mobilization, crude imports to the West Coast in the second half of 1957 will amount to 318,000 b/d of which 47% will come from Canada but only 9% from Venezuela, the only supplier whose shipments will actually be less than had been scheduled for the same period of last year.

Oil shipments to the U.S. West Coast can therefore be expected to account for a steadily declining share of total westward Canal shipments. However, most other westward oil shipments through the Canal can be expected to grow at a fairly steady rate, in line with the general increase in fuel requirements in Latin America and South East Asia. In the case of Colombia's Pacific region, the main supply source will soon be
shifted from the Netherlands Antilles to the Colombian domestic refinery under construction near Cartagena on the Atlantic Coast. But the new supply route will, of course, also go through the Panama Canal.

A possible exception to the general growth rate may be Australia which imported last year about 7,400 b/d of oil, (mostly products) via the Canal. These shipments may soon begin to fall off in view of the country's newly achieved near self-sufficiency in refining capacity. On the whole, however, westward oil shipments through the Panama Canal will continue to grow but at a much lesser rate than over the last few years.

Oil trade from the Pacific to the Atlantic has moved in exactly the opposite direction. In 1929 it stood at over 5 million tons; by 1938 it had declined to just below 3 million tons and in the last half of 1956 it moved at an annual rate of only 750,000 tons. The reason for this decline is to be found largely in the near cessation of fuel oil shipments from the West Coast to the East Coast of the United States. On the average, Pacific to Atlantic oil shipments throughout the postwar period amounted to only one fifth of the peak level they had attained in the last pre-war decade. Only on two occasions was the pre-war average even approached, namely in 1950 and 1955 when very heavy fuel oil shipments from California to the East Coast took place.

Other than the rapidly shrinking intercoastal trade, eastward oil shipments through the Panama Canal consist also of small quantities of Peruvian and Ecuadorian exports to Europe and the U.S. East Coast. Since there is no indication that these will substantially increase in the foreseeable future, Pacific to Atlantic oil shipments are likely to level off at the present low rate. This will give them a steadily declining share of the Canal's rapidly growing total Pacific to Atlantic commodity movements.

Limitations to Canal Traffic

Like the Suez Canal the Panama Canal also has its size problems. In the case of the Panama Canal the potential bottleneck lies in the transit of ships that are so large or unwieldy that they require daylight transit and are not permitted to meet or pass oncoming ships in a narrow eight-mile stretch called the Gaillard Cut. Without these so-called "clear-cut" transits which were virtually non-existent in the prewar period the present maximum number of transits of 24 ocean-going commercial ships per day could be more than doubled merely by extending the operating schedule to 24 hours and adding additional crews and relay lockages. According to shipping analysts, this rate of ship transits will probably not be reached for several decades.

However, the ships requiring clear-cut transit drastically reduce the efficiency of the Canal. The problem only developed within the last few years. In 1947, clear-cut transits amounted to just 2% of total transits. In the last half of 1956 their share had already grown to more than 11%. According to the 1956 Report of the Canal Company's Board of Directors, "Clear-Cut transits......have now a real bearing on the transit capacity of the Canal."
Among the clear-cut transits, tankers loom, of course, very large. One quarter of all transits of this type consisted of tankers above the T-2 size. With the growth in the average size of new tankers, an ever larger number of them will require clear-cut transits. Already the average size of tankers crossing the Panama Canal has grown from about 10,800 tons dwt in 1929 to 12,600 in 1949 and to 15,000 dwt last year. So far, the largest tanker to go through the Canal was the 35,000 dwt Esso Colombia.

The problem of clear-cut transits can be largely solved by providing passing stations in the Gaillard Cut and widening its narrowed sections. Some of these improvements are included in a two-phase plan approved four years ago by the Canal Board. However, even if the bottleneck of clear-cut transits can be removed, there is still the limiting factor of the size of the locks which does not permit transit of ships above 45,000 dwts. This limitation could only be overcome by either constructing new locks or by converting the existing channel into a sea-level canal. The first of these projects would cost $2.5 billion and the second $4.5 billion.

The existing locks are no serious actual or potential obstacle to oil trade through the Canal since most of the oil shipping routes which utilize the Canal are too short to justify the use of tankers above 45,000 dwts. However, the shipments of other commodities as well as national security considerations (our large aircraft carriers are too big to go through the locks) may necessitate a bigger overall channel. In this case it is likely that the cost of the job would have to be met at least partly out of higher Canal tolls. Such a decision, which is now being considered by a special committee, would, of course, have a direct effect on the cost of oil shipments through the Panama Canal. At present the Canal toll rate is 90c per Canal ton (unchanged since 1936). But it may soon be raised by about 4c in order to cover the cost of the new treaty provisions with Panama which raises the rental to be paid by the U.S. to Panama from $1.9 million to $3.4 million annually.

LATIN AMERICA AND THE EUROPEAN COMMON MARKET

Another development in the Eastern hemisphere which is beginning to cast its shadow on Latin America is the European Common Market project. There is a strong feeling among Latin American economists, both in the various governments and in the UN, that the Common Market may hurt Latin American exports to Europe, particularly if it is to be extended to large parts of Africa. For Africa is in many ways similar to Latin America. It contains much the same mineral and agricultural commodities (except for oil, of course). So far, many of these commodities have not been developed in Africa to the same extent than in Latin America. However, if the six richest industrial nations of Europe can agree on a common development scheme, the Black Continent’s resources would certainly have an advantage over competitive Latin American commodities in the vast protected market of Eurafrica. Europeans are already turning for an ever-increasing share of their coffee, cocoa, wool, copper and tin to
Africa. The EuroAfrica scheme would very much accelerate this trend.

Latin America's answer to this threatening loss of their second most important export market has not yet been fully formulated. But indications are that it may well react by forming a regional trading area of its own. This idea is based on the fact that the present level of inter-Latin American trade is extremely low but could be substantially raised by a common effort to integrate the economies of Latin America.

In 1955 Latin American inter-regional trade accounted for only 10% of the area's total foreign trade. Furthermore, about 75% of this trade was carried on by just four countries: Argentina, Brazil, Chile and Venezuela whose foreign trade with other Latin American nations (mainly with each other) was as follows:

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>196</td>
<td>211</td>
<td>-15</td>
</tr>
<tr>
<td>Brazil</td>
<td>146</td>
<td>241</td>
<td>-95</td>
</tr>
<tr>
<td>Chile</td>
<td>61</td>
<td>92</td>
<td>-31</td>
</tr>
<tr>
<td>Venezuela</td>
<td>160</td>
<td>14</td>
<td>146</td>
</tr>
<tr>
<td>All Others</td>
<td>174</td>
<td>179</td>
<td>-5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>737</strong></td>
<td><strong>737</strong></td>
<td><strong>000</strong></td>
</tr>
</tbody>
</table>

**CENTRAL AMERICAN INTEGRATION**

A first attempt at regional integration is now under way in Central America where five small republics have taken a series of steps to fuse their economies. These five countries have a combined population of 10 million people which is growing at an annual rate of 3.1% (compared to 2.5% for all of Latin America). Their combined national income was just below $2 billion last year and their combined foreign trade amounted in 1955 to $416 million exports and $405 million imports, thus giving the area a favorable trade balance. Total private U.S. investment in the five countries is probably about $300-350 million.

Plans to integrate the economy of these five countries have been in existence since 1952 when the Economic Cooperation Committee of the Central American Isthmus, composed of the economy ministers of the five countries, was established as an organ of the United Nations Economic Commission for Latin America (ECLA). The Committee took an important step forward at its fourth regular meeting last February when it recommended unanimously a multilateral free trade treaty and the establishment of a integrated industries.

The first of these proposals will apply only to specified products agreed upon by the five countries. Of course, at present intra-
Central American trade amounts to only a small fraction of the area's total foreign trade but the new free trade treaty will provide an opportunity for the expansion of existing industries and should also attract new ones so that eventually intra-regional trade will replace some of the region's imports from outside sources. Of course, the treaty is only considered an intermediate step towards the establishment of a full customs union between the five countries. The first concern to take advantage of the free trade system is the General Tire & Rubber Company which has set up tire manufacturing facilities in Guatemala to supply all of Central America.

The "Integrated Industries" scheme is a case-by-case approach to a common market in Central America. It is to apply only to specifically approved new industries which will be developed on a regional basis with the location determined strictly by economic considerations, irrespective of national boundaries. The first such industry will probably be a cellulose and paper factory to be located in the wooded areas of Honduras. A regional cotton textile industry may also be established.

The Central American Oil Market

The possibility of a regional oil refinery was suggested by the ministerial committee in January 1956 and was again strongly recommended in a UN report on Central American integration, issued earlier this year. At present all five countries import their entire fuel needs. In 1955 their total oil imports amounted to approximately $28 million of which nearly 45% represented gasoline purchases. Total internal consumption in 1955 stood at nearly 17,000 b/d.

According to the UN report, Central America's oil imports have increased at an annual rate of nearly 6% by volume and 11% by value since 1947. The reason for the much steeper increase in value than volume is the rapid growth in gasoline consumption while diesel and fuel oil consumption remained almost stable throughout the postwar period. By projecting both the 1947-1954 and the 1937-1954 trends in regional oil consumption, the UN report estimates that the area will consume 20,000-24,000 b/d by 1960 and 24,000-32,500 b/d by 1965.

Using the median of these figures, it finds that a regional refinery operating at a standard 85% capacity and meeting 75% of the area's total oil needs would require a crude oil throughput of 20,300 b/d in 1960 and 26,600 b/d in 1965.

The report suggests therefore a 27,000 b/d refinery as being of optimum capacity, assuming that it goes on stream by 1960. The location of the refinery should be on the Pacific side of the region since that is where the major consuming areas lie. The crude oil would therefore come mainly from Colombia, California and, to a smaller extent, Peru.

Actually, motor fuel consumption in the area may well increase at a higher rate from now on than the UN report assumes, due to the recent completion of the Interamerican Highway between San Jose, Costa Rica and Guatemala City. Thus, for the first time, all five countries are linked by a single all-weather highway. This is bound to bring a significant increase
Oil Exploration in Central America

Oil activities in Central America are not confined to marketing, however. At present active oil exploration activities are going on in four of the five countries. The main area of activity is Guatemala in whose north-eastern province El Peten some 15 oil companies are currently carrying on explorations. Together these companies have now more than 40 geologists in the field and expect to spend a minimum of $15 million on preliminary exploration in 1957. They have also undertaken, as a combined venture, a half-million-dollar air survey of northern Guatemala. In addition to the Peten area interest is also being displayed in the off-shore area on the Caribbean side of Guatemala where Central American Oil & Mining has recently received a concession.

The impact of the oil exploration on Guatemala is bound to be profound, regardless of whether oil will actually be found there. The American oil companies are now constructing a whole network of roads and bridges through a province which heretofore was largely unpenetrable. One likely result will be the commercial utilization of the Peten Province's rich timber resources. This possibility is already attracting both domestic and foreign timber concerns.

The situation in Costa Rica is quite different. There all exploration activities, so far, have been in the hands of one single oil company, Union Oil of California, which has had two oil strikes so far but both of them were too small for commercial exploitation. Union Oil is now drilling its fourth test in the so-called Cocoles structure near the Panamanian border. According to its Costa Rican manager, the Cocoles field must have a minimum productive capacity of 1,000 b/d to become commercially worthwhile. Right now its total capacity is only 200 b/d of clean oil. Union Oil has also plans to drill in the vicinity of Puerto Limon on the Caribbean Sea. Altogether the company expects to spend $2 million on drilling operations in Costa Rica in 1957. Up to the beginning of this year it had spent a total of $6 million in its search for oil in the Central American republic.

Meanwhile, the long-expected basic petroleum law has still not been submitted to the Costa Rican legislature, although a complete draft has been prepared by the government. However, the government has prepared public bids for petroleum exploration in three zones covering the provinces of Heredia, Alajuela, Puntarenas and San Jose. The bids need still the final approval of Costa Rican Comptroller's Office. Their conditions will reflect the main features of the basic petroleum draft law in that they will include a 50-50 division of net profits, an exploration period of 4 years with a two-year extension and an exploitation period of 40 years with a 10 year extension. The area covered by the three zones covers a total of 3,200 square miles.

The Costa Rican legislature has also a request for a 4,000 b/d refinery for local purposes before it. This project which would be under-
taken by the local firm Petrotico with U.S. financial support and the technical advice of Universal Oil Products, had already been unsuccessfully submitted to the last two sessions of the legislature.

Oil possibilities exist also in Honduras and Nicaragua. Unfortunately, the most promising region in those two countries is a long-disputed border area along the Caribbean coast. This area, north of the Coco river, stretches from the Mosquito coastal region to central Honduras and consists of nearly one third of that country. Nicaragua's claim for the territory is based upon her refusal to recognize an arbitration ruling made in 1906 by the King of Spain who awarded a large part of the disputed territory to Honduras. In the past the dispute had never become violent because the area appeared to be unimportant, both economically and demographically. Since last year, however, attention has been focused on the Mosquito Coast's oil potential by the activities of the Texas independent John W. Mecom who acquired a concession last summer covering the entire Caribbean coast line (plus the off-shore area) of Honduras.

Mecom spudded in the first wildcat ever to be drilled on the Mosquito coast late in January. Meanwhile, additional attention to the overall oil possibilities of the area has been called by the activities of the Waterford Oil Company of New Orleans which started to drill an offshore well 25 miles off Nicaragua's Atlantic coast, slightly southeast of the disputed border line, last February.

Waterford officials are enthusiastic about the possibilities of finding oil in the area whose formation they claim to be similar to that of the Williston Basin. (Two ninth of Waterford's concession belongs to Warren Petroleum, a Gulf Oil subsidiary, and another ninth to McDermott & Co. of New Orleans).

The fighting which broke out in early May between Honduras and Nicaragua is the sort of thing that often happens in Latin America (also in the Middle East) when a hitherto undefined and unimportant border area suddenly takes on economic significance. The Association of American States has now stopped the fighting and is trying to create a buffer zone between the two countries.

The whole affair has undoubtedly put a new obstacle into the path of Central American unity. At the same time it has shown again the need for it in order to eliminate the likelihood of future actions of this kind.

**BOLIVIA'S EXPANDING OIL EXPORTS**

Unlike the full customs union eventually planned by the Central American republics, the countries of South America are currently thinking merely in terms of expanding their intra-regional trade rather than formally creating any new economic or political affiliation. An important role in this development may soon be played by Bolivia's oil industry.
For Bolivia itself the success or failure of such a regional oil export scheme is, economically speaking, a matter of life and death. Traditionally, Bolivia is a typical one-commodity country in that her economy is largely tied to the fluctuations of the world tin market since tin accounts for 65% of her total exports. However, while all other Latin American ore-producing countries showed a slow but steady increase of exports throughout the postwar decade, Bolivia's mineral exports have been declining. There are a number of reasons for this. The most important is of a structural nature, namely the steady decline in the world-wide need for tin, due to technological reasons. In addition, Bolivia which accounts for only 15% of the free world's tin output, has become less and less competitive. This is due both to the country's super-inflation - a 3,000% rise in the cost of living between 1952 and the end of 1956 - and to the nationalization of all foreign-owned (U.S.-owned) tin mines which admittedly is the main cause for their growing inefficiency.

Dr. Hernan Siles Zuazo who became President last fall has made valiant attempts to stem the inflationary tide. He even went on a presidential hunger strike to induce striking miners to return to work. With the help of a $25 million currency stabilization fund, financed jointly by the U.S. and the International Monetary Fund, he has been able to reverse the decline in the exchange rate of the Boliviano which he has freed from all restrictions. He has also scrapped price controls and food subsidies and has frozen all wages and salaries for one year, following an adjustment for previous inflationary price increases.

Yet, useful and necessary as these measures are, the fundamental difficulty is still that Bolivia's main export commodity faces both a declining market and a deteriorating competitive position. Here is where the importance of oil comes in.

Bolivia has had a domestic oil surplus since 1954. However, the problem has been to find the necessary capital to develop this surplus and build outlets for it to other countries. So far success has been very limited. In 1956 petroleum exports totaled only 2,069 b/d, valued at $2.9 million, while domestic consumption amounted to 5,451 b/d. Though the government saved some $7.5 million by meeting all domestic oil needs (except for aviation gasoline) from domestic crude oil and refinery production, the export figure was very disappointing since the government oil agency YPFB had hoped that it would exceed $5 million for 1956.

Exports in 1957 should be somewhat larger due to bigger shipments to Argentina and Brazil. But the real jump in Bolivian oil exports should come in 1958 when a number of international oil pipelines will have been completed. The most important of these is the pipeline from Sicasica to the Chilean harbor of Arica on the South Pacific coast. Building of the line, which will be partly financed by Gulf Oil in exchange for exploration concessions in the area reserved to YPFB, is about to start, following parliamentary ratification of a Chilean-Bolivian treaty last month.

Another pipeline project, ratified at the same time, consists of two export lines to Paraguay. One will supply Paraguay's internal market
(about 1,100 b/d) and the other will go to the Paraguay river for further export down the Parana River to Uruguay, Argentina and the South Atlantic Sea. This will give Bolivia oil export outlets to both the Atlantic and the Pacific Ocean.

The pipeline to the Paraguay River could become of great importance to Uruguay which must import all the crude oil for its 28,000 b/d refinery whose capacity is now being doubled. At present about 90% of its crude comes from Venezuela and the Dutch West Indies, some 5,500 miles away by tanker. If Bolivia should be able to export sufficient crude oil, Uruguay may well switch to that supply source which is only 1,500 miles away by pipeline and river barge.

Still another pipeline project recently decided upon connects Bolivia and Peru. It involves two pipelines, one products line to supply fuel oil for a new smelter to be erected by the Southern Peru Copper Corporation near the coastal town of Ilo and one crude oil pipeline for export from the port of Ilo. This project has not yet been submitted to the legislatures of the two countries but has been officially agreed upon by the Bolivian foreign minister and the Peruvian ambassador to Bolivia.

Bolivia's oil exports would also be helped if Argentina goes through with its project to build an extension to the 30,000 b/d Bolivian crude oil pipeline which terminates at the Argentinian-Bolivian border town of Yacuiba. Also, Brazil's pending completion of the Santa Cruz-Corumba railroad will link that country directly to Bolivia's oil fields by means of the projected 200-mile Camiri-Santa Cruz pipeline. Incidentally, the pipes for this line are to be supplied by Mannesmann of Brazil.

When all these projects (most of which have already been definitely decided upon) are completed, Bolivia's oil export will depend mainly on how much oil it can produce rather than on how much it can transport, as it does now. At present, total production is only 10,000 b/d, giving Bolivia roughly a 4,000 b/d export surplus but the real productive capacity is considerably above current production.

Foreign Oil Interests in Bolivia

At the moment all oil output comes from the Y.P.F.B. But a number of private foreign concerns have applied for concessions under last year's new petroleum law. The most important of these is, of course, Gulf Oil which has been in Bolivia for almost a year. More recently another major oil company, Shell Prospecting Co. of London, has applied for twelve exploration-exploitation concessions totalling nearly 5 million acres. Furthermore, a 1.2 million acre concession has been assigned to the Andes Oil Co., a Pure Oil subsidiary which has, in turn, assigned a one third interest in the concession to each Hancock Oil and S.O. (Ohio). (This is the second combined venture of the three companies in Latin America. Their first is a concession obtained last year on Lake Maracaibo) In addition, bids for non-exclusive surface exploration have been received from Bolivian American Oil Company, a subsidiary of Consolidated Cuban Petroleum Corp.
The only foreign company which already has wells in Bolivia is Glenn McCarthy with concessions in the area reserved to the YPFB. Reportedly, McCarthy has completed four wells with a capacity of 200 b/d each but all of them are still shut in for lack of pipeline facilities. McCarthy's biggest trouble in keeping his choice Bolivian concessions has been lack of funds. The government has just signed a new 35-year contract with McCarthy which reduces his acreage by 25% and forces him to start drilling new wells at once, levying stiff penalties on any failure to comply with the contractually set drilling schedule and geophysical work. There are unconfirmed reports from La Paz that McCarthy will not be able to raise the capital, estimated at $5 million, to meet these goals. In that case it is likely that the YPFB will take over his concession.

YPFB is also eager to develop another choice concession, the 8.5 million acre preserve in Eastern Bolivia belonging jointly to Brazil and Bolivia. No exploration activities have ever been undertaken on this concession which has been in existence since 1938.

Now, however, the Bolivian government is pressing Brazil to either implement its obligations or return its interest in the concession to Bolivia. The major difficulty is that Brazil's only oil producing company, Petrobras, is excluded from participating in the venture since it is state-owned and as such is barred under the Bolivian petroleum law from operating in that country.

Brazilian private groups have expressed considerable interest in the concession but their difficulty lies in finding the necessary capital. Now it is reported that the first attractive Brazilian proposal has been made by a private syndicate consisting of insurance and oil refining interests which may be able to put up $20 million for a starter. The syndicate has indicated it would welcome foreign capital in its venture. According to one report, it may receive assistance in form of equipment and technical advice from Gulf Oil.

U.S. and British capital is also backing some of the other Brazilian groups which have submitted bids for the joint concession. It has also been reported in the La Paz press that the Brazilian foreign minister has accused U.S. oil concerns of trying to block the entry of Brazilian private oil interests into Bolivia, although the story has been denied by responsible Brazilian officials.

The fact that both McCarthy and the Brazilians have experienced difficulty in raising funds, though both hold geologically promising concessions, suggests a reluctance on the part of private foreign capital to invest in Bolivia. The relatively small number of oil companies which have applied for concessions following the passage of the new oil law, compared to the influx into Guatemala, for instance, would also seem to bear this out.

The reason is probably fear of another outbreak of the nationalization rash in Bolivia. Neither the nationalization of Jersey's Bolivian subsidiary in 1937 nor the foreign tin nationalizations of 1952 have ever been forgotten.
been repudiated, condemned or even criticized by the present regime. In fact, the forces which brought about the tin nationalization are still in command of the country's strong and politically active labor movement. Furthermore, so far, no serious efforts have been made to indemnify the American owners for their confiscated tin properties. True, the present government seems genuinely convinced of the benefits of private foreign investments for Bolivia. But in a country whose history shows an average rate of revolutions of about 1.3 per year this is no gilt-edge security.

OIL AND POLITICS IN BRAZIL

The Brazilian government's encouraging attitude towards the proposed participation of private refining concerns in the Bolivian exploration scheme seems to be indicative of a general loosening up of existing restrictions on private Brazilian refinery operations. According to government and Petrobras sources, well-run private refineries will soon be permitted to expand their capacity. At present Brazil's 6 private refineries and skimming plants account for about one third of the country's 115,000 b/d refining capacity.

However, any relaxations of this type will in no way infringe on the absolute monopoly of Petrobras in the producing sector of the oil industry. In fact, Petrobras is becoming more and more a sacred cow in Brazil and is continuously being defended against imaginary foreign enemies which supposedly conspire against it.

Typical are two widely publicized speeches made last month by Petrobras president Janari Nunes. In both he violently attacked the "International oil companies", accusing them of creating serious threats to the economic and political independence of the countries which "do not submit to their designs" and of encouraging dictatorial regimes in the countries in which they operate. He also stated that the Suez situation had greatly increased United States interests in finding new reserves in South America, particularly Brazil. As a result, an increasing number of "Vice-Presidents" are now visiting Brazil, thereby "considerably aggravating the problems of Petrobras."

Several Brazilian newspapers seem to feel a similar urge to shadow-box with foreign oil companies. The very widely-read Diario de Noticias, for instance, recently ran a four column page-one headline reading, "United States Groups Insist On Dominating Our Petroleum", while Ultima Hora filled its front page with a statement attributed to the late President Vargas which said in a direct reference to oil, "enough of exploiting us. We are not a colony."

The atmosphere created by this sort of propaganda sometimes backfires on its instigators. This happened last March when Petrobras was forced to reject a badly needed $6 million loan offer from the Texas Company for its projected 90,000 b/d refinery in Rio. The loan had apparently been provisionally accepted by Petrobras as part of Texaco's bid to supply the plant with 15,000 b/d of crude for a five year period. But
the Petrobras-engendered public hostility to the international oil industry apparently made the deal too much of a political risk.

The reason for Petrobras' increasing vociferousness about foreign oil companies may well be to turn away criticism from itself. Such criticism has recently been forthcoming from several newspapers as well as some deputies. Correio da Manha, for instance, pointed out that despite all the propaganda, the country is still getting all its domestic oil only from the one area that had already been producing before Petrobras' emergence, namely Bahia, whose recoverable reserves are now estimated at 311 million bbls. Production at Bahia has increased from 8,000 b/d to 25,000 b/d within the last twelve months, mainly due to new pipeline connections and development drilling, and is expected to reach 40,000 b/d by the end of this year and at least 80,000 by 1960. But even that figure would still cover only one third of Brazil's estimated consumption for that year.

This means that Brazil's oil import expenditure which amounted to 25% of all dollar imports last year will continue to climb, as is borne out by the oil import allocation for the first half of 1957 which at $163 million is 7% above the Jan.-June figure of last year. The unit cost of these imports should be reduced by 1960 when the new Rio refinery and a planned 20,000 b/d refinery in Minas Gerais will make Brazil self-sufficient in oil products. But despite Petrobras' assertions that it has saved the country $50 million in foreign exchange last year and will save it nearly $460 million by 1961, critics of the state oil monopoly feel that the key problem of finding additional crude oil reserves ought not to be left to Petrobras alone.

Folha da Manha, an influential independent daily, voiced this view earlier this year in an article which advocated "the hypothesis of nationalization without government monopoly, that is to say amending the present strict legislation to permit at least the states and municipalities to erect their own refineries and to allow Brazilians in general to enter the petroleum industry in the areas of production." The paper, also quotes an article in the British publication Petroleum Press Service which claims that "if Brazil had not given proof of its chauvinism, it would have freed itself many years ago from dependence on importation of foreign petroleum."

In Brazil's parliament the spokesman of those believing that Petrobras can't go it alone is Deputy Alfonso Gentil who has introduced a bill which would retain federal control over all oil operations but would give private Brazilian interests exploration, exploitation and refining rights.

In the present atmosphere the bill has little chance of being passed. But if in a year or two Petrobras has still not located any significant oil deposits outside the Bahia fields, popular sentiment is likely to turn against it and demand an end to its monopoly position. There is no telling whether in that case Brazil would be opened up to foreign oil companies. But it may be significant that outside of the oil sector foreign investments, particularly from the U.S. and Germany, are increasing at a very rapid rate and are receiving all the official encouragement from the Brazilian government.
ARGENTINIAN OIL POLITICS

The mixture of oil and politics is even more explosive in Argentina than in Brazil. Argentina's current production of about 93,000 b/d covers less than 40% of the country's total oil needs. As a result imports last year amounted to 160,000 b/d (consisting of 49% crude, 42% residual fuel oil and 9% other products). This represented a 10% increase over 1955 and a 27% increase over 1954.

There is no doubt that this rise in the importation of oil which eats up one fourth of the country's foreign exchange earnings, could be reversed by increasing domestic production in areas where oil is known to exist, such as the Tierra del Fuego province, or where producing wells have been discovered but are capped for lack of pipeline facilities, such as in the Salta and Mendoza provinces.

The question of whether the state oil agency YPF can do the job of bringing Argentina's oil to market or whether the help of foreign oil concerns is needed has been and continues to be one of the country's favorite political footballs.

Provisional President Pedro Arumburu seems to be among the least convinced of the advantages of YPF over private oil operations. Last January he made two public statements in which he strongly criticized and derided "sham nationalism" i.e. the political forces which oppose the entry of foreign capital into Argentina's fuel and power industry. He specifically pointed to the success enjoyed by Venezuela and Canada as a result of not having adopted an attitude of "false nationalism". This was a clear reference to the desirability of letting foreign oil concerns share in the development of the country's oil resources. This does not mean that Pres. Arumburu would like to abolish YPF even if he were free to do so. But he probably would permit foreign companies to work side by side with the state monopoly.

However, there is little chance that anything will be done to change the present setup in the country's oil industry. One reason for this are the coming elections. The first of these, for a constituent assembly to reform the constitution, will be held on July 28th, 1957, to be followed by general elections on February 28th, 1958. Another reason is that YPF has received a series of bids from abroad for the various projects needed to permit domestic oil to make a maximum contribution to the country's economy. If these bids can be confirmed - particularly the $268 million bid made by the International Contractors & Suppliers Ass'n., a consortium of 33 firms from 7 countries - it is unlikely that any changes in the YPF setup will be made until the projects have been completed in about three years.

The long-run chance for the re-admission of foreign oil companies will be fought out mainly in the political field. The most ardent opponent to foreign oil activities in Argentina, including even the existing ones, is Radical Party leader Arturo Frondizi, considered to be the
country's leading presidential candidate. Frondizi, who in 1951 received 2.4 million votes against Peron's 4.7 million, is now openly seeking the support of Peronista as well as Communist groups in Argentina.

In his campaign speeches he is accusing Arumburu of planning to hand the government over to "oligarchy and the forces of international capitalism." Frondizi's importance has recently been somewhat reduced by an internal split in the Radical Party which led to the defection of its center group. However, at this moment he is still considered the most likely man to be elected to the presidency.

Among his opponents, a man of rapidly emerging importance is Alvaro Alsogaray, president of the recently formed Independent Civic Party. Senor Alsogaray who was minister of commerce and industry for a brief period last year is extremely critical of YPF which he considers to be inefficient and damaging to the Argentinian economy. He favors more private enterprise and believes there is plenty of room for it in the Argentinian economy. His main target, naturally, is Frondizi and his Radical movement. He accuses the Radicals of having "chosen the petroleum problem as their electoral banner, maintaining that the only way to defend ourselves against international trusts is by establishing an official monopoly."

His own recommended remedy against Argentina's oil shortage is to grant immediately 40-year permits for exploration and development to private Argentinian and foreign oil concerns.

Senor Alvaray disclaims any personal interest in the office of the Presidency. But whatever his plans, his political influence seems to be growing and his ideas are finding an increasing number of attentive listeners.
## ANNEX

### OIL SHIPMENTS THROUGH THE PANAMA CANAL

**Year Ending June 1956**

(Thousands of bbls)

<table>
<thead>
<tr>
<th>Origin</th>
<th>Destination</th>
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<tbody>
<tr>
<td><strong>I. ATLANTIC to PACIFIC</strong></td>
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</tr>
<tr>
<td>U.S. East Coast</td>
<td>8,762</td>
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<tr>
<td>Central Amer. E. Coast</td>
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<tr>
<td>West Indies</td>
<td>14,920</td>
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<tr>
<td>So. America E. Coast</td>
<td>15,832</td>
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<tr>
<td>Europe</td>
<td>125</td>
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<tr>
<td>Middle East</td>
<td>981</td>
</tr>
<tr>
<td>Other Atlantic Area</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40,633</td>
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<tr>
<td><strong>Total</strong></td>
<td>40,633</td>
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</tbody>
</table>

| **II. PACIFIC to ATLANTIC** | |
| Canada (W. Coast) | 518 | U.S. East Coast | 9,793 |
| U.S. West Coast | 11,191 | Europe & Lat. Amer. E. Coast | 3,690 |
| Cent. Amer. W. Coast | 1 | |
| So. Amer. W. Coast | 1,768 | |
| Asia | 4 | |
| Australasia | 1 | |
| **Total** | 13,483 | **Total** | 13,483 |