

# **WORLD BUSINESS**

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DEVELOPMENTS OF INTEREST TO THE PETROLEUM INDUSTRY

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THE GENERAL SITUATION:

The ISRAEL-EGYPT conflict, the Middle East's hottest hotspot, seems about to cool off a bit. Direct negotiations between the two countries regarding a cessation of armed clashes in the Gaza strip are making definite progress. EGYPT'S attitude was reflected in a statement by its foreign minister who said that though there was no prospect of a general settlement, his country was anxious to avoid incidents which could lead to renewed warfare. It is possible, of course, that the center of the conflict will merely move from Gaza to the Gulf of Aquaba where ISRAEL intends to defy Egypt's self-proclaimed right of search and seizure (see p.5 ). However, the chances are rather against any new incidents between the two countries at the moment.

A cooling-off period has also begun in the IRAQ-EGYPT battle of words over IRAQ'S membership in the pro-Western Middle East Defense Pact (see W.B. May 1955). The violent radio attacks against Iraq in Cairo and against Egypt in Baghdad are about to cease and Egypt's prime minister Col. Nasser has even accepted an invitation to Lebanon for an all-Arab prime ministers' conference at which his Iraqi counterpart will also be present.

This does not mean, however, that Egypt has abandoned all ideas of creating a Middle Eastern Neutral Bloc. On the contrary, with nationalism in the area fanned by the recent Bandung conference, with growing hostility toward American policy voiced by virtually all Arab-language newspapers outside of Iraq and the recent charge of SYRIA'S government that the U.S. was behind a coup to overthrow it in favor of a more western-oriented regime, Col. Nasser is reported to feel the time for such a block to be at hand. At first only SAUDI ARABIA, SYRIA and YEMEN which have been in Egypt's camp ever since the beginning of the great debate over neutralism vs. pro-western orientation would join but eventually Col. Nasser hopes even Iraq would "disentangle" itself from its ties with Turkey and Great Britain.

In the economic field there is also some rapprochement among the Arab nations: A conference of 15 Near & Middle East countries (from Greece to Afghanistan) took place in BEIRUT, Lebanon, last month for the purpose of establishing a regional economic organization. The next conference of the new group is scheduled for November, also in Beirut. At another conference in AMMAN, Jordan, an Arab League technical assistance organization was reportedly set up. It was also proposed at Amman to raise \$ 84 million to start an Arab League Merchant Marine, including oil tankers.

Other economic and political developments were reported from the following countries:

EGYPT'S cotton exports for the first four months of 1955 were 30% below the same period of last year, causing a foreign trade deficit of \$ 16.5 million compared to a surplus of \$ 40 million for the Jan.-April 1954 period.

IRAN is presently undergoing some heavy wooing from its Soviet neighbor: a) six tons of gold were ceremoniously shipped to Iran last month in consideration of a USSR obligation incurred

in World War II; five tons more plus \$ 8.6 million of goods will be sent over within the next several months. b) A USSR offer has been received for a full-fledged technical assistance program for Iran. c) The Shah has been invited (and has tentatively accepted) to come to Moscow on a state visit next fall. Meanwhile, Iran has set up a special economic development board, with U.S. membership, to begin disbursement of the \$ 85 million long-term loans given it by the U.S., mainly for development projects.

In IRAQ a plan for two American firms to exploit the large sulphur deposits came to nothing because the companies rejected a profit-sharing arrangement similar to that between Iraq and the Iraq Petroleum Co.(IPC). Also from Iraq comes news that the foreign-owned Baghdad Light & Power Co. was bought by the government. The price paid, \$ 6.7 million, was considered too low but was accepted by the owners because they felt the alternative would have been "compulsory nationalization on worse terms."

SAUDI ARABIA, unlike most other oil-producing countries in the area, had not earmarked any sizeable amount of its oil income for economic development last year. According to figures just released for the fiscal year 1954/55, 35% of the national revenue (of which oil income at around \$ 200 million amounted to 75%) was used for defense purposes and 6% for the royal household and tribal sheiks. Less than 10% went into new development projects. For 1955, however, a general improvement of transport facilities is planned, including completion of the Jidda-Medina road, construction of a trans-Arabian highway and the reopening of the Hejaz railway which would connect Medina with Jordan and Syria.

#### MIDDLE EAST PETROLEUM DEVELOPMENTS

Middle East oil production during the first four months of 1955 increased by 21% over the same period of last year to a record total of 3,158,700 b/d. Incomplete figures for May show further increases since then with all-time records achieved by KUWAIT (1,207,918 b/d), and IRAQ. On the other hand, IRANIAN and SAUDI ARABIAN production are both declining for the second and fifth straight month respectively. Iranian output in May was down to 285,000 b/d from a peak of 300,000 b/d in March while Saudi Arabian production for the first six months of this year, at 944,300 b/d, was 2.2% below the same period of 1954. The decline in Aramco's production which was particularly pronounced in June, is in line with the statement of its board chairman that the growth in demand for Middle East crude over the next two years would not be sufficient to offset the return of Iran as a major producer and that therefore Aramco's production in 1955 would be below that of last year.

The possibility of a common oil policy among the Middle East producing countries is again coming to the forefront with current conferences in Teheran

to work out an agreement between Iran and Iraq and similar discussions in Baghdad between Iraqi officials and Saudi Arabia's director of oil affairs. A meeting of oil experts from Arab League countries for the purpose of hammering out a common policy is scheduled in Cairo next October.

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SUEZ CANAL DEVELOPMENTS: The Middle East oil trade was also very much in evidence at last month's annual meeting of the Suez Canal Co. The annual report showed clearly that Canal traffic is becoming more and more dominated by oil tankers while all other traffic is falling off. The 10.3% net tonnage increase between 1953 and 1954 was due almost exclusively to more oil shipments through the Canal. Oil tankers last year made about 7000 passages (out of a total of 13,200) and carried 63 million tons of cargo, or 65% of total cargo traffic.

Southbound traffic through the Canal declined slightly from 1953, due mainly to a reduction of refined petroleum shipments from 7.23 million to 6.1 million tons as various new refineries east of Suez went on stream. The drop was particularly sharp in the last quarter of 1954.

Northbound traffic is now almost completely dominated by Middle East oil shipments which increased by 15% over 1953. At 57 million tons they accounted for over 77% of all northbound cargo traffic in 1954. The main oil producer as far as the Suez Canal is concerned is Kuwait which last year sent over 41 million tons of oil northward. The largest increase was shown by Saudi Arabian oil shipments which increased by about 50% over 1953.

Further expansion of traffic will take place, in the view of the Company's Board, as a result of the increased consignments of oil from the Middle East. The Company has therefore started a 2-stage expansion program. The first stage includes the creation of two by-passes to shorten the navigation time and increase the number of ships going through the Canal from 40 to at least 48. In addition the Canal will be widened and deepened in various places in order to allow large vessels of 36-ft draft to transit it. The second stage which will begin about three years from now will include a general widening and deepening of the Canal. When the whole program is finished even the largest super-tankers should be able to transit the Canal with a capacity cargo.

Regarding transit rates, the report states that despite rate reductions adopted in July 1954 receipts had increased and therefore the reductions would be extended for an indefinite period but could be withdrawn when necessary.

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#### MIDDLE EAST COUNTRY BRIEFS.

EGYPT: In Egypt crude oil production is continuing to increase at the Sinai Peninsula as the Internat'l Egyptian Co. (U.S., Italian, Swiss and Belgian owned) puts a fourth well on stream at its Belayim field. A new deep zone was also recently found in its No. 2 well, producing almost 3000 b/d. A possible

newcomer to the Peninsula is the Hunt Oil Co. of Dallas whose representative is presently in Cairo discussing prospecting problems with Government officials.

From the western desert where the Egyptian-American Oil Co. (a Continental Oil Co. affiliate) is drilling its first test well, positive indications of oil deposits have been found near Alexandria.

In the refinery sector construction of a third government refinery has just begun. The new plant, located 15 miles east of Cairo, will have a capacity of about 45,000 b/d and will be supplied by domestic crude from the Sinai area as well as imported Arab crude. It will be connected to the port of Suez by a new 100 mile pipeline.

New developments were also reported by Anglo-Egyptian Oil (Shell Group) at its recent annual meeting. The company experienced a sharp terminal decline in the production from its Asl field and has not been able to increase output from its Ras Matarma field. As a result output in 1954 was 17% below 1953. However, the firm is hoping to receive soon its first new exploration concessions since 1948. These would be the 61 areas for which Anglo-Egyptian and Socony Mobil had applied some time ago and to which the Egyptian government had given its principle agreement last year. In addition, Anglo-Egyptian applied for 160 exploration licenses last February. It expects to spend about \$ 17 million during 1955-57 on these concessions and on building a platformer at its Suez refinery.

An important unsettled problem for Anglo-Egyptian is the Egyptian government's interpretation of the 1944 price agreement between it and the firm. If the final decision in this price dispute should go against the company it could have serious financial consequences for it.

Egypt's oil imports are likely to veer more towards the Soviet Bloc in the future as a result of the recommendations of a special government committee on Egypt's foreign trade. The committee suggested that Egypt's foreign purchases be channeled mainly to those countries with which it has favorable trade balances. In this connection it specifically pointed to Egypt's favorable balance with the Soviet Bloc and recommended the purchase of more raw materials from that source. In the past, oil has been the Soviet Bloc's main export to Egypt (see W.B. May 1955) and the Egyptian government has just made arrangements with some Italian tanker companies to carry 650,000 tons of Soviet and Romanian oil contracted for earlier in the year, across from the Black Sea.

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ISRAEL: Israel's estimated oil consumption of over 20,000 b/d in 1955 puts the country far ahead, on a per capita basis, of all other Middle Eastern countries. However, the over-all value of her oil imports - \$ 36 million last year - is kept artificially high by the exigencies of the Arab-Israel conflict which not only keep the country from receiving oil from any of her oil-exporting neighbors but also close the Suez Canal to her, despite a U.N. ruling to the contrary. As a result, Israel's oil is still shipped largely around the Cape of Good Hope.

Most of Israel's oil is bought with sterling currency provided by Germany under the existing reparations agreement. Last year, Germany spent almost \$ 25 million worth of sterling for this purpose and this year \$ 6 million had been spent by the end of April. Most of the sterling oil comes from Venezuela. Last year almost 11,000 b/d of Venezuelan oil (95% of it crude) was shipped to Israel and a similar quantity has been contracted for 1955. Other important suppliers are the Soviet Union with contracts for about 7,100 b/d for the current year (see W.B. May 1955) and Romania.

Oil imports from the Western hemisphere would become considerably cheaper if Israel could make use of its port of Elath (150 miles south of Jerusalem) on the Gulf of Aquaba. This would give Israel direct access to the Red Sea. The defense minister has announced recently that the port would definitely be completed and passage to it secured "if necessary with the help of the Israeli Navy and Army". Since the Gulf of Aquaba is controlled on one side by Egypt and on the other by Saudi Arabia, Israel is likely to encounter resistance in this undertaking.

Meanwhile, explorations by a number of independent concerns continue. At present eight licensees are active. No oil has been discovered as yet but one of the prospectors, Israel-American Oil Corp. (owned by Husky Oil of Wyoming and the Bear, Stearns investment firm of N.Y.) has recently reported a major gas strike with traces of oil. Drilling, after a blow-out, is continuing. Another group which has recently reported "a significant petroleum gas deposit" is Pan-Israel Oil and Israel Mediter.Petroleum, both affiliates of Pantepec Petroleum. Their rig in the country's southern desert is situated at a site already earmarked for drilling by the Iraq Petroleum Co. (IPC) before the Arab-Israel war.

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SYRIA: Syria's oil revenues from pipelines are likely to increase significantly as a result of current negotiations in Damascus with IPC representatives. Syria is attempting to extend the 50-50 profit-sharing agreement prevalent in Middle East oil producing countries also to pipeline operations, to the extent to which they result in higher profits. According to a recent study by Syria's Parliament, this would mean about \$ 56 million combined annual royalties from the two IPC lines and the Trans-Arabian pipeline, or about five times the present royalties. Syria is fully supported in this endeavor by Lebanon, terminal of two pipelines running through Syria; both countries agreed some time ago on a joint approach to the problem of higher pipeline royalties.

Last year Syria received \$ 7.1 million royalties from IPC for pipeline operations. This year it is bound to get more in any case due to the planned increase of IPC oil shipments to the Mediterranean (see W.B. May 1955). If current negotiations between the governments of Syria and Iraq turn out successfully it will also mean the transfer of the now unused Kirkuk-Haifa line to Syria which would bring in still more royalties.

The building of a domestic refinery may be among the first projects in which Syria intends to invest any higher pipeline income. The government is presently negotiating with IPC for a refinery to be built out of withheld royalties and is also reportedly considering an offer from Yugoslavia to

construct a 12,000 b/d plant near Homs.

Syria is also still hoping to find crude deposits on its territory. It has granted a prospecting license recently to an American of Syrian descent who will drill at a number of places at which an IPC subsidiary previously had failed to find oil. An application for drilling has reportedly also been received from a German concern.

Pending the discovery of oil or the building of a refinery the country must import all its oil requirements. For 1955 these are set at 11,000 b/d which is a sharp increase over the previous year and reflects Syria's higher state of productive activity. About half of all oil imports are scheduled to come from Lebanon's Tripoli refinery and the rest will be mainly dollar imports, although the recent opening of the new Medreco refinery (Caltex, Socony Mobil) at Sidon (Lebanon) may bring about an increase in non-dollar oil imports into Syria.

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IRAN: A dispute was started in the Iranian Senate over the question of whether the Consortium was required to refine the 12.5% of crude oil which is Iran's share under the agreement. Senator Divanbaigi attacked the Consortium sharply for allegedly violating the agreement by refusing to refine this share at half cost price and then return it to the National Iranian Oil Co.(NIOC) for sale abroad. The senator claimed that Dr. Amini, Iran's chief negotiator of the agreement, had assured him last year that Iran could and would refine its oil share at Abadan. In reply the acting Finance Minister declared that the Consortium was only required to refine the oil needed for local consumption and bunkering but not the 12.5% share which Iran could sell abroad. He also denied emphatically the charge that the Consortium was not cooperating in good faith with the Government.

The 12.5% share became also the subject of a press conference with M.G. Bayat, director of NIOC. Bayat declared in reply to criticism in the Iranian press that the NIOC had no difficulty whatever in obtaining its share of crude oil and that if it wanted it refined at Abadan it had to pay in accordance with the Consortium's established refining rates. Bayat further declared that while it would be more advantageous from a price view-point for NIOC to resell its share of oil to the Consortium at prevailing top world prices, the loss entailed in selling this oil abroad instead could be justified "if (Iran) could thereby secure a permanent market for (its) crude oil.....and if (it) could have some control over the transportation and distribution of oil.....When we receive any offer for the purchase of crude oil we must consider the distribution facilities of the purchaser so that we may make good our loss in giving reductions in order to find our way into world markets."

World-wide interest in NIOC's oil is shown by the fact that since the signing of the agreement the firm has had 35 purchase offers from Europe, Asia and even the U.S. One of the latest countries to inquire is India whose ambassador in Teheran is trying to interest the NIOC in investing into a new refinery in his country which would be run exclusively on NIOC crude.

Among other news from NIOC is a report that the firm is about to start drilling for oil in the Qum region, south of Teheran and far to the north of Consortium concessions.

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OTHER COUNTRY BRIEFS - IRAQ'S aim to increase its oil exports to about 1 million barrels daily by 1958 is behind its recent proposal to Kuwait to build a 120,000 b/d pipeline from its Southern fields to a Kuwait seaport on the Persian Gulf. The country is also considering the construction of a new Persian Gulf tanker terminal while IPC is planning to double the loading capacity of the oil port at Tripoli, Lebanon.

JORDAN which recently retained Iraq's director-general of oil affairs as adviser has now signed an exploration and exploitation agreement with the Edwin Pauley Co. of Calif. on the usual 50-50 basis and is considering similar agreements with several European concerns. Jordan is also planning to construct its first oil refinery this year; capacity will probably be around 6000 b/d.

In YEMEN the crown prince and acting prime minister stated recently that he was dissatisfied with the oil exploration work carried on by the German firm Dielman-Bergbau and was considering inviting American concerns to submit offers for oil prospecting and development. At present, Yemen's geological structure is under investigation by the German firm Prakla which is carrying out photo-geophysical work.

From neighboring ADEN it is reported that evidence of oil in commercial quantities has been found by an IPC subsidiary in the Nabrout area whose territoriality has long been under dispute by both Yemen and Saudi Arabia.

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#### A F R I C A N P E T R O L E U M D E V E L O P M E N T S .

SOUTH AFRICA: The current month is of historic importance to South Africa's oil market. For the \$ 87 million government-financed SASOL coal-to-oil plant is now finally coming on stream. It processes 7600 tons of coal daily from vast near-by deposits and has a total liquid petroleum output of 4400 b/d of gasoline, 360 b/d of diesel and 80 b/d of fuel oil.

This is only a small part of the Union's total oil consumption which last year was around 45 - 50,000 b/d. This year it may be considerably more due to a 40% import liberalization for motor vehicles which customarily account for at least half of the Union's total petroleum products consumption. At least two thirds of the SASOL gasoline will be marketed by the Union's four established main distributors, Stan-Vac, Shell, Caltex and Atlantic (the more recently established marketing subsidiary of the Cie Francaise des Petroles is not included). The balance will be distributed directly by SASOL

which also handles the sale of South African Torbanite's 550 b/d of shale-produced gasoline.

The price of SASOL synthetic gasoline is 1 penny (1.17¢) cheaper in Johannesburg than imported gasoline despite the better quality of the former. Actually, SASOL which is located just 50 miles from Johannesburg can only compete with imported gasoline because of the extremely high freight cost (8.2¢ p. gallon) of transporting imported products by railroad the 500 miles from the ports of Durban or Lourenco Marques (Mozambique) to the industrial Rand area and because of the 1 shilling (14¢) p. gallon import duty.

It has been estimated that if a pipeline were to be built from Durban to Johannesburg it would reduce transportation costs to about 1.5¢ p. gallon which would make imported gasoline in the Rand area considerably cheaper than SASOL's. The cost of such a pipeline has been estimated at up to \$ 25 million. At present a government-appointed commission is investigating the possibility of constructing such a line and also a branch line to the rapidly growing gold and uranium fields in the Orange Free State. The main opposition against the project comes from the railroads and from SASOL.

SASOL's importance, however, lies not only in its gasoline production. By its very nature of production (coal gasification) it also produces a great number of petro-chemical by-products, estimated at 39,000 tons annually. According to its managers, these are expected to furnish the backbone of a domestic petro-chemical industry. SASOL itself does not expect to process its by-products but has set aside space in its vicinity for the establishment of private chemical plants making use of its output of ethyl alcohol, ammonia, paraffin waxes, propyl & butyle alcohol, benzine, toluol, creosote, aromatic solvents, etc.

One by-product which SASOL intends to process and market itself is LPG. At present only about 25 b/d of LPG are produced and bottled since demand for this product is virtually non-existent as yet. But eventually SASOL hopes for a steady domestic demand of several thousand barrels daily of "bottled gas".

Outside of SASOL the only oil news from South Africa concerns the new lube plant which Caltex will build at its Durban terminal at a cost of \$ 600,000 including storage tanks and railroad sidings.

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OTHER AFRICAN PETROLEUM DEVELOPMENTS: In FRENCH MOROCCO a discovery was reported from a small extension of the Petijeau field. According to first reports, the new well's flow is 6360 b/d of high-quality crude. However, it will be placed on production at a considerably lower rate. The well, like all others in the territory, is owned by the Cie Cherifienne des Petroles which also owns Morocco's only refinery (capacity 3500 b/d), now being equipped with a catalytic cracking unit. Total crude output at Petijeau before the new discovery amounted to 2500 b/d.

Very promising oil traces have also been found in other parts of FRENCH WEST AFRICA, particularly the area around In Salah in the Sahara Desert

In NIGERIA oil and gas has been detected by Shell-D'Arcy (B.P.). The flow so far is too small for commercial puposes but there are indications of larger deposits. Shell-D'Arcy has already drilled eleven wells in Nigeria at a total cost of over \$ 25 million without encountering commercial deposits.

In the GOLD COAST STATE foreign investment is wanted for the exploitation of mineral deposits including oil, according to the country's Minister of Trade & Labor who also indicated that Gulf Oil has shown interest in these deposits.

In the FRENCH CAMEROONS the Societe des Petroles du Cameroun has discovered a gas well with an estimated production of 35 million cubic ft. daily of an extremely wet gas. The well blew up and started to burn on June 3rd and although the fire was soon brought under control, the gas was still burning at the beginning of July, according to latest reports.

In ANGOLA (Portuguese W. Africa) the Belgian concern Petrofina has discovered the colony's first commercial oil well near the capital of Luanda. The well which flowed over 300 b/d of light crude on a test is now being deepened. Petrofina is also interested in building a 30,000 b/d refinery in Luanda and has submitted plans to the colonial government. Most of the output of the proposed refinery would probably be exported to the adjacent BELGIAN CONGO which is now undergoing rapid industrialization due to the sharply rising demand for its mineral products, particularly bauxite and uranium. At present the Congo's motor fuel consumption is about 6000 b/d but the annual rate of increase since 1947 has been extremely steep (500% over the 7-year period) so that by the time the proposed Petrofina refinery would be put on stream the Belgian Congo may well be able to absorb the major share of its output. Meanwhile, another Belgian concern is considering the possibility of constructing a synthetic oil plant in the Congo to utilize its low-grade coal deposits.

In KENYA, East Africa, American Overseas Petroleum Ltd. (Caltex) has completed an initial geological survey and may soon start exploration activities. At present Kenya which has neither oil nor coal is importing annually \$ 17 - 18 million of oil products.

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## L A T I N A M E R I C A

### THE GENERAL SITUATION

A run-down of coffee stocks in the U.S. is now causing increased coffee exports and dollar earnings among Latin America coffee nations, particularly BRAZIL. Despite this improvement Brazil's foreign exchange situation continued to be extremely tight and in June the authorities made another reduction in the monthly amount of U.S. dollars available for imports. The country's emphasis on trade with the non-dollar area is also reflected in recent orders for 500 diesel buses and trucks from Japan; additional equipment orders to Japan are reported to be under way.

Of even greater significance to BRAZIL's foreign trade is the new German-Brazilian trade agreement. This changes the previous bilateral trading system between the two countries into a new multilateral system consisting of Brazil, Germany, Britain and the Netherlands. German Marks earned by Brazil may now be freely spent in any of these three European countries. The new set-up will also eliminate one of the main causes for Brazil's sterling shortage, namely the fact that many Brazilian exports to Great Britain went via Germany which, having a more favorable Cruzeiro exchange rate, was able to sell Brazilian goods in England, pocket the sterling proceeds and pay Brazil in Marks. The new system will undoubtedly bring about an increase in Brazil's sterling reserves. This should make it easier for her to pay for her contracted sterling currency oil purchases from Shell which so far have taken up over half of Brazil's total sterling earnings.

In CHILE inflation is going rampant. During the first half of 1955 the purchasing power of the peso dropped by 84%, compared to 70% during all of 1954. The situation is likely to deteriorate even further as a result of a 9-day strike of all of Chile's government & transport workers which won them a 60% wage increase. The government has now embarked upon another austerity program, designed to reduce consumption and cut imports. There is a general feeling, however, that Pres. Ibanez del Campo is too weak to make the program stick.

The only bright spot is CHILE's copper production which is increasing satisfactorily and for the first half of the year was 40% above the same period of 1954. With the current copper strikes in the U.S. there is no doubt that demand for Chile's main export commodity will be at a premium for quite some time. Its 1955 foreign exchange earnings are therefore expected to be at least \$ 60 million higher than had been previously estimated.

MEXICO's gold & dollar reserves were reported at \$ 269 million at the end of June compared to \$ 255 million the month before. The higher June figure reflects the current boom in the Mexican economy since it was achieved despite a seasonal drop in agricultural exports. Another development of economic significance is Mexico's sudden emergence as a major sulphur exporter. Production, largely in American hands, which amounted to only 74,000 tons last year is expected to reach 700,000 tons in 1955 and is scheduled to increase further next year.

COLOMBIA has received \$ 16 million from the World Bank for railroad improvements. Together with \$ 20 million to be provided by the Colombian government, this will be enough for major improvements of the country's railways and highways, including new links to the major Caribbean ports. Part of the asphalt for the road expansion program will be supplied by the brand-new 90 tons daily asphalt plant at Medellin. Colombia will also soon have its first Nash auto assembly plant and is currently being looked over by representatives of five major European and U.S. car manufacturers for similar purposes. Since auto imports have been severely restricted for some time, domestic assembly operations would probably result in a sharp increase in the number of cars and the consumption of gasoline.

A \$ 1.5 million increase to PANAMA in the annual allowance for use of the CANAL ZONE may result in higher Canal tolls. Shipping lines are opposing the suggested rate increase claiming the higher allowance was given for international political and not for economic reasons and should therefore not be passed on to users of the Canal.

A protocol for the inclusion of the NETHERLAND WEST INDIES in a convention between the U.S. and the Netherlands for the avoidance of double taxation on income and certain other taxes was signed by the two countries. It will now be submitted to the U.S. Senate for ratification.

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### LATIN AMERICAN PETROLEUM DEVELOPMENTS

In BRAZIL politics and petroleum continue to intermix as presidential candidate Gen. Kubitscheck declares that, if elected, he would give the state oil monopoly Petrobras one year in which to prove its ability to become the nation's oil supplier. If it failed to show promises of fulfilling this function he would then seek other methods of solving Brazil's acute oil shortage. The country's other major candidate army-supported Gen. Tavora has already pledged his unqualified loyalty to Petrobras (see W.B. June 1955). Also from Brazil comes a report that the big French industrial group Schneider-Creusot has expressed interest in building up a supply industry for Brazil's oil exploration and exploitation activities as well as its expanding refinery industry. Preliminary discussions with Petrobras officials and Brazil's Bank for Econ. Development have already been held.

In VENEZUELA production for the first half of 1955 amounted to 2,112,000 b/d, compared to 1,895,000 b/d for the same period in 1954. Further increases may result from Europe's sharp rise in oil demand as continental coal fails more and more to supply its traditional share of energy. This may give Venezuelan oil a chance to recapture some of its former markets in Europe which it lost to the Middle East in the postwar period. Evidence of this is seen in the recent 10-year contract between the U.K.'s Central Electricity Authority and Esso Petroleum for fuel oil to replace coal as generating fuel in some of its power stations. About 50,000 b/d of the fuel oil will come from Creole Petroleum Co. which has just announced that it will increase the capacity of its Amuay, Venezuela, refinery from 160,000 b/d to 260,000 b/d at a cost of \$ 11 million. This will bring Creole's total refinery capacity to 320,000 b/d.

CREOLE will also build a large deep-water port at La Salina on Lake Maracaibo. With the Venezuelan government about to complete its project to break up the big sandbar at the lake entrance it will soon be possible for tankers up to 26,000 dwt. to load directly from the lake.

U.S. oil exports to MEXICO will shrink next year when Pemex's pipeline from Tampico to Monterrey is completed. So far, much of northeastern Mexico is supplied from across U.S. border from where accessibility is much better than from Mexican interior. New pipeline,

however, will change this. Mexican oil shipments to the U.S., on the other hand, are likely to increase as a result of exclusive contract recently signed between Pemex and Seminole Oil & Refining Co. whose projected 20,000 b/d refinery at Fort Pierce, Fla. will use Mexican crude only.

In GUATEMALA the new oil law which provides for 50-50 profit sharing was considered workable but tough by representatives of U.S. oil companies who think exploration activities will be quite expensive since oil is most likely to be found in the northern Jungle region of Peten which has few roads, villages or other facilities. There is also a possibility that Guatemala may soon get its first refinery. According to a Latin American business publication, a California concern is presently sounding the government out on constructing a plant on an Atlantic Coast port.

In TRINIDAD the local government now agrees with Trinidad Northern Areas (B.P., Shell, Trinidad Leaseholds) that higher depletion allowance percentages should be applied to oil produced by underwater drilling. TNA which has spent about \$ 2.25 million for such operations in the Gulf of Paria and is now getting some production, had intimated that without special tax incentives it may not be able to continue its submarine drilling activities. Another cost item of TNA, however, is about to increase with the recommendation of an impartial inquiry board that all of Trinidad's 16,000 oil workers be given a 10% raise. The oil workers' union, up to now, has insisted on a 25% increase.

From PUERTO RICO comes news that Commonwealth Oil Refining's 22,000 b/d refinery, currently under construction at Guayanilla Bay, may have its capacity increased to over 40,000 b/d. Additional financing would reportedly be handled by the First Boston Corporation.

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#### LATIN AMERICAN COUNTRY BRIEFS

BOLIVIA: Bolivia's economy up to now was based mainly on tin exports; in the future, however, petroleum may well become the country's No. 1 foreign exchange earner.

World tin consumption has shrunk sharply since the war, mainly due to technological progress which has made tin-plating an obsolete process in many industries. At the same time Bolivia's share in free world tin production has greatly declined. Furthermore, since 1952 world tin prices have dropped steadily while prices and wages in Bolivia have climbed at the fantastic rate of about 100% a year. As a result, Bolivia now realizes a net loss of over 50¢ on each pound of tin mined in its nationalized mines. The government subsidy to cover this loss, in turn adds to the inflationary potential. However, since tin still brings in about 80% of all dollar earnings its exports must be kept up until an alternate source of foreign exchange has been developed.

This was also a potent reason behind the U.S. government's decision to continue for at least a year the purchase of Bolivian tin for its Texas City tin smelter. It was felt in Washington that an economic collapse of the struggling Latin republic must under all circumstances be avoided. This is further reflected in this year's U.S. aid program of which Bolivia at \$ 18.6 million will be Latin America's largest recipient. The importance of aid to Bolivia was singled out by President Eisenhower in his foreign aid message to Congress.

This attitude on the part of the U.S. could be considered strange in view of the large-scale nationalization of U.S. mining properties only three years ago with no comprehensive compensation offer made so far. However, Washington seems to feel that President Paz Estenssoro's National Revolutionary Movement is a progressive but strongly anti-Communist reform movement, backed by the vast majority of the people. The only alternative to it would be a military dictatorship or a real left-wing regime. Furthermore, President Paz has repeatedly declared that he has no intention to nationalize any further foreign enterprises and is in fact appealing for new capital from abroad.

He is challenged in this by some leaders of Bolivia's Federation of Workers, notably Juan Lechin (see W.B. June 1955) but so far the challenge has not become a threat. Foreign confidence in Bolivia's economic and political future is also reflected in the sharply increased foreign credits recently made available or offered to the country, mainly for development purposes. At present these amount to \$ 63.5 million (mostly from Europe) with another \$ 59 million reportedly under consideration.

Foreign investment in the oil sector is at present still confined to the firm of Glenn McCarthy which recently sold 50% of its million-acre concession to a New York financial house to obtain money for the construction of a 15-mile feeder pipeline and the drilling of 30-45 new wells. McCarthy's present three producing wells are all shut in pending completion of the feeder line to a pipeline of the government oil concern YPFB.

Other foreign oil money will probably flow into Bolivia as soon as the expected new oil law is issued. Last April, Pres. Paz said it would be ready within four or five months.

Meanwhile, YPFB, headed by Pres. Paz's brother, is continuing its job of boosting petroleum to the nation's main export commodity. With current domestic consumption at around 5500 b/d and actual product capacity at 12,500 b/d, but scheduled to reach 15,000 later this year, YPFB is not only saving the country about \$ 8 million annually in foreign exchange for petroleum imports but will bring in an exportable oil surplus this year of over \$ 6 million. It is estimated that with prompt entry of foreign concerns into Bolivian oil exploration this surplus can be increased to about \$ 65 million within four to five years. This would make petroleum a considerably more important export item than tin is today.

In order to speed up oil developments Bolivia may soon reverse to itself the large concession it gave to Brazil in exchange for the building of a Brazil-Bolivia railway. Bolivia is dissatisfied with Brazil's neglect of this supposedly oil-rich area and feels it could pay off the \$ 50 - 60 million dollar debt much faster on the royalties received if U.S. oil concerns developed this territory.

YPFB's oil exports are all going to Bolivia's neighbors. The biggest consumer is Argentina which is now receiving 2500 - 3000 b/d of oil under a trade agreement signed last May. The oil is shipped to Argentina via a new 15,000 b/d pipeline which connects Bolivia's Camiri oilfields with the border city of Yacuiba. Smaller quantities of oil mostly refined products from the Sucre and Cochabamba refineries, are shipped to Paraguay, Chile and to Brazil where it is consumed in the border region. Oil exports to Chile are expected to increase sharply when the recently begun 30,000 b/d pipeline from Cochabamba to the Chilean port of Arica is completed. Bolivia's capital city, La Paz, will be connected to a branch of this pipeline.

Given enough foreign investments Bolivia can play an important part in helping to supply South America's growing oil needs. The main problem is whether the government can create the kind of economic and political stability which will induce such investments. Since Bolivia's present policy is closely tied to the personal leadership of President Paz, much will depend on who will get the top office at next year's elections. Paz Estenssoro himself can not run again under the present constitution.

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ARGENTINA: In Argentina it looks as if the proposed contract with Standard Oil of California is on the way to become a subject of controversy second only to President Peron's bout with the Catholic Church. Not only the fanatically anti-U.S. Radical Party (which received 35% of the popular vote in the last election) but an increasing number of Peronista deputies, all the members of the Socialist party and, reportedly, a goodly number of nationalistic army officers are basically opposed to the contract.

Their claim that it would be an infringement on Argentina's sovereignty - they are especially incensed over the clause providing for outside arbitration - is just rabble-rousing demagoguery but it shows that in Argentina, more than in most other Latin nations, the hackneyed cry of "Yankee Imperialism" is as effective as ever.

So far, Peron has only agreed to undisclosed minor revisions of the contract before seeking again Congressional approval. However, in his present much weakened position it is quite possible that he may not wish to hang on to an issue in which, for once, he has the demagogues against him with slogans he himself created in the days when he was Argentina's champion Anti-Yankee Imperialist". If Peron should be overthrown in the near future any likelihood of the S.O. Cal. contract receiving Congressional approval would be very slim, indeed. In fact, if Arturo Frondizi, the chief of the Radical Party, Peron's main opposition, ever came to the forefront even existing foreign oil companies in Argentina may become absorbed into the state oil monopoly YPF.

Other oil news from Argentina concern the Anglo-Argentina trade agreement and an expansion of the country's pipeline system. At the end of the first year of the two-year trade agreement it was announced that the trade schedules for the second year would be the same as for the first. This means that Argentina is to receive 2.26 million tons of crude oil and 2 million tons of fuel oil. About half of the crude oil will be supplied by British Petroleum from its Kuwait wells.

Argentina's pipeline system is to be increased by the construction of a line from its oilfields in Salta province, just south of the Bolivian border, to ports on the Parana river. The projected pipeline will also be used to carry Bolivian crude from Yacuiba to the Argentinian interior (see also p.14). Another plan calls for the construction of a pipeline from the Neuquen fields to the Atlantic coast port of Bahia Blanca.

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COLOMBIA: Oil statistics for 1954 have just been released by the Colombian government. They show that total crude production from its ten productive areas amounted to 40 million barrels. Of these 30.4 million barrels were exported, including 14.4 million to Curacao, 12.3 million to the U.S. and 1.1. million to Trinidad.

Refinery production stood at 11.4 million barrels of which almost 90% came from the state concern ECP's Barancabermeja refinery, operated under contract by International Petroleum Co. (S.O. Jersey). Overall refinery yields were 55% residual fuel oil and 24% gasoline. Fuel oil consumption was slightly over half of total fuel oil output while gasoline consumption was slightly over twice the total gasoline output. Fuel oil became thus the main export item in Colombia's foreign oil trade while gasoline was the main oil import item. Refinery operations are likely to be much higher this year since the modernized Barancabermeja refinery only came on stream last August. However, imports of white oils in 1955 (mainly from Aruba) will still amount to 15-20% of their total consumption.

Also from Colombia comes the news that the government has signed new exploration and exploitation contracts for 121,000 acres with the Texas Petroleum Co., for 125,000 acres with Shell-Condor and has admitted a proposal from Internat'l Petroleum for a 125,000 acre concession.

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## E U R O P E

### THE O.E.E.C. REPORT ON EUROPEAN ENERGY COOPERATION

The 16-nation Organization of European Economic Cooperation (O.E.E.C.) has recently taken a significant step towards formulating an integrated Western European fuel policy by establishing an O.E.E.C. Committee for Power. The new committee will bind together the long-range planning of

the various O.E.E.C. "vertical" committees concerned with power - Coal Committee, Gas Committee, Oil Committee, Electricity Committee - and will also attempt to bring about an integrated European atomic energy policy.

In fact, atomic energy is likely to become the main concern of the new organization which is still in a status nascendi. However, conventional energy problems will definitely also form part of its agenda.

The new organization came into being as a direct result of an over-all report prepared for the O.E.E.C. by M. Louis Armand, Chairman of the French National Railroads. M. Armand's report, entitled "Intra-European Economic Cooperation in the Production and Distribution of Power", may well become the basic blue print of a consolidated West European energy policy. We are reproducing a translation of the main ideas contained in the report as well as our summary of its recommendations. To our knowledge the report has not yet appeared in any U.S. publication.

"The history of energy is marked by sharp variations, even by real revolutions which constitute important stages in civilization.....When we arrive at such a turning point in economic history it is necessary to stop and put down a policy for the future.

"The energy of Europe, having been based essentially on coal, could not benefit as much as other areas, and especially the U.S., from the transformation resulting from the appearance of petroleum. Without making a profound analysis of this phenomenon, one can state that it is one of the important reasons why Europe's economic development fell behind that of the U.S. Let us only point out that petroleum represents 16% of the total primary energy consumed in all the OEEC countries and 38% in the U.S.

"One of the first questions we must ask ourselves is whether the appearance of atomic energy does not announce a turning point similar to that of petroleum and whether it is useful to take now the necessary dispositions for its rational exploitation.....The publication of the British White Book last February confirms the urgency of such studies.....

"One knows that uranium and thorium are presently the sources of nuclear energy. The resources of these materials are available in abundance (and the quantities of energy that can be extracted from known or estimated reserves of these two minerals are much more than the energy quantities that can be produced from all conventional mineral fuels put together. In terms of kilowatt hours thorium and uranium reserves would represent 95.6% of all known sub-soil fuel reserves.....)

"The situation in OEEC member countries regarding nuclear resources is not known exactly but one can say that on the

whole it is favorable; some of these countries, particularly Belgium's overseas territory, have currently already a strong production; others, like France, have important resources partly on European territory, partly on its African possessions. This important point must not be overlooked. While Europe did not attempt to exploit all the resources of its sub-soil when the 'petroleum era' began, it is fully conscious of its geological richness at the beginning of the 'atomic era'.

"The price of atomic energy, at first high, will in all probability go down. . . . The British Whitebook which gives an outline of Britain's atomic energy program over the next ten years estimates an outlay of 300 million for the equipment of 12 nuclear central power stations (now raised to 15). By 1965 these stations will produce 12 billion kwh, or the equivalent of 5 to 6 million tons of coal. This is only a beginning and some British writers have already stated by 1975 no more coal burning central power stations will be constructed in Britain.....

"Regarding the production cost of this power we can conclude (on the basis of a number of studies) that it will very probably be around 0.7¢ per atomically produced kwh and that the price will go down further due to technological progress. The figure of 0.7¢ is certainly lower than the average cost of thermal energy produced in Great Britain.

"The construction costs of central nuclear power stations vary between \$ 300 and \$ 400 per kwh of installed power; certain projects in the U.S. are expected to cost only \$ 250 per kwh. These figures can be compared with the cost of conventional power systems in the O.E.E.C. countries which are \$ 180 p. kwh for thermal stations and \$ 270 for hydro-electric stations. It is expected that the costs of nuclear stations will soon come down and lie somewhere between the cost of thermal and of hydro-electric stations.

"Regarding fuel costs, nuclear fuel consumption p. kwh will only amount to 0.15¢ - 0.26¢ compared to an average of about 0.8¢ for thermal stations in Europe. Actually, it is still too early for true cost comparisons since we can not as yet take into account the cost of exploiting the resources and the amortization rate of nuclear equipment.

"In the field of political economy one of the most important characteristics of atomic energy is that it permits the production of energy wherever it is needed at a price virtually independent of the particular location.

"The development of atomic energy can therefore modify profoundly the field of economic geography because until now

the supply of energy has imposed a concentration of large-scale industrial activities around natural sites, particular in the field of coal and hydro-electricity. In the future this could be completely changed. The energy will be produced where it is needed without any effect on its price because, contrary to other forms of energy, the transportation costs of fissionable matters are negligible.

....."One sees therefore that the possibilities offered by atomic energy are even more important to Europe than to the U.S. There is no reason why Europe can not have atomic energy at the same price than the U.S. where it must compete with other fuels which are now much cheaper than in Europe.

After these general observations the Armand report briefly discusses each sector of convential energy in Europe and makes certain recommendations regarding it: The main problem of the petroleum sector up to now has been the fact that almost all oil had to be imported. However, recent finds in various parts of Western Europe are now raising the hope that this situation is undergoing a change and that within ten years Europe will be able to supply a good part of her oil need from local resources. The report is especially optimistic about oil prospecting in Europe's African possessions, particularly the Sahara, and recommends that a joint effort by all of Western Europe be made to explore this area rather than leave it up to the mother country alone to do a job which, if successful, would have far-reaching consequences for all of Europe.

In the natural gas sector it is pointed out that unlike in the U.S. the major natural gas consumers in Europe are households and small industries. Only in Germany and Belgium does large industry utilize more than 50% of the available natural gas production. M. Armand believes that since natural gas is a waste asset it would be more sensible, from an economic view point, if this energy source were used to feed industries. Natural gas should be considered industrial gas rather than town gas, in his opinion. He acknowledges that this would mean a break with the traditional concept of gas utilization in Europe but feels the economy would benefit by it. The use of natural and coking gas as fuel for Ruhr steel furnaces is pointed out as an example. In his recommendations he urges the O.E.E.C. to study carefully the possibility of bringing natural gas from the Middle East to Europe via pipeline or special tankers.

The production of electricity in Europe is tied largely to coal which accounts for about 50% of the price of electric power from thermal stations. Since coal is considerably more expensive in Europe then in the U.S. so is the price of power and there is little hope that this situation will change in the future. Progress in the more efficient utilization of coal has been made but it has always been at least partly negated by increases in the price of coal. The competition between coal and fuel oil in the electric power sector can not be expected to have too much of an effect on the price of electricity since the price of the fuel frequently is but a function of its caloric coal equivalent. Regarding hydro-electric power, little technological

progress of the sort that would cause a lowering of the price of power can not be expected. On the contrary, with the increase in labor costs the price is more likely to rise.

In the field of coal a great many studies have already been made by the O.E.E.C. and the report points only out that this source of energy still accounts for almost 80% of the primary energy consumed in the 16 member countries and that the price of coal is considerably higher than in the U.S. In 1953 it was \$ 6.5 p. ton in the U.S. and between \$ 11.- and \$ 14.- in Europe. The report recommends a thorough revision of the European coal extraction policy but believes that this should be done on an international level rather than country-by-country.

In conclusion M. Armand states that while the various energy committees of the O.E.E.C. should continue to function, the time has now come to take a broader view of the European energy problem, weigh impartially all the factors of competition between the various forms of energy and formulate an over-all fuel policy. To this end it is recommended that the O.E.E.C. establish a permanent Committee of Energy Economics whose function it would be to bring about a cooperation in the field of energy both among the various member countries and among the different sectors of energy.