

WORLD BUSINESS

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DEVELOPMENTS OF INTEREST TO THE PETROLEUM INDUSTRY

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1 - 4

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H I G H L I G H T S:

Page

EUROPE..... 1-12

THE GENERAL SITUATION..... 1

Europe's boom threatened by inflation; wages, prices rising; labor shortages; dollar imports on the increase, reducing hard currency reserves. Monetary measures to reduce spending and installment buying taken by several governments. Continued steep production increases major factor in preventing shortages of goods, so far. Increasing coal shortage may become obstacle to balancing of dollar trade; traditional coal-exporting countries now importing U.S. coal. Continent still not ready for currency convertibility; will follow lead of U.K. which is not ready either. Fear of U.S. competition will also keep quantity restrictions on dollar imports in force.

EUROPEAN PETROLEUM DEVELOPMENTS..... 2

Oil news from Finland, Ireland, Netherlands, Portugal, Yugoslavia and Denmark.....

EUROPEAN COUNTRY BRIEFS:

Britain's business boom continues; foreign trade deficit again rises sharply due to higher imports and more direct effect of dockstrike on exports. Very sharp decline in sterling reserves in July, caused partly by sales of sterling held abroad. No early improvement in sight. Coal shortage major factor in trade deficit; U.K. now permanent importer of coal; higher coal prices announced. Oil trade affected by coal shortage; government estimates additional 15 million tons oil by 1960 will replace 25 million tons coal; major change-over to oil to occur in power generating sector. Higher fuel oil consumption reduces net fuel oil exports, makes U.K. again net products importer. Gasoline consumption increase much smaller; disparity may necessitate fuel oil price rise... 3

German prosperity still on the upswing; however, signs of strain appearing: labor shortage increasing, wages rising, some prices up. Imports still climbing faster than exports

to prevent internal shortages but G. continues to have small export surplus. Higher U.S. coal imports. Fuel oil output rising sharper than total refinery output; also sharp increase in diesel oil consumption, partly due to stockpiling. Refinery increases in Hamburg area, new plant at Cologne. Domestic crude output remains 1/3 of requirements; exploitation cost rising. Crude imports nearly evenly divided between dollar and sterling area. Petrochemical field to expand with construction of synthetic rubber plant..... 5

Austria to face new economic problems as occupation ends; will loose foreign exchange expended by Western armies and must make large payments to USSR. Returned oil properties will eventually become state-owned. Disposition of Western-owned oil properties still pending. A. may permit foreign investment in processing but not in crude oil sector. Future of oil production dependent on state of reserves; wide variations between official Soviet and unofficial A. estimates. Current drilling in western province. Domestic oil consumption increasing sharply; fuel oil shortage last winter, met by imports; gasoline sales rising this year due to tripling of vehicle imports. Refinery modernization would permit gasoline exports..... 7

France's Parentis field now produces 14,000 b/d; further expansion continuing; pipeline and refinery construction under consideration. Increased exploration in other areas. Refinery at Strassbourg..... 9

Italy's Premier makes oil exploitation major point in economic program; foreign concerns may receive limited participation permission. E.N.I.'s foreign activities growing. Refinery sector to be expanded despite unused capacity. Natural gas sector expanding..... 10

Sweden's oil imports increasing sharply, especially from Britain and USSR; accelerated by coal-to-oil switch; fuel oils consumption now larger than coal consumption..... 11

Greece's first refinery to be built; will mean market loss for Italy, Greece's main supplier. Soviet oil shipments to increase. German firm to drill near border..... 12

OIL DEVELOPMENTS BEHIND THE IRON CURTAIN

The Soviet Union reports increases in production from "New Baku", off-shore areas of "old" Baku and Pacific islands; improvements made in water-flooding methods. Criticism of oil industry continues; Premier Bulganin again attacks industry for shortcomings in quantity and quality. Armed forces, country's major oil user; if army reduction takes place more export oil will be available. Foreign activities of oil export trust expanding..... 13

SOVIET BLOC OIL EXPORT AGREEMENTS:

Information on agreements with Sweden, Norway, France, Austria, Egypt, Greece..... 15

THE GENERAL SITUATION

Labor shortages, new wage demands, storm warnings of inflation and higher dollar imports are the main characteristics of the European economy during this midsummer. Full employment has now been reached in all industrial areas of Europe with the exception of Northern Italy. Plans are afoot to end the labor surplus there too by sending Italian workers to countries with labor shortages. New wage demands plus requests for straight - time working hour reductions towards the forty hour week are cropping up in every country and, since most of them are being granted, Europe's cost structure is bound to increase appreciably in the course of 1955. Major strikes occurred recently in the French metallurgical industry, in German shipyards and at the Antwerp docks where oil tanker unloadings were held up; a strike threat exists at present among coal miners in Yorkshire.

The continued boom conditions affected both the balance of trade and the domestic price structure. An obvious inflationary price rise became noticeable, so far, only in Great Britain but prices crept up slightly in almost all countries of Europe. Government authorities took official notice of this tendency and between May and July central bank interest rates were raised in Austria, Belgium, Germany, the three Scandinavian countries and - for the second time this year - the U.K. The concerned governments hope that such indirect measures will suffice to stem the rising inflationary tide and that more drastic means, such as reintroduction of direct controls, will not become necessary. Consumer credit - mainly installment buying - has also been restricted in Great Britain and Scandinavia. This latter measure will have a direct effect on automobile purchases which reached all-time records in the first half of 1955 in most European countries.

The main factor in preventing the development of a stronger inflationary trend, up to now, is the excellent record of European production. In the six countries of the European Coal and Steel Community the increase in output over the high levels of last year was a record 12.5% and even in strike-torn Britain the increase was 6.5% despite acute labor shortages. If output continues to increase at this rate no major inflation is likely to occur.

However, two serious drawbacks exist presently to further expansion. One is the labor shortage and the other is the coal shortage. In the six ECSC countries the overall increase in production of 12.5% compared with an increase in coal production of only 3.1%. In Britain, coal output actually declined. Increased imports, mainly from the U.S., will have to make up the difference. And such traditional coal exporting countries as Germany, Belgium, France, not to speak of Great Britain, are now importing U.S. coal. The High Authority of the ECSC has recently issued a report on the European coal shortage in which the possibility of evoking the Authority's emergency powers, involving a priority allocation scheme, was raised. The Authority also pointed to the shortage as another reason for a consolidated European energy policy.

Coal is also an important factor in the total increase in dollar imports into Western Europe. These imports have caused a recent slight deterioration of the area's hard currency reserves. Increasing overall demand and further dollar liberalizations in several countries, especially Germany, have also helped to push the total dollar import figure up by 40 percent over the first half of 1954. Exports to the dollar area have increased by some 10 percent only. The difference is made up largely by U.S. defense expenditures which will amount to \$1.5 - 2 billion this year but they will begin to taper off after next year.

The economic situation in Europe is therefore still not stable enough for an early move towards currency convertibility. An agreement made recently between the members of the European Payments Union (EPU) provides that when convertibility takes place a new set of rules, called the European Monetary Agreement (EMA), will come into effect. There is little reason to assume that EMA will be activated in the near future, especially, since it is now clear that no country will go convertible before England does and England seems further away from convertibility today than a year ago.

European fear of free American competition is another factor against lifting the protective currency barriers. The same goes for the quota restrictions on dollar imports. Up to the middle of this year only 51 percent of all such restrictions, based on trade in 1953, had been lifted in the EPU area. If convertibility is to have any meaning, these quota restrictions would have to be discontinued together with the hard currency restrictions. However, as has been shown in Germany when dollar import restrictions were lifted partially, this would bring about an immediate strong influx of dollar goods. Countries like France, Italy, Norway, Austria which so far have freed none or only a small portion of dollar imports are quite unprepared for such drastic action. The emphasis in Europe's trade and currency liberalization will, therefore, continue to be on gradualism. A more detailed time table of developments may be furnished at next month's annual meeting of the International Monetary Fund in Turkey.

EUROPEAN PETROLEUM DEVELOPMENTS

In FINLAND a new independent oil importing concern, Tuonit-Union, has been founded jointly by a group of domestic oil dealers. The new firm will handle mainly East European imports. Storage tanks for the firm are being built or rented at the oil port in Hertonaes. The new organization may handle some of the scheduled 415,000 tons of Romanian imports which the international concerns operating in Finland (Esso, Shell, Gulf) refused to distribute earlier this year on the grounds that they came from their own expropriated properties in Romania. The international companies are, however, distributing USSR oil products which last year accounted for 55% of Finland's total oil imports of almost one million tons. This year total imports will probably be higher since for the first five months they were already 16.5% above the same period of last year. Some of the additional oil imports may come from Western sources. Foreign exchange allocations for this purpose were promised to the international companies several months ago by the Finish government.

IRELAND'S first refinery will be built on the east side of Cork Harbor. It will be owned by Esso, Caltex, Shell-Mex and B.P. Ireland's present imports are at the rate of one million tons per year. Their annual total cost is about \$34 million.

In the NETHERLANDS oil production is expected to reach an average of 20,000 b/d for the first time this year. The increase is due mainly to the recently tapped fields at Rijswijk, just outside of The Hague. So far, five producing wells, out of a total of eight drilled, are flowing at a total rate of about 600 b/d. The present quantities are very modest compared with the Schoonebeek field in the north east which supplies 25% of the country's oil needs but the extent of the new deposit has not yet been determined.

From PORTUGAL comes the report that SACOR, the national oil company, is completing extensions of its Cubo Ruivo refinery which will have an annual throughput capacity of one million tons and will produce high-octane gasoline and all of Portugal's jet fuel needs. Total domestic demand in Portugal was 772,000 tons last year, 5.5% up from the preceeding year.

YUGOSLAVIA'S crude oil output is rising rapidly. For the current year it will total about 270,000 tons, compared to 226,000 tons last year. Recently discovered deposits near Zagreb whose size is still being explored might raise this level still further. Economically recoverable reserves are estimated at 10 million tons, plus another 8 million tons of "known" reserves, by the country's major drilling firm but at only two million tons, with an additional 3 million tons to be discovered by 1962, by the Belgrade Institute of Oil. In line with the increased crude production, Yugoslavia is also expanding its Danube tanker fleet by adding 31 small river tankers to its present fleet of 51 ships. The tankers are used to bring crude oil from the Black Sea to the country's refineries (cap. 20,000 b/d).

Motor fuel consumption in DENMARK is adversely affected by the sharp reduction in automobile and motorcycle registration this year, compared to 1954. For the first half of 1955 total car registration dropped by 28% to a low of about 23,000 units while motor cycle registration was off by almost 60%. The main reason for the drop are restrictive measures on imports to correct Denmark's balance of payments deficit. These restrictions, under which most buyers must now pay the full value of the vehicle before delivery, have also sharply increased the share of low-priced small vehicles with low fuel consumption. Another factor accounting for lower fuel consumption is the higher sales tax on gasoline introduced last April as an anti-inflationary measure.

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EUROPEAN COUNTRY BRIEFS

UNITED KINGDOM: There is still no let-up in Britain's foreign trade troubles nor in its unprecedented domestic boom. Foreign trade deficits have increased sharply in both June and July over the average monthly deficit in the first half of the year as the increase in imports further outstripped the rise in export sales. To a large extent this imbalance may be said to reflect the consequences of the long dock strike which ended in July. Due to technical conditions the strike affected exports much more than imports so that some of the delayed export shipments will undoubtedly show up in the August trade figures. However, there is no doubt that the strikes have brought about a fair amount of cancellations from abroad, in addition to loss of good will.

The really disappointing thing about the trade balances for the last two months is that despite the strike which, after all, did have an adverse effect on incoming shipments too - imports were higher during each of these two months than in any of the preceeding months of this year. As a result, imports during the entire Jan.-July 1955 period were \$ 782.6 million higher than during the same period of last year while exports had risen by only \$ 72 million. There is little likelihood that this situation will change in the near future since Britain's trade deficit is traditionally larger in the second half of the year than in the first.

Nor did invisible exports or capital movements counteract the trade losses. Britain's total gold and dollar reserves which had declined by a monthly average of \$ 13.5 million during the first half of 1955, dropped by a staggering \$ 136 million in July.

Thus, in one year foreign exchange reserves had fallen from slightly over \$ 3 billion to \$ 2,54 billion. Much of the July decline is attributed to speculative sterling sales abroad which had forced the British Treasury to expend large sums of dollars in order to keep the market rate of sterling near \$ 2.80.

Any real improvement of Britain's balance-of-payments difficulties can only come through further domestic belt-tightening. After a reluctant first step in this direction last February, the government has recently taken another. It doubled the required down payments on many installment purchases of consumer goods, including motor vehicles. At the same time banks were officially requested to make fewer loans and businessmen were asked to defer non-essential capital expenditures. If these indirect measures do not prove successful, Britain may have to take more direct ones to prevent an upsurge of inflation.

A creeping inflation, 5.5% in the last twelve months, is already weakening Britain's competitive position abroad. With the recent price increases in coal, electricity, steel and freight and new wage demands by most of the 10.5 million workers who had received increases earlier this year, the British cost structure is likely to increase still further before the year is over.

However, the main factor in Britain's rising foreign trade deficit is the shortage of coal. In this respect 1955 is a historic year. After being the world's major coal exporter since the 18th century Britain has now become a permanent net importer of its basic commodity. During the first seven months of 1955 output of 126.9 million tons was 2.6% below the same period of last year while overall industrial output in Britain increased by 6.5%. As a result, coal exports had to be curtailed by almost two million tons while imports during the first seven months rose to 6.7 million tons, or more than ten times the quantity brought in during the same period in 1954.

For the entire year coal imports - mostly from the U.S. - will amount to at least 12 million tons while exports will be no more than 11 million. In terms of value the difference will be even larger since Britain pays about \$ 2.80 per ton more for its imported coal than it receives for its export coal which is sold mainly under long-term contracts.

The decline in coal production and the necessity to import higher-priced foreign coal has led to the recent decision of the government to increase the domestic price of coal by 18% in order to compensate for the higher costs and prevent wasteful use of this fuel.

Britain's oil trade is of course directly affected by these changes in the coal supply picture. In the short run, only oil can fill the growing gap between coal production and energy requirements. As the Minister of Fuel and Power recently stated, by 1960 an additional 15 million tons of oil will be consumed in Britain to save about 25 million tons of coal. Of this additional quantity, nine million tons of oil will be used in heating and steam-raising, five million tons will

replace about eight million tons of coal in 16 power stations and a further 0.63 million tons will be used by the gas industry instead of coals. The overall effect of such a substitution will be that within the next five years coal's share in total energy consumption will drop from 86% to around 77% while oil's share will increase correspondingly from 14% to around 23%.

The government is encouraging these changes by allocating more funds for industrial loans for the purpose of switching from coal to oil. At a recent date the Ministry of Fuel and Power approved 123 such loans totalling \$ 2.1 million. Dieselization of the railroads is also to be stepped up.

In the nation's power sector the change-over to fuel oil has been initiated by recent contracts between the Central Electricity Authority and Esso Petroleum and Shell-Mex and B.P. The contract with Esso provides for total shipments of about 30 million tons of oil over a ten-year period and specifies that the price of the fuel oil is to be on a heating-value parity with coal. The more recent agreement with Shell-Mex and B.P. is slightly larger and runs for twelve years. The price stipulations tie the fuel oil to the prevailing world market prices of that commodity (minus quantity discounts) rather than to coal. This is significant in view of the recent sharp rise in the coal price which may well be followed by others if the British Coal Board is to cease accumulating deficits. So far, coal prices have increased by about 1/3 over the prewar period despite the annual Coal Board subsidies; fuel oil prices, on the other hand, have remained unchanged.

The future price of fuel oil will depend largely on whether the increased quantities of the lighter fractions, particularly gasoline, which are becoming available as a result of the additional fuel oil output can find a ready market. For the first half of 1955 inland consumption of fuel oil increased by 24% over the like period of 1954 to 2.77 million tons while gasoline consumption rose by only 6% of which about 2% was due to the non-recurrent factor of the railroad strike. This brought about a reduction in net exports of fuel oil from 10 million bbls to 2.6 million bbls and made Britain again a net importer of oil products.

Since Great Britain is not a net exporter of gasoline (exports and imports cancel each other out) British refiners must either sell more gasoline at home or will eventually be forced to assign to fuel oil a greater share of the total revenue obtained from each barrel of oil. Shell-Mex and B.P.'s very recent price increase in the U.K. of \$ 1.40 per ton of fuel oil is a first step in this direction.

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GERMANY: The current economic situation in West Germany is in many ways similar to that in Great Britain, only it is less acute. The Germans too face a serious coal shortage which may undermine their present business boom but, unlike Great Britain, they are still net coal exporters. They have labor shortages but unemployment still accounts for 3% of the labor force, compared to less than 1% in Britain. Their imports have climbed much more rapidly than their exports but they still show a small export surplus. However, unlike Great Britain, Germany has so far had no major wage increases, no industrial disputes and no decline of foreign exchange reserves. The 18-months old business boom is so far, therefore, based upon much surer ground in Germany than in Great Britain.

However, there are now signs that Germany may be heading for a more difficult period. The labor shortage is increasing rapidly and unions, seeing their opportunity, are beginning to make major wage demands. Collective bargaining agreements are about to expire with 3.5 million workers all of which want 10 - 12% wage increases plus reductions in working hours. These demands may well increase the inflationary groundswell which became noticeably recently as prices for coal, steel, gasoline, diesel oil, and some consumer goods rose appreciably.

So far, the main factor in keeping the general price level at a fairly even keel was the 31% increase in imports over the first half of last year (compared with a 19% rise in exports). This has prevented the occurrence of any shortage and consequent price rises. For the time being this situation will undoubtedly continue.

However, with sharply increased coal imports - mainly from the U.S. - amounting now to 10% of the country's coal needs, Germany's export surplus might conceivably disappear after 1955. Nor is there much chance that coal imports will decline. On the contrary, German coal production can increase at best by 3% per year while total production during the first six months was 17% above the same period of last year.

All this is not to suggest that there is any immediate threat to Germany's prosperity but it is undoubtedly entering into a more precarious phase containing more perils to its continuity.

Germany's oil industry continues to reflect fully these overall economic trends. Fuel oil which is most directly affected both by the coal shortage and the high level of industrial activity rose last year by 70% compared to a 35% overall increase in refinery output. For the first six months of this year it increased again by more than total refinery output. The latter at 4.73 million tons stood 18% above the first half of 1954 while fuel oil, at 885,000 tons, had increased by about 23%. With the present deterioration of coal supplies which is forcing some power stations and a large number of town gas works to switch to fuel oil, further increases are likely both this year and next.

An even sharper rise during this year was registered by diesel oil which increased by 26% to 1.37 million tons. However, the cause here is not only higher demand but also stock-piling in anticipation of the diesel oil price rise of last May. A long-range development of significance to diesel oil is the present dieselization program of the German railroads. The first major order under the program, 390 diesel locomotives, has just been awarded. Gasoline output rose by about 17% to 1.36 million tons. On the basis of the first half year, total refinery output for 1955 is estimated at slightly over 10 million tons, or about 80% of capacity.

Plans to increase refinery capacity have been announced by several firms, the most important being Shell which intends to spend a total of \$ 45 million on expanding its Hamburg - Harburg plant from 0.7 million to 2.6 million tons over the next four years. The only recent announcement of a new plant comes from ESSO which is to construct a 60,000 b/d refinery at Cologne next spring. There are also unofficial reports that an independent group seeks to build a refinery near Hamburg in conjunction with the National Iranian Oil Company which would supply the crude.

On the input side Germany's now traditional one-third contribution of total crude oil requirements was approximately maintained during the first half of the year with a 19% increase over the same period of 1954. A total domestic crude oil production in 1955 of just over three million tons seems now certain. According to trade estimates, this figure is likely to rise to 3.7 million tons during the next four years. However, crude oil exploration is becoming increasingly expensive in Germany. Last year, the country's 2671 producing wells averaged slightly less than a thousand tons only. Furthermore, most new oil deposits are now found at great depths only. In view of this, domestic oil producers feel that only through maintenance of an adequate crude oil import duty can Germany continue to supply its share of domestic requirements.

German oil production in other countries does not yet exist but German producing firms are currently active in a large number of countries: Portugal, Italy, Switzerland, Spain, Greece, Turkey, Yemen, Egypt and Peru. In several of these they are now past the survey stage and are engaged in drilling operations.

Oil imports into Germany during the first half year amounted to 3.29 million tons. Most of it came from the Middle East but about 13% was of Venezuelan origin. The break-down between dollar and sterling oil imports may be assumed to be about the same as last year when 52% of all imported crude came from the dollar area. The average price last year was \$16.06 per ton f.o.b. or \$21.41 c.i.f.

In the petrochemical field the most important recent development is the decision of the three successor plants to I.G. Farben plus one independent plant to build Germany's first large-scale synthetic rubber plant since World War II. The plant will have a capacity of 45,000 tons and will use butadiene as raw material which is to come partly from the Esso and B.P. refineries in Hamburg and partly from imported sources. The plant's projected output will cover about 30% of Germany's rubber needs. An interesting feature of the new enterprise is that it is the first joint venture of the I.G. Farben successor concerns since their "decartelization". However, in the future the three companies plan closer cooperation "in order to avoid senseless duplication of investment effort".

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AUSTRIA: By the end of October all foreign troops will have departed from Austrian soil and the country will have regained its independence after 17 years of annexation and occupation. From a political point of view this is undoubtedly a major achievement. In the field of economics, however, the new situation is bound to bring with it several new headaches. For one thing, the country stands to lose about \$60 million in foreign exchange (50% of it in dollars) from the local expenditures of the Western occupation armies. Secondly, it will now have to equip its own armed forces. Thirdly, it will have to ship \$25 million of goods (including 200,000 tons of oil) annually to the Soviet Union for the next six years in return for the release of former German assets in Austria, taken over by the USSR in 1945. Furthermore, Austria must pay a total of \$25 million for the return of equipment (including tank wagons and oil drilling machinery) not included in the list of German assets and for the return of the Danube Shipping Line. Finally, it will have to ship one million tons of oil to the Soviet Union annually for the next ten years in return for repossession of the Soviet-held oil fields and installations.

The released former German factories will certainly help Austria in meeting these obligations. However, these plants have all been stripped of much valuable equipment, have been permitted to run down over a 10-year period and are currently being drained by the Russians of accumulated stocks. This means that before the Austrians can get much benefit out of these plants they will have to invest large sums in them. However, the Russians insist that deliveries of goods under the treaty start immediately.

Meanwhile Austrian business and consumer spending has increased sharply, engendered partly by the favorable political developments, so that import increases have forged ahead of those in exports and balance-of-payments deficits have been registered for each of the past six months, compared to surpluses in the same period of 1954. Thus, while political freedom is about to come to Austria, the economic burden of its price will have to be carried for a long time.

The question of what to do with the returned oil properties has not yet been solved. As a temporary measure a four-men board was appointed by the government to administer the 28 oil drilling and refining concerns which reverted back to Austria this month. According to informed observers, the eventual plan is to establish a government-owned oil corporation. There is still some opposition to this plan from the conservative People's Party but actually the oil industry, along with most other basic industry, was already nationalized by an act of Parliament in 1946. In the case of the other industries the act was carried out but for oil it remained suspended due to the de facto ownership of the industry by the Soviets since 1945.

However, even if nationalization does take place, the fields and refineries owned by Western concerns may be exempted since Austria might find it difficult to raise the capital required for adequate compensation. In fact, according to a member of the new state oil board, Austria will need foreign capital to modernize its obsolete refineries. However, no foreign investment would be needed for the crude oil sector, according to the same official who also accused Western oil companies of deliberately preventing full exploitation of Austria's oil resources prior to World War II. Evidence of Austria's positive attitude towards foreign investment in the oil processing sector is shown by its recent permission to Shell to build a modern lube plant.

The role which Austrian oil is to play in the country's economy (see also W.B. May 1955, p.5) is still largely obscured by the lack of knowledge regarding proven reserves. Some experts believe that last year's total production of 3.54 million tons was too high in relation to existing reserves while others feel it can safely be raised to four million tons this year. The Soviet Oil Administration in Austria which has carried on extensive explorations now claims that the Vienna Basin (where all oil comes from at present) has reserves of at least 80 million tons while Austrian officials, who had no access to the fields since 1945, guess at only 30-40 million tons.

If the Russian reserve estimates are approximately correct, Austria can well afford to ship the required 1.2 million tons per year to the Soviet Union plus smaller quantities under a recent trade agreement, and, after domestic consumption of about 1.5 million tons, still export up to one million tons to the West. This quantity could be even higher if oil is found in Austria's western province

where, after an extensive geological survey, drilling of the first well is about to begin (see W.B. June 1955, p.3). Geologists have stated that this area reveals the same characteristics as neighboring Bavaria where commercial oil production is now in full swing.

Meanwhile, Austria's domestic oil consumption pattern is undergoing some changes, reflecting the high level of domestic business activity and imports. Total consumption in 1954 amounted to 1.32 million tons, or about 30% above 1953 when economic activity was at a lower level. The sharpest increase took place in fuel oil consumption which rose by 35% to 746,000 tons. Despite this increase a shortage of fuel oil developed last fall which was met by imports. At present, domestic refinery production is just sufficient to meet current fuel oil demand but a shortage is again expected next winter (see W.B. June 1955, p. 21).

Gasoline and diesel oil consumption which had increased by 17.5% and 19.5% respectively last year, rose by 36% and 31% respectively in the first quarter of 1955 compared to the same period of last year, as motor vehicle imports tripled to reach record quantities. The increased consumption of motor fuel will now permit refiners to dispose of their gasoline yield without the difficulty experienced last year. Any modernization of Austria's 35,000 b/d refinery capacity, resulting in a significantly higher gasoline yield than last year's 12%, would permit gasoline exports and necessitate additional fuel oil imports.

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FRANCE: In France production and drilling at Esso's Parentis field are still on the increase. In June output from seven wells - of which four produced at a daily average rate of 2420 barrels - amounted to 10,525 b/d. In July it rose to 14,100 b/d. An eighth well was put on production in July while supplementary work to increase the flow of the smaller producers continued. At the moment, three drills are active at Parentis and it is planned to complete about ten development wells in 1955, including an underwater well in a lake, to reach a production of 20,00 b/d. Parentis will then account for 6% of France's petroleum needs.

As production reaches 15,00 b/d Esso may build a pipeline to ship the crude to Ambes or Verdon both of which have loading facilities for super tankers. Company officials are also seriously considering the possibility of constructing a refinery nearby with a capacity of 25 - 30,000 b/d. At present the south west of France, where Parentis is located, has a regional deficit in refinery capacity which will grow as the new oil deposits attract new industries and workers to the area.

Development work is also continuing at nearby Mothes where a recently discovered well produced in July 384 b/d of a slightly heavier oil than found at Parentis. From the Lacq deposits, also in southwestern France, the Societe Nationale des Petroles d'Aquitaine reports that total crude production last year amounted to 370,000 tons, about the same as in 1953. The potential production of the Lacq natural gas deposits has now been determined to be around 35 million cubic ft. per day.

Oil news from other parts of France include the entry of two oil refining concerns into exploration activities: Socony Vacuum Francaise has applied for an exclusive prospecting license in the northeast while the Societe Francaise des Petroles B.P. (affiliated with British Petroleum) plans to explore an area south of Lyons.

In the refinery sector a 4200 b/d catalytic cracker is being added to Shell's Petite Couronne refinery which last year processed 38,400 b/d. Another refinery development is taking place at Strassbourg where a new concern plans to construct a 10,000 b/d refinery to take the place of the obsolete 3,000 b/d Merckwiller refinery, owned by the Pechelbronn group. The project has revived interest in a pipeline project from Marseilles to Strassbourg.

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ITALY: There is still no action in the Italian parliament on the long-blocked oil bill. However, Prime Minister Segni has now made the development of Italy's oil resources one of the major points in his economic reform program. He is known to feel that the new law regarding private and state participation in the exploitation of oil deposits should protect the public interest without "depressing" private enterprise. A somewhat similar view was voiced at the World Petroleum Congress by Ezio Vanoni, budget minister, who heretofore had been among the most prominent opponents to any foreign activity in the country's crude oil sector. This attitude reflects the increased overall interest in foreign investments for productive purposes; a new general foreign investment law is now under consideration.

Pending parliamentary action on the oil bill the Italian Council of Mines is not granting any new research permits, as per instruction of the Prime Minister, but it is extending all expired permits for two years. In renewing the permits the Council will try to avoid granting too large areas to any single firm by breaking up all holdings over a certain size.

If and when the new law is passed it will probably reflect, among other things, mounting criticism against the state oil agency E.N.I. for its manifold activities outside the Po Valley where it has exclusive rights. Especially E.N.I.'s partnership deals with private foreign concerns both in Italy and abroad have recently been frowned upon by many legislators. Nevertheless, E.N.I. is going ahead unperturbedly with new activities. It is presently carrying on negotiations for the formation of an Italo-Lybian oil company and is about to send a mission to Yemen with the object of setting up a similar type of organization there. It is also considering an offer from Romania for a jointly owned state refinery near Rome and will reportedly start soon on the construction of a 40,000 b/d refinery in Sardinia.

Private concerns will also construct new refineries in Italy. Shell plans a 20,000 b/d plant in Sicily while other concerns will reportedly erect plants in Naples and Milano. In addition, a number of existing refineries are to be expanded. Altogether, these activities will increase Italy's annual refinery capacity by 5 - 7 million tons.

Permission for the various projects was given by the government despite previous statements that no further increase in refinery capacity would be

approved while existing capacity was not fully utilized. Last year, total refinery output at about 14.5 million tons was approximately 30% below capacity (21.5 million tons). In 1954, over 42% of this quantity was exported; however, several of Italy's major export markets, particularly Greece and India, will soon be self-sufficient in oil products while the home market is not growing as rapidly as was expected. Especially domestic motor fuel sales are lagging behind due largely to the extremely high - even for European standards - gasoline prices and the increasing availability of natural gas as engine fuel at tank stations.

Italy's natural gas sector is also rapidly expanding. A new deposit was recently discovered in the coastal area near the Tyrrhenian Sea with an output of 35,000 cubic ft. of gas daily. Total national gas production, mainly in the hands of E.N.I., is now expected to reach over 122 billion cubic ft. in 1955. This would be over 50% more than was produced in 1954. With this spectacular increase tentative plans are now afoot to export some of the gas via pipeline to Austria and parts of Germany.

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SWEDEN: Sweden's foreign trade balance for the first half of 1955 shows an import surplus of \$ 190.4 million, or 63% more than was registered for the same period of last year. The increase is due mainly to higher import demands engendered by domestic price and wage rises and a construction boom. The government is now combating this inflationary tendency through restrictions on installment purchases, especially motor vehicles, and higher bank rates.

As a first result of these steps, July imports dropped sharply. However, auto imports for the first seven months of 1955 were still 25% above the same period of last year and Sweden retained its place as Europe's most highly motorized country, on a per capita basis.

Oil imports have an important share in the increased total import figures. For the first half of this year they amounted to 3.7 million tons which is 23% above the first half of 1954. If this rate prevails oil imports in 1955 will be considerably higher than last year's 6.43 million tons (1.58 million tons crude and 4.85 million tons products) which had made Sweden Europe's second largest oil importer.

Oil imports, last year came from the following areas: South America and the Caribbean (29.3%), Western Europe (26.1%), Middle East (24.2%) and Soviet Bloc (10.5%). Oil imports from the dollar area dropped by nearly \$ 20 million from the 1953 figure. This year, imports from the Soviet Union are likely to be over 1 million tons, compared to 600,000 tons in 1954. Soviet oil is sold to Sweden about 25% below world market prices. Britain is also increasing its oil shipments to Sweden. For the first half of 1955 gas/diesel and fuel oil shipments from the U.K. amounted to about 12,600 b/d, or 57% more than during the first half of 1954. British gasoline deliveries increased by 450% to nearly 2600 b/d during the same period.

The higher oil needs, like everywhere in Europe, are due mostly to the continuing switch from coal to oil. Gas/diesel and fuel oil consumption has

therefore risen much more rapidly than that of any other major product and in 1954 accounted for 75% of total inland oil consumption. This trend has now put Sweden's fuel oils consumption above that of coal and coke. The reason for the switch is found partly in the repeated price increases and violation of delivery dates of Polish coal, Sweden's main supply source, and partly in the present high freight rates for coal shipments.

The distribution of oil products is in the hands of several international concerns which were recently joined by Sun Oil. In addition, there are three domestic concerns the largest of which is O.K., a consumer-cooperative association. Last year, O.K. accounted for 11% of total oil sales.

Other oil news from Sweden concern the building of a new oil harbor at Malmoe and the construction of the world's largest underground steam power station near Gothenburg, to be fired exclusively with fuel oil.

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GREECE: The Greek parliament has given final approval to the construction of the country's first oil refinery. Located near Athens, the plant will be built for the Government by a group of German firms and the U.S. firm Hydrocarbon Research Inc. Its initial capacity will be about 1.3 million tons per year. This is approximately equal to last year's total imports of the four major oil products. When the refinery is completed and Greece switches from product to crude oil imports it will affect mainly the Italian export market which supplied last year 76.5% of Greece's oil needs, including over 810,000 tons of diesel and fuel oils. The next major supplier is France which accounted last year for about 12% of all oil imports. U.S. shipments are significant only in the lube oil sector where they amounted to 10,500 tons, or 60% of all lube oil imports.

Shipments from adjacent Romania and the Soviet Union amounted to only 47,500 tons for the first nine months of last year, or 4.7% of all oil imports during that period. However, Soviet oil imports are likely to pick up sharply in the future. An extension protocol to the Greek-Soviet trade agreement of 1953, signed in August, calls for total trade of \$10 million in each direction over the next 18 months. Petroleum will be the major item among the goods to be shipped from the Soviet Union, according to an announcement from Athens.

The possibility of domestic crude oil supplies for Greece has recently been spurred as a result of the completion of preliminary explorations near the Turkish border by the German firm Deilmann-Bergbau in conjunction with the Greek firm Helios. These have shown enough positive indications to warrant drilling operations which will start as soon as the equipment has arrived from Germany.

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O I L D E V E L O P M E N T S B E H I N D T H E I R O N C U R T A I N

(caution: while PIRING believes its sources of information on oil developments behind the Iron Curtain to be fully reliable, it has no way of checking such

information and can therefore not vouch for its accuracy.)

SOVIET UNION: The question of whether the Soviet Union will export more or less oil in the future to non-Communist countries is still open. Oil production inside the country is certainly increasing rapidly according to all accounts. New drilling successes are reported from the off-shore area of Azerbaijan on the Caspian Sea which now accounts for 25% of the entire Baku region oil output. Other new deposits have been reported recently from the Stalingrad, Saratov and Kuibyshev regions on the Volga river, the areas around Dobriansk and Molotov on the Kama river (Tatarian Republic) where a new field will be opened in the latter part of the year and the Ufa deposits in the Ural mountains. This whole area, generally referred to as the "Second Baku" produces today two thirds of the Soviet Union's oil output of some 65 million tons.

Another area where production is rapidly increasing is Northern Sakhalin Island (north of Japan). According to a recent article in Sovietskiy Sakhalin, the Far East Oil Union which operates these deposits has overfulfilled its production plan in the first half of 1955 and has helped "to liquidate the shortage in oil and gas production incurred in the first three years of the current Five Year Plan". The importance of the Sakhalin deposits lies in the fact that they are at present the only commercial deposits along Russia's Pacific shore.

Progress in exploitation techniques has also helped to increase output. At a recent meeting of the Technical Council of the Soviet Ministry of the Petroleum Industry it was stated that the new system of flooding the oil strata with water has increased output per well in the Tatarian and Baskirian oil fields by almost 1.5 times in the last few years. According to the report of the Council, "the pumping of two cubic meters of water into the oil level makes it possible to get one ton of oil by the cheapest gusher method." In the future this method is to be employed on a still larger scale and a "general scheme for the supply of water to the oilfields of Tataria and Bashkiria" has been worked out.

Despite these achievements, most of which are officially confirmed, strong dissatisfaction with Soviet oil progress continues to be publicly expressed. In a plenary session of the Central Committee of the Communist Party last July, Premier Bulganin again took the oil industry to task for alleged lack of progress. (For Bulganin's earlier criticism see W.B. June 1955, p.19). His report on the development of Soviet industry contained the following statements regarding the oil industry:

The Ministry of Petroleum Industry is not using enough new equipment for extraction of light oil products in the refining of crude oil. Methods of intensive refining of residual oil can considerably increase the output of light oil products....Natural and oil gases are being poorly used. They should become the main raw material source in (petro-chemical) industries.....

One can only regard the State Plan as having been fulfilled if the quality of the output corresponds to the established requirements. However, many enterprises, with the knowledge

of the Ministries, turn out low-quality products....Such cases occur in the oil industry. Its enterprises supply consumers with petroleum products whose fractional composition and flash point are below standard.....

The Ministry of Petroleum Industry has systematically failed to fulfill plans for capital construction and for the commissioning of oil refineries in the eastern part of the country (whose industrialization is being pushed strongly to improve the distribution of industry). For instance, in the course of the four years of the Fifth Five Year Plan, only 804 million rubles were invested in the building of the Omsk Oil Refinery, compared with the estimated construction cost of 2 billion rubles.....

We are dissatisfied with the leadership in the oil industry on the part of the Central Committee of the Azerbaijan Communist Party and the Baku Town Party Committee. In 1954 over 60% of the oilfield administrations in the (Azerbaijan) Republic failed to fulfill the tasks of oil extraction. The basic oil refining works of Baku are underfulfilling the Plan for a variety of products. This happens because the Central Committee, operating on the basis of average indexes, is paying too little attention to the work of individual works and oilfields.....

Public criticism of this sort is not necessarily a true reflection of conditions in the industry under attack. It is rather the Communist way of attempting to increase output and improve quality in the complete absence of the pressure of competitive factors. However, the repeated singling out of the oil industry by the country's highest authorities will undoubtedly result in a special effort by all oil trust officials to comply with the higher demands.

To what extent any production increases achieved will be available for export depends mainly on the Soviet Union's military expectations. The armed forces are still the country's major consumer of petroleum products. Fuel needs for civilian industry and population are still largely met by domestic coal output and the six billion cubic meters annually of natural gas. If, therefore, the Russians are serious about their announced intention to reduce the size of their armed forces they will certainly have more oil available for export, although some of the freed quantities will undoubtedly be used "to substitute" oil for coal (domestically) in a number of instances to achieve a better overall fuel balance", according to a recent Pravda article.

A clue to Soviet oil export intentions is possibly supplied by the increased activities of NEFTEXPORT, the Soviet oil export trust which has opened new branches in Belgium, Sweden, Yugoslavia and Japan within the past 8 - 10 months. According to one unconfirmed report from Eastern Europe, Neflexport's current sales come from military oil stocks built up for the case of war which are now being reduced.

SOVIET BLOC OIL EXPORT AGREEMENTS

Sweden signed a one-year trade agreement with Poland on May 1st under which it will receive, among other things, 25,000 tons of bunker oil.

Norway signed an extension protocol to its 1948 trade agreement with Poland which calls, among other things, for the delivery of 5000 tons of Polish bunker oil between May 1955 and May 1956.

The quantity of oil exports to Norway under the USSR-Norwegian trade agreement for 1955 (see W.B. June 1955, p.21) has now been set at 100,000 tons of fuel oil.

France signed a trade agreement with Bulgaria on July 28th for a total exchange of goods of \$8.7 million, including undisclosed quantities of Bulgarian petroleum. Bulgaria has also recently agreed to supply \$150,000 of petroleum to another Soviet Bloc country, Eastern Germany, thus furnishing additional evidence that it is now a crude oil producer in commercial quantities.

Austria signed a five-year trade agreement with the Soviet Union (not to be confused with the Austrian payments to the USSR under the recent treaty establishing Austria's independence). Under the agreement total exchange of goods will amount to \$ 26 million annually and will include Austrian exports of kerosene and diesel fuel.

Egypt's Minister of Finance and Economics stated in Cairo on August 14th that his country would soon sign new trade agreements with the Soviet Union and Romania. These will call for oil shipments from the two Soviet Bloc countries in excess of their previous deliveries and would cover all of Egypt's foreign oil requirements.

For the new trade protocol between Greece and the USSR see p12 of this report.