

WORLD BUSINESS

CONCISE REPORTS ON WORLD OIL AND GENERAL INTERNATIONAL
DEVELOPMENTS OF INTEREST TO THE PETROLEUM INDUSTRY

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E U R O P ETHE GENERAL SITUATION

Convertibility and integration are still the keywords in European economics. In the last month both issues became deeply emeshed with European party politics and both were the subject of top-level conferences at which no decisive actions were taken on either.

The European Payments Union (EPU), whose 16 Finance Ministers met in Paris in the first week of June, appears to have received one more lease on life to carry it through to June 1956. Its function will be somewhat modified by stipulated increases in the gold settlements of EPU's net debtors from 50% to 75% of outstanding sums (see W.B. May '55) and by permitting a dissolution of the organization at any time if requested by a group of members accounting for at least 50% of its total trade. In such a case it would be replaced by a European Fund with a capital of \$500 - 600 million and a new multilateral payments system. Details of these and other arrangements are to be worked out by July 15th by EPU's governing board.

It seems clear, from the statements following the conference, that free dollar convertibility of European currencies is still quite a way off. Even the British, its most sanguine advocates, have now become somewhat reticent despite the handsome election victory of their "Convertibility" party. Actually, its government-supported "convertible" sterling which anyone outside the U.K. can change into dollars at a slight discount gives the U.K. already a partial state of convertibility. The next step, extending this system to British residents, does not seem to be contemplated for the near future.

On the continent, convertibility is still strongly opposed by France and Italy who feel their economies could not stand up under the pressure of free trade with the dollar area. Only the Germans with their quasi-convertible "liberalized" Marks and, to a lesser extent, the Dutch are as eager as ever to match the strength of their currencies against the dollar. But neither of them is expected to go it alone, i.e. before Britain.

Concomitant with convertibility is another problem, also scheduled for early discussion, namely the removal of the remaining import restrictions on U.S. goods. At present, only about 50% of European imports from the U.S. are free of quota restrictions. This means that even if convertibility took place now, U.S. goods would still be discriminated against. The question of how far such discriminations should be relaxed is tied up with the basic issue of world-wide trade vs. the creation - or maintenance - of regional trading areas which underlies most of the present discussions.

The European Coal & Steel Community (ECSC) also had a soul-searching session in early June. The issue there was whether to speed up or slow down the further economic integration of the Community's six nations. It seems that the slow-down advocates won all along the line. Jean Monnet, ECSC's chairman who had staked his job on the adoption of the Benelux plan for the "creation of a single great market" and the broadening of ECSC's activities into the energy (gas, electricity, atomic power) and transportation fields was forced to resign. He will be replaced by French ex-Premier Rene Mayer whose choice was the result of a political compromise in France where the powerful De Gaullist party opposes any integration. The Benelux countries' plan will get another airing at a conference after October 1st. In the meantime a top-level committee will study it and make recommendations. In Monnet's view, at that conference the ministers must finally come to grips with the basic issue, namely whether or not they are willing to delegate additional powers to supra-national bodies in the field of economics and welfare. At the moment, the chances that they will are less than fair.

Meanwhile, some intra-European cooperation in the field of conventional and atomic power, without delegation of authority, may result from the recent establishment of a 16-nation power committee under the sponsorship of the O.E.E.C.

In the European political arena two recent elections of special interest to the oil industry, in Great Britain and Sicily, have both turned out to the satisfaction of the industry. Meanwhile, on the Italian mainland oil continues to creep into party politics (see W.B. May 1955). Premier Scelba, still under heavy attack from both within and without his Christian Democratic Party, was just given approval to strengthen his Cabinet in return for a pledge of a "minimum program", approved by his party. The program includes a state oil monopoly in the Po Valley and "controlled participation" of foreign oil concerns in the rest of Italy. If the Scelba Cabinet survives, this could mean early action on Gulf Oil's quest for exploitation rights.

EUROPEAN PETROLEUM DEVELOPMENTS

The domestic energy deficit of Western Europe is still on the increase, despite new records in crude oil production in Germany, France and Italy and the recent opening of several new hydro-electric plants. The reason is partly the continued high

level of industrial activity and the rapid expansion of motor vehicle sales and partly the inability of the coal industry to maintain its share of total energy requirements. The increasing energy imports to make up for this deficit have become important not only to the U.S. oil industry with international operations but, lately, also to the U.S. coal industry which will probably export over 20 million tons of coal (6% of last year's total production) to Western Europe in 1955. Further increases are prevented only by the current high ocean freight rates and the prevailing restrictions on dollar payments. If freight rates go down and/or currency convertibility takes place, U.S. coal could become a significant competitive factor of fuel oils in some sectors of Europe's traditionally coal-oriented economy.

Meanwhile, exploration, refinery and production news are reported from the following countries: In BELGIUM, a 10,000 b/d cat cracker was added to the large Antwerp refinery, owned by Petrofina and B.P. In AUSTRIA, the Federal Bureau of Geology and the RAG concern (U.S. & British-Dutch owned) are reportedly preparing for test-drilling in the Western province of Upper Austria. In ITALY, the Mediterranean Oil Co. (Gulf & MacMillan) plans to drill an additional well at its Sicilian concession early next year. Also in Sicily, Gulf has brought in a 4th and 5th well at its Ragusa field. When both wells are connected total output of the field will amount to 4000 b/d; further increases may be expected from the 15 more wells Gulf plans to drill before the end of 1956. In FINLAND the U.S. Lumus Co. has received the contract for the country's first refinery (15,000 b/d) and SPAIN reports a planned 9000 b/d expansion of its state oil concern CEPESA's 31,000 b/d refinery in the Canary Islands.

EUROPEAN COUNTRY BRIEFS

UNITED KINGDOM: The conservative election victory was certainly no surprise to anybody. Still, just to be on the safe side, many foreign debtors of Great Britain decided to defer payments until after the election so that in the unlikely event of a Labor victory they would benefit from the expected drop in sterling. For the same reason some foreign capital seems to have left the U.K. in May. These two factors contributed substantially to the unseasonal levelling-off of Britain's gold and dollar reserves in May, compared to a \$19 million increase in April and a \$165 million increase in May 1954. Thus, during the first five months of this year, Britain's dollar drain amounted to \$76 million while during the same period last year she added \$467 million to her reserves.

Undoubtedly most of the deferred payments are coming in now and will be reflected in the June reserve figure but in the meantime a new development, namely the railroad and dock strikes, is bound to have a more serious effect on the country's balance of payments.

Though the 17-day railroad strike did less damage to the economy than expected, it still caused a curtailment of steel and coal production at a time when both these commodities are in extremely short supply. In the case of coal it is now estimated that imports this year will amount to about \$200 million, or four times as much as last year. Both steel and coal will probably have price raises by autumn. The 4-week old dock strike is a more direct threat to Britain's foreign trade which in April and May had shown very encouraging signs of recovering from the disproportionate import "bulge" of the first quarter (imports in May were the year's lowest so far). Other potential threats to Britain's balance of payments are the current sharp rise in labor and freight costs and the decline in sales to Australia.

Meanwhile, Britain's deficit from petroleum trade grew at a somewhat steeper rate than that of the nation's total trade. Available figures for the first quarter show a volume increase in petroleum imports of about 2% over the first quarter of last year while exports declined by 7.5%. The same trend existed in the sterling value of petroleum imports and exports. The increase in imports was due exclusively to higher shipments of gas oil, fuel oil and kerosine; imports of all other liquid products and of crude oil declined. In the export sector the overall decline was due mainly to lower fuel oil shipments abroad. Presumably, the higher deficit was caused mainly by the increased use of fuel oils in Britain's industry.

In contrast, Britain's oil equipment industry exports were far ahead of the general increase in exports. For the first quarter they amounted to almost \$92 million, or 40% more than during the same period in 1954.

In the domestic economy the switch from coal to oil seems to continue at an accelerated rate: Oil consumption in the steel industry in the early part of 1955 had increased at three times the rate of increase in steel output; a major railroad modernization program including the replacement of up to 2000 steam engines by diesel locomotives by 1956 has just been announced; the Minister of Fuel & Power declared recently that government loans to encourage switching from coal to oil, presently available only to industry, might be extended to households. Large-scale switching from coal to oil was also forecast recently by the chairman of the country's nationalized gas industry on the grounds that "the supply of good gas-making coals is decreasing.....accompanied by successive increases in the price of coal."

The consumption of gasoline is also likely to increase at a steeper rate than last year, in line with a 28% rise in domestic passenger car sales between the first four months of this year and of last year. An even sharper increase would follow a reduction in gasoline taxes (currently 29.2 ¢ p. gal.). The possibility of such a reduction was mentioned in a pre-election speech by the Chancellor of the Exchequer.

GERMANY: Germany's industrial output continues to soar upward at unprecedented rates. At the end of May it was fully 22% above May 1954. Concomitant with this rise went a decline in unemployment which has now reached a postwar low of 4% of the labor force.

Despite this increase, new orders, particularly in the steel and capital goods industries, still outpace deliveries so that the backlog keeps growing. The steel industry, for instance, is so far behind in deliveries, despite a 33% increase in production, that it is currently booking only for 1956 deliveries. A similar situation exists in the machinery, electric equipment and building materials industries.

So far, this situation has not caused any undue tension in the economy and, in the view of the German Central Bank, is not likely to do so inasmuch as the rate of increase in new orders has levelled off since late April so that the discrepancies between supply and demand are now increasing only very slightly. In the steel industry there is even a possibility of a net decline in new orders as fabricators' inventories are rising and demand - throughout the entire European Coal & Steel Community - is beginning to show signs of contraction.

The rising labor shortage is now viewed as the only potential bottleneck in an otherwise smoothly expanding economy. Lately, many employers have added to the shortage by hiring workers in advance of actual need in order to assure their availability. The situation is expected to become worse next year when the first draftees of the new German army will be called up.

One partial solution of the problem would be the importation of foreign labor. This approach is now being tried by the Federal Government which plans to import at least 100,000 Italian workers next year. A more permanent solution, an increase in productivity, is also receiving full attention, especially since Germany in this respect still lags behind Britain's and France's achievements since the pre-war period.

In Germany's foreign trade sector, the reduction of the export surplus continues unabated as imports keep rising at steeper rates than exports. No concern has been expressed about this trend. On the contrary, it is being hailed as an essential factor in preventing domestic shortages and in engendering further export increases. In view of Germany's capacity production, it is felt that it would be most undesirable for her to maintain a large credit balance with the rest of the world. Imports will therefore be permitted to increase as long as they do not cause a net decline in Germany's balance of payments.

Among import increases, the dollar area held first place since the beginning of the year. With the third liberalization of dollar imports at the end of May, this trend will become even more pronounced in the months to come. It will affect particularly U.S.

coal for which unlimited import licenses may now be issued. A recently revised estimate puts U.S. coal imports for the period April 1955 - March 1956 at at least 7 million tons, compared to less than 2 million for last year.

The oil industry is likely to be affected even more than the rest of the economy by the current overall production trend. It is estimated that average oil consumption during 1955 will amount to about 190,000 b/d; this would be 19% above last year, compared with an expected general increase in output of 10 - 15%. The reasons for the higher oil demand are similar to those in England: shortage of coal, industrial production at capacity levels and a sharp increase in domestic motor vehicle and tractor sales.

The refinery sector of the oil industry, so far, kept ahead of the expected increase in demand. Recently published figures show that total refinery capacity on January 1st, 1955 - at about 253,000 b/d - was 29% higher than a year ago. Refiners may be somewhat hesitant about further increases due to the recent import liberalizations which expose them more directly to foreign competition in oil products.

Domestic crude production is also rising in proportion to the refinery increases, thus maintaining its approximate 1/3 share of total refining input (191,000 b/d in the first quarter). With a scheduled 22% increase in exploratory drilling over last year and the recent discovery near Kiel, this proportion is likely to be somewhat increased during the year.

Oil import figures for the first quarter also show an increase, due mainly to considerably higher crude shipments (averaging 134,000 b/d) while product imports dropped somewhat. The following countries shared in the crude imports during the first quarter: Saudi Arabia (45%), Iraq (26%), Kuwait (19%) and Venezuela (10%).

* * *

FRANCE: In the French oil industry the key note is still on drilling and exploration. At Parentis, the western limit of the field has now been determined as a result of the failure of well No. 7 but more promising results have been reported from the field's eastern end and production has begun at well No. 9 with a daily output of 1890 barrels. Total production at Parentis will reach 20,000 b/d later this year but may eventually go up to 40,000 b/d, according to trade estimates.

Discoveries have also been reported just outside the Parentis field. At the village of Mothes, Esso Standard has discovered a well which is already producing at the rate of 380 b/d. A second well is to be drilled soon. Another nearby discovery has been unofficially reported at Boos. This well which may be an extension of the Parentis Deposit was drilled by the Société des Petroles d'Aquitaine. The same company is also about to begin

exploitation of its large natural gas deposits at the nearby Lacq oil field. These had been shut in because of their heavy sulphur content which would have caused corrosion of ordinary steel pipes. Now, the gas will be desulphurized and the by-product gained is expected to cover all of France's sulphur needs. Full-scale production of both gas and sulphur is foreseen by 1957.

The discoveries at Parentis and near-by areas have also spurred the French Government's new program of regional development of the country's non-industrial sections and plans are now under way for a rapid build-up of industries in this south-west corner of France.

Elsewhere, oil - accompanied by considerable gas - was struck at Briod in the French Jura by the state coal concern while looking for coal. Interest is also increasing in exploration of the Paris Basin. The latest firm to apply for concessions is Socony Mobil. Previous applications were filed by Esso Standard and Shell.

The heightened interest of the French Government in oil exploration is shown by their increasing financial support of exploration companies without production income. The Government is also guaranteeing the investments of special oil investment concerns like Finarep (see W.B. May 1955) and the more recently established Cofirep whose public stock was just increased to Frs. 2 billion (\$5.7 million). Total oil exploration expenditures in metropolitan France from all sources will amount to about \$28 million in 1955.

Oil companies will also benefit from a series of economic reform decrees recently signed. Under the new decree on mining prospecting, permits will now be given for five years, instead of three, with two possible extensions, also of five years each. Oil royalty rates are still under discussion. The latest proposal of the Government's oil advisory body ranges from 6% for firms with annual output of up to 10,000 tons to 14% for those with over 1 million tons. It is reported that the Government considers these proposals somewhat low.

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

THE GENERAL SITUATION

Current Latin American economic trends are of a widely divergent nature. While all countries whose economy depends on coffee are currently suffering from the continuing slump in world coffee prices and demand, the mineral-producing countries - especially Venezuela, Mexico, Chile and Bolivia - are all scoring record exports. Some relief for the 16 coffee-producing nations may be in store if the recently agreed-upon International Coffee Bureau becomes a reality. The Bureau would attempt to balance supply and demand by stockpiling coffee on a world-wide basis.

Internal price stability also varies sharply among the 20 republics, although, on the whole, Latin America continues to be the world's most inflation-ridden continent with hyper-inflations in Chile and Bolivia and "plain" inflations in Brazil, Argentina and Colombia.

Foreign investments in Latin America are everywhere on the increase, especially from European sources. Foreign investment regulations have been liberalized in a number of countries and investment guarantee agreements with the U.S. have recently been signed by Haiti, Peru, Ecuador and Guatemala.

The Latin American capital market will also benefit by a new U.S. firm, the Inter-American Capital Corp. with a \$10 million capitalization. Establishment of such an organization was proposed at the recent conference in New Orleans on Latin American investments. Another source of dollars will be the proposed \$52.5 million of U.S. foreign aid for Latin America which is about twice as much as was allocated last year. The largest single recipient would be Bolivia with \$18.5 million.

In the political field, the sharpening of the Church-State struggle in Argentina and the emergence of the major presidential candidates in Brazil hold the current spotlight. Less publicized, but equally important is the widening disagreement between Bolivian President Paz Estenssoro and the country's top labor leader Juan Lechin over treatment of foreign investment. Estenssoro wants to attract more foreign capital by liberalizing investment regulations while Lechin demands state intervention in all foreign enterprises. At present the President definitely has the upper hand but Lechin who as Minister of Mines was instrumental in nationalizing the foreign-owned tin mines is still one of Bolivia's most powerful figures.

LATIN AMERICAN PETROLEUM DEVELOPMENTS

Total petroleum crude production increased throughout the first quarter to a daily average of 2.74 million barrels in March. For the first quarter as a whole, Latin American crude output - exclusive of Venezuela - averaged 580,000 b/d, or 6% above the like period of 1954. VENEZUELAN production at 2.14 million b/d was 12.5% above the first quarter of last year. Outside VENEZUELA production increases were particularly sharp in ARGENTINA where a number of new wells were completed in the Madrejonas fields and in MEXICO which had increased production from its Poza Rica zone.

Some interesting figures on the rising inland consumption in Latin America have recently become available. They show total inland consumption to have been 688,000 b/d in 1954, or 10.7% more than in 1953. If VENEZUELA'S consumption of 45,000 b/d is deducted from this amount the rest of Latin America appears to have had an overall petroleum deficit of 60 - 80,000 b/d last year. Of the major products consumed by the 20 republics, gasoline increased by 10% to a daily average of nearly 200,000 barrels last year which was

approximately parallel with the increase in the number of motor vehicles. However, car demand was (and still is) artificially kept down by special automobile import restrictions in many countries. Gasoline production is therefore likely to increase sharply when the currently planned automobile plants in a number of Latin American countries are in full production. Fuel oil consumption increased by 11.5% to almost 300,000 b/d and is likely to show an even steeper increase this year with the completion of a number of oil-burning steel plants in the area's iron-ore bearing countries.

In the refinery sector recent major developments include the coming on stream of PUERTO RICO's first refinery (10,000 b/d) and Texaco's decision to build a 20,000 b/d plant in CUBA. There are also reports that Shell plans to build a large refinery in Cuba and that Esso will expand the capacity of its small refinery there to 30,000 b/d.

Foreign petroleum investments in Latin America have received a major boost with S.O. (Cal.)'s entry into the ARGENTINIAN oil search. CHILE may soon follow suit and BOLIVIA is expected to come out with its new petroleum law within a month or two.

New explorations have been started by independent groups in HONDURAS, NICARAGUA and HAITI while Gulf Oil is about to spud its first wildcat in BRITISH HONDURAS. Atlantic Refining is attempting to join the oil rush in CUBA where the first nation-wide association of petroleum producers has just been formed, while Sun Oil hopes to receive concessions on wildcat properties in VENEZUELA, according to the firm's vice president. In PERU, Trans-Western Oil Fields and the Cerro de Pasco Corporation, a U.S. mining concern with Peruvian properties but a newcomer to oil, have each applied for exploration concessions in the north. Increased exploration activities are also expected in COLOMBIA as a result of a new law giving private companies better depletion allowances.

LATIN AMERICAN COUNTRY BRIEFS

BRAZIL: The rapid deterioration of the Brazilian economy over the last few months can be traced mainly to two factors: coffee and politics. Coffee exports which bring in 75% of Brazil's foreign exchange have dropped so sharply in the first quarter of this year that the country registered an overall trade deficit of \$54 million compared with a surplus of \$4.5 million in the same period of last year, despite a 4% drop in imports. Preliminary figures for April and May show further drops since then.

The decline in coffee sales is due to the present state of over-supply in world coffee trade as well as the erratic price policy of the Brazilian Government which has caused a number of buyers to switch to other countries.

The resulting scarcity of foreign exchange for the imports needed to support Brazil's rapid program of industrialization has reached such proportions now that, for instance, 500 U.S. built

busses in Sao Paulo are presently laid up for lack of foreign exchange to buy spare parts; the same is true of a good many of the 100,000 cars of British make. This, of course, has been accompanied by rapidly rising domestic prices and wages, superimposed upon an already over-extended economy, so that today the country is in the throes of a full-fledged inflation.

The situation, obviously, would call for drastic austerity measures to reduce all non-essential imports and pay off Brazil's large arrears with foreign countries. However, this is a presidential election year and though the present government is not up for re-election, every politician is busy jostling for positions and unpopular austerity measures do not seem to fit into anybody's scheme. Ex-Finance Minister Gudin did attempt them with some modest success but he was forced to resign in April and his successor seems to favor a reversal of the previous policy of money and credit restriction and is also advocating higher foreign exchange rates for export transactions. These would give exporters higher returns for their sales in terms of domestic currency and thus would further add to the inflationary potential.

The new minister is also considering changes in the country's complicated multiple exchange system. One wide-spread current rumor is that the official base rate for all foreign trade transactions may soon be raised from its present level of 18.82 cruzeiros p. dollar to 50 - 60 cruzeiros p. dollar.

Despite the unhealthy state of the economy, capital-exporting countries are becoming increasingly interested in large-scale Brazilian investments. Both France and Germany are presently considering \$1 billion investment programs in Brazil's heavy industry and iron ore mining (France's project would also include the building of new refineries) and a number of German, British and U.S. automobile manufacturers are about to open assembly plants in Brazil. If these investment schemes should be realized they would go a long way toward a solution of the country's economic difficulties.

Brazil's oil imports are, of course, also affected by the decline in foreign exchange since, at \$247 million in 1954 (incl. \$30 million from the U.S.), they were by far the largest import item. The exchange rate premiums for oil imports were increased sharply earlier this year with the effect that the domestic price of most petroleum products also had to be raised.

Actually, Brazil's oil import bill for 1955 will be considerably lower than last year due to the coming on stream of several refineries which should bring the country's capacity to about 80% of domestic needs (158,000 b/d). Among new or expanding projects are the enlargement of the Mataripe refinery, a further increase in the capacity of the Cubatao refinery and the building of a new 5000 b/d private plant at Manaus, 100 miles north east of the new Nova Olinda well. There is also a recent unofficial report that a Japanese engineering firm has offered to build a 40,000 b/d refinery at the North Atlantic port city of Belem.

Mataripe is also to have a lube plant, capable of supplying the country's entire domestic lubricant need. LPG production has already reached that level, consequently no further import permits for LPG will be issued.

The foreign exchange needed for this expansion program and also the stepped-up exploration program is to come out of the exchange savings made by switching from products to crude oil imports. Under a recently passed law the state oil concern Petrobras may use 80% of this savings for the necessary equipment imports.

The amount allocated to Petrobras for the current year for expansion purposes is \$50 million. Most observers agree that such a sum is only a fraction of the foreign exchange needed to carry out a full-scale exploration program in Brazil. At Nova Olinda alone Petrobras plans to spend about \$105 million just for the import of drilling rigs during 1956 - 1959.

There is little chance that the foreign companies will be permitted to undertake such a program: Of the two major presidential candidates, Gen. Tavora has made continuation of the Petrobras monopoly a main point in his platform while the other candidate, Gen. Kubitchek, represents the political elements which supported the late Pres. Vargas under whose regime the Petrobras law was passed.

At present, a bill is reportedly pending in Congress which would open those parts of the country to foreign oil companies which have not been surveyed by Petrobras. An earlier bill to open Brazil to foreign oil exploration was overwhelmingly defeated.

* * *

ARGENTINA: Recent news from Argentina are dominated by the rapid sharpening of the state-church conflict. The latest developments are the Senate's approval for popular election of a constitutional assembly to disestablish Catholicism as a state religion and the ex-communication of Peron by the Pope. The election is seen as a major test between Peronismo and the only other organized body in Argentina. Most observers predict Peron's victory at the polls but, as the N.Y. Times has pointed out, this is the first time since Peron became dictator that he has stirred up active political opposition on a scale large enough to be a serious threat to his regime.

Meanwhile, the country's economy which labors under a lively inflation and a declining export surplus is being strengthened by a recent sharp increase in the influx of foreign investments. The most important of these is Henry J. Kaiser's \$25 million auto manufacturing project in which the Argentinian Government is to have a 23% share. The new plant is to produce 40,000 vehicles in 1959. Other automotive investments in Argentina have recently been announced by several European firms which will assemble over 13,000 tractors annually in Argentina.

The country's great steel mill project at San Nicholas has also been given a major boost from abroad by a \$60 million U.S. Export-Import Bank loan. In the shipping field the ubiquitous Aristotle Onassis is reportedly bidding for control of the now nationalized Dodero Shipping line with its 25 liners and merchantmen.

Foreign investment is also the major news from the oil industry. After more than a year of negotiating, Pres. Peron granted the first contract for prospecting and exploitation to a foreign oil company, Standard Oil of California. Negotiations with the other interested firms, Standard Oil (N.J.) and the Shell group, have been temporarily suspended while legislation to implement the contract with S.O. (Cal.) is under discussion but it is assumed they too will eventually receive concessions.

Since Peron controls both houses of Congress congressional approval seems assured but strong opposition to the contract exists among the Radical Party and the ultra nationalistic elements of Peron's own party. These groups have voiced their criticism by distributing leaflets in Congress condemning the contract as being "in favor of plutocratic consortiums who possess a long history of infamy..." These same elements seem to have been able to bring about at least one postponement of discussion of the S.O. (Cal.) bill. The possibility exists that in view of his difficulties with the church, Peron may not wish to incur animosity from any other quarters and is therefore not using his full weight to force speedy passage of the bill.

The terms of the contract which runs for 40 years gives S.O. (Cal.) a 12,000 square mile concession in the Santa Cruz Territory where it is to invest a minimum of \$13.5 million in exploration activities over the next four years. The firm will have to split all profits on a 50-50 basis with the Government. It is given the right to construct a refinery and form a marketing subsidiary but before exporting any oil it must meet all domestic oil needs.

Since 60% of Argentina's total consumption of some 200,000 b/d (Latin America's highest on a per capita basis) must presently be imported, this last clause is likely to keep any production S.O. (Cal.) may have, confined to the domestic market for quite some time; particularly, since most of the increases in the nation's total energy requirements can only be met by petroleum.

Oil has also figured prominently in two trade pacts concluded recently by Argentina. The first, signed on April 1st with the U.K., is partly retroactive as it covers the period June 1954-56. It proposes a total trade of \$237 million each way during its first year; of this \$81 million is to consist of U.K. oil shipments (54% crude and 46% fuel oil). The other trade agreement was signed in May with the Soviet Union and calls for total trade between the two countries in the amount of \$110 million for the current year. Included in this figure are scheduled shipments of 500,000 tons of

Soviet fuel oil and 50,000 of gasoline. In 1954, the Soviet Union reportedly shipped a total of 350,000 tons of oil to Argentina.

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CHILE: Chile's economy which has the dubious distinction of having registered the highest inflationary increase of any country in the world in 1954 will stand to benefit from the current world-wide shortage of copper, its major export product. If enough copper can be produced - which depends mainly on the avoidance of another miners' strike - it may even bring about a reversal of the country's ten year trend of increasing annual foreign trade deficits.

Encouragement for higher copper production was recently provided by the government when it put into effect its new copper law. This will give the large U.S. companies which mine 90% of the country's copper a more favorable tax rate with a built-in production incentive and will restore their right to market their own copper abroad. Anaconda has already announced that as a result it will open two new mines for production. How much real benefit the foreign copper companies will derive from the new law depends largely on the Government's ability to slow down the still galloping inflation.

Beyond its immediate benefit to the copper industry, the new law reflects the government's current belief that only through more foreign investment in Chile's industry can the country regain its internal and external economic equilibrium. As President Carlos Ibanez del Campo said in his May Day speech, foreign capital investment is "indispensable for the exploitation of our natural resources" and will therefore be promoted.

Foreign investment in Chile's petroleum sector - under discussion since last year - might well be the next step in this direction. A draft law was submitted to Congress earlier this year but was withdrawn for further amendments regarding taxation and concessions. At the end of May the Minister of Mines announced that the new draft law would soon be submitted.

Under the withdrawn bill a royalty^{of} at least 20% of any oil privately produced would have had to be delivered to Empresa Nacional, the state oil monopoly, and the Magellan fields in Southern Chile, where all of the country's current production (6000 b/d) comes from, would have continued to remain the exclusive territory of Empresa Nacional. No known oil deposits exist outside the Magellan area but seepages and asphalt outcrops have been found in various parts of the country. With current oil imports averaging about 25,000 b/d, any new domestic discoveries would contribute towards a lessening of Chile's perennial foreign exchange shortage.

Two other recent Chilean petroleum developments are the placing of a 100-mile pipeline order to connect the new Cordon

refinery with the capital city of Santiago and a still tentative arrangement to pay off Chile's \$15 million arrears with U.S. oil firms in monthly installments over a 3-year period.

F A R E A S T

THE GENERAL SITUATION

Strong market fluctuations of rice and tea are currently exerting their influence on the economy of Asia. Rice exports from South East Asia are again on the increase as Japan, India and the U.K. are raising their purchases of this commodity compared to last year; although, in the case of Burma rice exports are still far below the 1948-53 average. Tea, on the other hand, continues to drop in both value and volume - as it had for several months - thereby seriously endangering the economic stability of Ceylon and, to a lesser degree, India.

Other commodity developments from Asia include a drop in jute exports from Pakistan, a decline in the price of coconut products, affecting mainly Ceylon and the Philippines, and somewhat higher rubber prices. These latter may be explained by increased Russian purchases and by the fact - pointed out in a recent U.S. Government report - that world rubber consumption is rising at a much faster rate than Far Eastern production.

Asia's growing foreign investment sector also registered some recent developments. The most important of these were (1) an investment guaranty agreement between the U.S. and Pakistan which will make it possible for U.S. investors to obtain F.O.A. guarantees; (2) a South Korean law draft to admit foreign capital, after excluding it since 1945. At the same time some of the country's basic industry is being denationalized; (3) a reported plan by the Government of Burma to offer guarantees to foreign investors against nationalization of their businesses for at least 10 years; (4) the possibility of a U.S. loan for expansion purposes to the private sector of India's steel industry. This would keep it ahead in size of the two government-owned steel plants, soon to be built with German and Russian capital; (5) a possible Far Eastern investment conference, reportedly planned for fall by Joseph Dodge, foreign economic advisor to the President.

FAR EASTERN PETROLEUM DEVELOPMENTS

In the Far Eastern petroleum sector the emphasis continues to be on exploration. In the period under report this was crowned by two apparent successes: West AUSTRALIAN Petroleum Pty. discovered another well in its Rough Range concession and the Teikoku Oil Co. of JAPAN reportedly found a well in the Island's northern part.

New exploration plans in the area are reported from NEW ZEALAND where Shell is about to start an intensive search; from INDIA where the government has launched a systematic nation-wide search for underground minerals and oil deposits; and from PAKISTAN where the H.L. Hunt group of Texas is supposed to be on the point of signing a contract for exploration and development (other foreign firms in PAKISTAN are Burmah Oil, Attock Oil and Standard-Vacuum).

Another report from India tells of the government's interest in a second synthetic oil project, to be constructed at Madras and have a capacity of 20,000 b/d of gasoline and diesel oil. The plant would use brown coal as raw material. The first such project received cabinet approval some time ago; it is to produce 6000 b/d and has been allotted \$168 million in India's second five-year plan (1956-61).

FAR EASTERN COUNTRY BRIEFS

JAPAN: Two recent agreements, one concluded by the Japanese government and the other by private groups, are designed to increase the country's trade with both the East and the West. At Geneva, JAPAN signed tariff agreements with the U.S. and 16 other nations within the framework of GATT and also applied for full membership in that organization. The application will probably be approved in August by the necessary two-third GATT members but Japan's admission will not be recognized by Britain.

The most important of the 17 tariff agreements concluded by Japan is, by far, that with the U.S. It will affect goods whose total trade between the two countries run to over \$500 million. A full schedule of the items on which duties are to be reduced is not yet available but it is known that U.S. automobiles and lubricating oil and greases are among them. The agreement has evoked sharp criticism among some U.S. business groups, particularly the Textile industry, but the U.S. State Department has hailed it as "lessening the danger of enforced Japanese economic dependence on the Communist-dominated areas of....Asia."

An attempt to increase trade with Communist Asia was made in May by a group of Japanese businessmen who signed an unofficial trade agreement with Communist China. The agreement calls for the modest amount of \$84 million to be exchanged each way over the next 12 months. However, most observers feel that at best half this level will be reached.

The importance of the agreement may therefore lie less in its scheduled exchange of goods than in its illustration that trade between the two countries is unlikely to become a significant factor in either economy. The Communists seem to want either scarce raw materials or the equipment to manufacture by themselves those goods which Japan wants to export. Trade would undoubtedly increase sharply if Japan were to export the strategic materials which make up the bulk of Communist China's requirements but even

in that case it is unlikely to attain major proportions. For the time being, FORMOSA, with an annual estimated trade of \$92 million each way will continue to be a better trading partner of Japan than the whole of Communist China.

An attempt is also under way on the political plane to draw Japan closer to the Soviet orbit. Current negotiations in London between Tokyo and Moscow are designed to end the still existing state of war between the two countries and prepare a peace treaty. It may well turn into a Soviet bid for Japanese neutrality. Among the problems to be settled are the future of Southern Sakhalin and the Kuriles, both claimed by Japan but occupied since 1945 by the U.S.S.R. It is interesting to note in this connection Russia's disclosure at the Rome Petroleum Congress of oil explorations in the Kuriles.

Meanwhile, Japan's current foreign trade is becoming increasingly oriented towards the sterling bloc and away from the dollar area. The reason is that exports to the sterling area have increased last year by 75% so that it is now Japan's major customer. At the same time dollar earnings are declining steadily as U.S. military spending in Japan continues on its downward trend. This has caused a persistent deficit with the dollar area (\$117.7 million in the first quarter of 1955) while a sizeable surplus has been accumulated with the sterling bloc. To reduce the dollar area deficit, Japan is now trying to increase its exports to the U.S. by about 15% over last year, while holding its imports down.

Japan's oil imports are also likely to be affected by increased emphasis on sterling area trade. Under an extension of the U.K. - Japanese trade agreement to June 1955, oil imports are to continue at the prevailing level until then. After that, a new long-term agreement between the two nations, about to be negotiated, will probably increase the share of the sterling area in Japan's total oil imports.

For the first half of the current fiscal year (April-Sept.) total oil imports are reduced to \$66.9 million from \$74.2 million in the same period of last year. The reduction is due to increases in refinery capacity and a government-ordered reduction in the use of residual fuel oil, probably, as a help to the domestic coal industry. When the current refinery construction program is completed the country's total capacity will be around 200,000 b/d, compared to 125,000 b/d at present. This would make Japan approximately self-sufficient in the crude-processing field. The next major refinery project under the program will be a 20,000 b/d plant to be constructed near Yamaguchi by Idemitsu Kosan, according to press reports. Idemitsu Kosan would attempt to buy the crude for this refinery from the National Iranian Oil Company for payments in yen.

Other petroleum developments include the announcement of a new oil discovery by the Teikoku Oil Company at Funagota, with production reported at 600 b/d.

AUSTRALIA: There seems to be no early relief in store for Australia's growing foreign trade difficulties. In the first ten months of the current fiscal year (June '55-June '56) foreign trade deficits were registered in all but three months. As of May 1st the total deficit stood at \$115.6 million, compared to a surplus of \$375 million the year before.

A major factor in the decline was the unexpectedly low level of wool exports, so far lagging \$155 million behind last year. Over a third of this drop is due to Russia's abrupt withdrawal from the Australian wool market following the closing of the Russian embassy in Canberra after asylum had been granted to its defected security chief.

The foreign trade deficit, however is not only due to lower exports but even more to a rise in imports. The main factors behind this rise are capacity production, full employment, wage increases and the sharp upsurge in installment buying, mainly in the motor vehicle sector.

The situation is about to be further aggravated by the impending 10% rise in freight rates from Britain to Australia, described as "staggering" by the Australian Minister of Commerce. If it goes into effect it is expected to raise the prices of all goods from the U.K., Australia's traditional main supplier.

To counter this trend, Australia has issued new restrictions on imports from the non-dollar area, mainly the U.K., effective last April. The restrictions are rather substantial, affecting all types of goods, but since there is a 6-month delay between the issuance of import licenses and the arrival of goods, their effect will not be felt until fall.

In the next fiscal year these restrictions will reduce imports by an estimated \$220 million. On the basis of current trade figures this would be enough to restore Australia's export surplus.

A more immediate bolstering of Australia's foreign currency came in form of the recent \$54.5 million World Bank loan for development purposes. A major part of the loan will be spent on diesel locomotives, tractors, power plants, road machinery and other oil burning equipment.

U.S. private funds going to Australia are also helping to alleviate its foreign exchange troubles. Particularly active at present is the auto industry; General Motors, Chrysler, and Ford have all embarked upon major expansion programs as their backlog of orders continues to mount while American Motors is planning to build its first Australian Hudson car factory. Another U.S. firm, the Atlas Corporation, has just invested \$1 million in the country's uranium deposits. Altogether, nearly 500 U.S. companies now have interests in Australia; their total investments are estimated at around \$1 billion.

Oil imports will probably not be affected by the new import restrictions but the oil industry is still making a major contribution towards a reduction in the country's import bill. By the end of this year enough refineries will be on stream in AUSTRALIA to make the country largely self-sufficient in oil-processing. This will mean a direct foreign exchange savings of at least \$52 million a year, compared to 1953-54. It may even permit some exports to New Zealand since refinery capacity at year-end will be around 155,000 b/d while consumption is not expected to be above 125-130,000 b/d.

Of the four big refineries which will bring about this self-sufficiency, three - Shell's Geelong refinery, B.P.'s Kwinana and Stan-Vac's Altona plant - are now on stream and the fourth, Caltex's plant near Sidney, will be completed later this year. The total cost is estimated at \$250 million.

The possibility of supplying the refineries with domestic crude has again come to the forefront with the recent discovery of oil by West Australian Petroleum Pty (owned 80% by Caltex and 20% by the Australian firm Ampol) on the Rough Range, just 30 feet from its 1953 discovery well. Not much is known as yet about the new well and company officials were very cautious in their first public statements, possibly to avoid a repetition of the speculative upsurge which followed the first oil discovery on Rough Range. Nevertheless, Ampol's shares shot up 65% when the news hit the Melbourne stock exchange.

More information about Australia's sub-soil may soon become available as several of the forty-odd oil exploring concerns are preparing to make test drills in various parts of the country.

Meanwhile, there is a long-range possibility of a completely different domestic source of fuel for Australia, namely synthetic oil from coal. A plant being presently designed for the manufacture of town gas from brown coal, plans to try out this process and hopes to produce about 4000 b/d of oil products by 1976.

In view of the large coal deposits near the country's industrial centers, the production of petroleum products by coal hydrogenation (as it is now done in South Africa and Eastern Germany) seems to have definite possibilities. The main problem, according to some experts, would be the extremely high equipment cost, estimated at \$220 million for a plant producing 18,000 b/d. However, with the advantage of no ocean freight, insurance or duty it is felt synthetic oil could compete with products made from imported crude.

NEW ZEALAND: Elsewhere in the South Pacific, New Zealand is about to become the target of an increased oil search. According to an announcement by its Minister of Mines, the Shell Company of New Zealand will spend \$3 million on an intensified search in the North Island and will call on its experts from other parts of the world for assistance. Shell will be in partnership with the local firm of Todd Brothers which has recently taken out extensive prospecting licenses.

The Government is wholeheartedly behind this venture, according to the Minister of Mines, and intends to introduce soon amending legislation on oil companies' rights and responsibilities.

At present the Dominion's crude output amounts only to the minute quantity of 7000 barrels p. year. Consumption is in the order of 25,000 b/d. On a per-capita basis this puts New Zealanders among the top petroleum consumers of the world.

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 PIRINC 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: Recent information from the U.S.S.R. indicates a new concerted effort on the part of the Government to increase oil production.

Production targets attained so far and about to be attained were criticised last month by no less a personality than Marshall Bulganin who admitted at an All-Union Conference of Workers that "the (Soviet) oil industry as a whole is lagging in the speed of drilling and oil-refining." At the end of the conference, the following appeal, intended to be inspirational, was sent to the oil workers of Russia:

"Workers of the oil industry! The All-Union conference of industrial workers appeals to you to increase the extraction of oil, to extend the production of oil products, and to raise their quality. Develop prospecting more energetically, bring forth new deposits, persistently apply high-speed methods in drilling wells, use more widely the progressive method of oil extraction in maintaining level pressure and secondary methods. More stubbornly apply progressive processes of refining oil, constantly perfect the work of existing installations, more speedily master the production of new varieties of oil products."

Recent criticism of the oil industry was also voiced by Radio Moscow which accused the Ministry of not publicizing the pace-setting achievements of "exemplary drilling brigades." The broadcast expressed the view that "this may explain the nonfullfillment of the drilling plan, from year to year, by the Ministry of the Oil Industry."

Pravda also put in its 2-rubles worth with the statement that "insufficient development" of oil and gas extraction was due to "the ignoring of economic factors in planning the development of the fuel industry" and to failure of planning officials to provide sufficient capital. (It is interesting to note in this connection that the new chairman of the State Commission for Long-Range Planning is M. Baibakov, until now Minister of the Oil Industry and a life-long petroleum expert. It has been suggested that his appointment will mean the funneling of more capital into the oil sector).

The reason for this new criticism may be found in the fact that, according to a Soviet Source, oil production this year will reach only 67 million tons (approx. 1,340,000 b/d), or about 10% less than the official target set under the present 5-Year Plan. Most other basic commodities are expected to reach or even surpass their set targets.

Actually, even the lower output figure would still be 15% above 1954 production which in turn was 12% above 1953. It would therefore appear that - despite all the criticism - Soviet oil production is increasing steadily and at slowly rising rate.

Meanwhile, some reportedly official figures pertaining to Russia's refinery output have recently become available. These show that the Soviet Union's total projected refinery capacity by the end of 1955 will be around 1,300,000 b/d (960,000 b/d in 1953). At the same time the capacity of cracking plants will amount to 640,000 b/d. The above quantities will be produced by 70 refineries of which 15 are located in the Caucasus, 10 in what was formerly Polish Galicia and the rest in various other parts of the country.

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BULGARIA: Bulgaria's crude production which started only about a year ago in commercial quantities is reported to have registered significant gains since the beginning of 1955. Four new wells have recently began to produce and the importation of new drills and rotary pumps suggests more activity along this line in the near future. A 7000 b/d refinery with distillation and cracking equipment is presently under construction at Varna on the Black Sea and will be put in operation before the end of this year, according to reliable information.

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HUNGARY: The Hungarian Government reported in May on the results of the country's first 5-Year Plan (1949-54). According to the report, crude oil production in 1954 was 140%, or 14,220 b/d, higher than in 1949. At the same time the number of producing wells had increased by 300. On the basis of official output figures for 1949 this would put 1954 production at an average of about 24,000 b/d.

For 1955 crude output is scheduled to rise by another 30% which would put it around 31,000 b/d. With total domestic consumption estimated at around 15,000 - 18,000 b/d this would make Hungary a significant exporter of crude oil and also of refined products since it has a refinery capacity of 50,000 b/d. At present these refineries are used for the processing of oil from Austria's Soviet Zone in addition to Hungarian domestic crude.

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ROMANIA: The Romanian embassy in Paris has recently called attention to Romania's oil equipment industry which, according to the embassy, was completely rebuilt and expanded since the war. All types of drilling, exploration and surveying equipment are presently manufactured in Romania. Exports have gone to China, India, Indonesia, North Korea and Hungary. For 1955 new equipment orders have already been received from France and West Germany.

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TRADE AGREEMENTS AND OTHER ARRANGEMENTS INVOLVING SOVIET BLOC OIL EXPORTS

Austria signed an agreement with Romania, valid for one year from April 1st, 1955, under which it will receive \$750,000 worth of fuel oil and undisclosed amounts of gasoline and gas oil. The agreement reflects the fact that Austrian fuel oil consumption in 1954 increased at a much higher rate than any other major product so that by the end of 1954 domestic refineries registered a shortage of fuel oil and an oversupply of gasoline.

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Norway signed a trade agreement with the U.S.S.R. on May 23rd for the exchange of \$34.2 million of goods during 1955, including undisclosed quantities of fuel oil. Last year's trade agreement did not provide for any oil shipments.

Norway and Romania signed an agreement, valid for one year starting on June 1, 1955, which provides for a 35% overall increase in trade over last year. Last year's agreement called for \$1.4 million of Romanian petroleum shipments.

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The U.K. is presently being visited by a Romanian delegation attempting to negotiate a trade agreement between the two countries. According to rumors, Romanian oil is figuring in these negotiations. A recent refusal of the President of the Board of Trade to answer a question in Parliament about the quantities of oil offered by the Romanians, has increased speculation that Britain may get Romanian oil. The last substantial shipment (26 million imperial gallons) of Romanian oil was received in 1948.

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France's current trade agreement with Romania which includes imports of about 200,000 tons of petroleum products in 1955 (see W.B. May 1955) has been temporarily suspended due to Romania's failure to make good on her promise to free five interned French nationals.

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