

# **WORLD BUSINESS**

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

*Published monthly by the PETROLEUM INDUSTRY RESEARCH FOUNDATION, 122 East 42nd Street, New York 17, New York • Telephone: OXford 7-377*

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May, 1955

THE HUGE EXPENDITURE of the United States Government and business in foreign countries and the tendency towards quick change in foreign economic and political developments has brought into focus the necessity for the American executive to keep informed on world affairs.

This is particularly true of the petroleum industry, which must not only be alert in order to protect the enormous investment in foreign fields, but must also evaluate the effect of foreign petroleum developments on worldwide markets.

The purpose of this report is to bring to the oil company executive selected international developments concerning the economic pattern in general and the petroleum industry in particular.

## E U R O P E

THE GENERAL SITUATION: With one-third of 1955 over, there is still no sign of a levelling-off of the unprecedented upsurge of economic activity in Europe that started just about a year ago. Industrial production which had increased by 9% in 1954, the highest increase since the Korean war year 1951, has climbed further in the first quarter of this year in every European country while unemployment (with the exception of Italy) has reached a post-war low. In fact, several countries are already experiencing a limited labor shortage. Trade unions, making the most of this situation, have asked and received wage increases in a number of countries, notably England, France, Germany and Holland, sometimes under strike threat.

Private consumption rate has, of course, been strongly influenced by all these expansionary factors to which must be added the recent upward trend in installment buying. This type

of purchasing played only a minor part in Europe until recently but now accounts for a very significant part of total consumer durable purchases, particularly automobiles.

Productive capacity, so far, has been able to meet the higher demands of private consumption and of business and also take care of the increased export trade registered by almost every European country in 1955. However, the slack in the various national economies which had permitted this spectacular expansion seems to be taken up now and a perceptible "stretching" of productive resources has lately taken place in several countries. At the same time trade balances weakened noticeably.

This does not mean that the current prosperity in Europe is about to end, but it does mean that the dangers of inflation and renewed balance-of-payments difficulties are once more looming on the horizon. Whether they will materialize depends on many factors, some of which, like our own future foreign trade policy, are quite beyond the control of Europeans. However, two things Europe must do to maintain its prosperity: With the manpower reservoir about dry it must achieve higher productivity per worker through increased plant investment and it must be able to hold consumer spending to a level which will permit an increasing share of production to go abroad in order to pay for more imports.

EUROPEAN PAYMENTS UNION (EPU): The future of the EPU - currency clearing house for the 16 West European nations - will be the subject of much discussion in the coming months. Under existing arrangements the organization is scheduled to go out of business on June 30th, the end of its current fiscal year. There is little likelihood that this will actually happen unless full convertibility (meaning convertibility into dollars rather than the limited regional convertibility carried on through EPU) takes place before the new fiscal year starts. In this case EPU would probably be replaced by a European Fund (patterned after the International Monetary Fund) to help weaker nations overcome temporary foreign exchange difficulties.

If EPU continues (as is likely) it is expected to change its rules for debt settlement from a ratio of 50% in gold and 50% in credit to 75% in gold and 25% in credit. This would definitely be an important step towards eventual full convertibility since it would give European creditor nations more gold in return for their regional exports while the EPU debtor nations' present advantage in buying in soft-currency countries, as compared to purchases from the dollar area, would be considerably reduced.

EUROPEAN COAL AND STEEL COMMUNITY (ECSC): Another regional organization about which important decisions are expected in the near future is the ECSC whose six-man Council of Foreign Ministers will meet on June 1st. The key issue is whether to expand ECSC functions beyond the coal and steel field. Belgium and Holland are currently vigorously plugging for extension of jurisdiction over the entire energy and transportation field of the six member nations. This would include electricity, atomic energy and railroad transportation. Petroleum production would currently not come under the

Community's control although it was seriously considered in preliminary discussions by Dutch and Belgian Foreign Ministers.

However, if the rest of the six nations' energy plant is put under supranational jurisdiction oil may well follow suit. In the words of the London Economist, "Ruhr coal competes with oil as directly as with coal from Lorraine. Why, it is asked, should one set of rules apply to those who sell coal and another to their principal competitors?" This is the gist of the argument used in favor of "integration" of the various sectors of the six economies through extension of ECSC's powers. Key man of the integrationists is Jean Monnet, head of ECSC, who is about to resign from his job but may agree to stay on if new powers are granted to his organization.

### EUROPEAN PETROLEUM DEVELOPMENTS

The high level of economic activity was fully reflected in sharp advances of most sectors of the European petroleum industry in the first quarter of 1955. Crude oil production in February reached the record figure of 93,000 barrels daily (exclusive of Austria) which is 27% above the year-ago figure. This is still only about 5% of Europe's total refinery throughput but will probably go up to around 6.5% within the current year. The eagerness with which new oil resources are sought is evidenced by the fact that in the last six months the number of rigs operating in Europe increased at a faster rate than in any other area of the free world.

Export of refinery products is the only sector of the industry not expected to show an increase this year over 1954. The reason is the virtual cessation of products shipments to areas east of Suez since the resumption of work at the Abadan refinery and the completion of new refineries in the Middle East and other Asia points. Most of these exports which amounted to around 90,000 barrels daily in 1954 will now be absorbed by higher demand within the European market.

The increasing importance of oil in relation to coal - Europe's traditional source of energy - is seen from a recently released OEEC report on the European economy in 1954. While petroleum refining production increased by over 25% between 1952 and 1954, coal output showed no increase at all and at the end of 1954 was still only at the pre-World War II level. In fact, on a output-per-man basis coal production is now still 10% below the 1938 level. This illustrates again that coal - despite continuous technological improvement in its utilization - can not be counted upon to provide the energy sources upon which further economic advancements in Europe can be based.

### EUROPEAN COUNTRY BRIEFS

UNITED KINGDOM: In the U.K. all business activities are currently under the impact of two major events. One is the recently announced new budget, the other the coming national election (May 26th). As is to be expected, the two events, coming in such short

sequence, are very much interdependent. The British economy is presently experiencing definite signs of an inflationary boom; imports have increased by a full 22% in the first quarter of 1955 as compared to the corresponding quarter in 1954 while exports rose by only 10%. Unemployment has reached a new postwar low and consumer spending is climbing rapidly despite some recent curbs on installment buying. In such a situation it would normally not be considered good economics to reduce taxes and thus increase the effective purchasing power still more. Yet, with a prospective budget surplus of £ 288 million for the coming year it would be a most "unpopular" decision not to grant some tax reduction. The Conservative Chancellor of the Exchequer who is both an economist and a party politician has therefore decided to grant some tax relief, amounting to about half the expected surplus. This, he hopes, will go into savings and investments rather than additional consumer buying and will be recognized as a first step in the direction of lower taxes. Naturally, the Labor Party has criticized the cuts as "miserably inadequate" and is also blaming the Government for the recent rise in the cost of living. Labor's proposed remedy for Britain's current price and foreign trade difficulties would be more "social" planning and control, according to its top leaders.

In the heat of the election battle some very recent positive developments have been all but overlooked. In March, Britain's terms of trade improved for the first time since last July due to lower prices for food imports, especially tea. "Convertible" sterling (all sterling currency currently acquired by non-British residents) which had dropped sharply in February and March on the free money markets has now returned to near-parity with the official sterling exchange rate. Industrial production in the first quarter of 1955 was 6% higher than a year ago and gold and dollar reserves, after falling for two consecutive months, increased to \$2,686,000,000 at the end of April. It remains to be seen whether these improvements mean that Britain was able to overcome this latest threat to its economic stability without renewed recourse to controls.

The role played by Britain's oil industry in last year's boom is emerging out of recently published statistics. In the domestic economy oil filled a large part of the gap between the 3% rise in coal production and the near-7% rise in industrial output. The 18% increase in the available quantities of black oils (excluding fuel used for diesel vehicles) to a daily average of 165,000 barrels made it possible for an increasing number of industries, especially the steel industry, to switch to oil to avoid possible power shut-downs because of intermittent coal shortage. However, with gasoline demand up by only 3% the black oils increase has raised the familiar refiner's problem of how to balance yields with the overall demand pattern.

Britain's petroleum exports in 1954 amounted to £ 84 million, 10% more in volume and value than the year before. The importance of this figure in the country's total export trade is brought out if it is compared with such a traditional export item as cotton

goods which earned only £ 28 million more last year. Petroleum imports were in the order of £ 312 million, virtually unchanged from 1953. About 20% of this amount went for payments of purchases from U.S. sources. In the first two months of the current year Britain's petroleum imports, following the general pattern of the country's foreign trade, increased over last year, while exports showed a slight decline.

AUSTRIA: World spotlight is currently focused on Austria where after almost eight years of procrastinating the Russians now seem seriously inclined to move out. In fact, their proposed new state treaty to restore Austria's independence contains far better conditions than a previous proposal which the Austrians had found generally acceptable. The reason behind this latest Soviet turn-about is obviously to throw a monkey wrench into West Germany's new affiliation with NATO by a practical demonstration of the price the Soviet Union is willing to pay in return for "neutrality" (non-affiliation with any Western regional organization) on which she is absolutely insisting in the case of Austria. If no snag develops in the current negotiations in Vienna, four-power occupation of Austria will end on December 31, 1955.

Among the economic clauses in the new treaty draft the following are the most important: 1. Austria is to ship \$ 150 million worth of goods to the Soviet Union over a six-year period in exchange for Russia's return to Austria of all so-called former German assets (German-owned businesses in Austria's Soviet occupation zone which were confiscated by the Russians in 1945). 2. Austria is to pay to the Soviet Union \$ 2 million in return for the Danube Shipping Line, also taken over by the Russians. 3. Austria will receive full ownership of all oil properties presently held by the Soviet Mineral Oil Administration (SMOA) in Austria and its marketing organization OROP. In return Austria is to deliver "a quantity of oil to be agreed upon" for an unspecified period to the Soviet Union. It has since been announced that this will mean 20,000 barrels daily for a period of ten years. Under the USSR's previous treaty proposal, Russia would have retained physical control of the Austrian oil properties for 30 years and would have received about 40,000 barrels daily, or 60% of their total output.

The oil sector of the proposed treaty is of considerable importance to the international oil industry for two reasons. One, Austria's crude output in 1954 averaged 62,000 barrels daily from three main fields. Of this about 60% was taken away by the Russians, mainly for shipments to Czechoslovakia and Hungary, the balance was sold to Austria for local consumption (except for minor gas-diesel oil exports to Western Europe). If the Soviet Union in the future is to receive only 20,000 barrels daily Austria could become Free Europe's only country with an exportable crude oil surplus, amounting to around 15 - 18,000 barrels daily. This would provide an important secondary supply source for Germany or Switzerland to where it could be shipped cheaply via Danube river traffic. Of course, if Austria should decide to ship additional crude oil to Russia as part payment of its \$ 150 million debt, as has already

been suggested, and at the same time reduce its crude output which some Austrian officials consider too high in relation to reserves (privately estimated at 300 million bbls.) there would be very little left for export over the next six years.

The second reason involves the present and future ownership of the oil fields and seven small refineries (total capacity 30 - 35,000 barrels daily). These are all now under the overall control of SMOA but some of them are still owned and operated for SMOA by foreign concerns which had acquired them before 1938 when Austria was annexed to Germany. Among these are two refineries owned respectively by Socony, Mobil and Shell, some producing fields owned by these two concerns and the British-Canadian firm Keith Van Sickle, with a combined total production of about 10,000 barrels, daily and also drilling rights in several other fields acquired before 1938 but cancelled by the Nazis in 1940. The Austrians may be willing to return the refineries and pre-war fields to the foreign companies but, with Soviet backing, are unwilling to restore also their previous drilling rights to them. These are, however, much more important than the pre-war fields since they lie in areas like Matzen and Aderklaa, which are now the major producers while Austria's only pre-war field, Zistersdorf, is rapidly declining.

The reason why the Russians are opposed to the claims of the foreign companies are obvious: they are against any Western business interests becoming entrenched in "neutral" Austria and they have told the Austrians not to let foreign capitalists in on any of the returned properties. Apparently, the Austrians are quite willing to oblige, as Socialist Vice Chancellor Schaerf has already indicated. His party definitely expects to nationalize the entire Austrian oil industry (with the possible exception of the Western owned properties) and, according to direct information obtained by PIRINC from a top official of the Austrian Ministry of Mines and Nationalized Properties, it does not expect much opposition from the more conservative People's Party, its coalition partner in the Government. Another factor, our informant tells us, is that Western Oil companies who distribute SMOA products in Austria's Western zones are presently not too well liked in Austria where they have been accused of collaborating with SMOA in keeping oil prices artificially high by refusing to handle lower priced oil products from Italy.

If and when Austria becomes heir to SMOA's oil properties it will also inherit certain problems: Austria's refineries (which supply 95% of domestic demand) have all been built before World War II and no investment has ever been made to improve them. In fact, in 1945 the Russians stripped the refineries and fields of about \$ 9 million worth of equipment. The result is that they are today among Europe's least efficient plants and the gasoline produced by them is of a very inferior quality. Another problem is finding a suitable staff. All top administrators, engineers, geologists, etc. in SMOA are Russian nationals who will leave with the end of the occupation. Those directly below them are all confirmed Austrian Communists, probably not acceptable to Austrian industry or

Government. How to get trained experts is therefore already causing anticipatory headaches in Government circles, especially if nationalization should take place.

FRANCE: At the moment France is the only major country in Europe where at the same time the foreign trade balance is improving, production is on the increase, wages are being raised while prices show no upward trend. This is a remarkable come-back for an economy frequently called one of Europe's most obsolete. Further improvement may well be on the way now that the thorny problem of German rearmament and of the Saar is eliminated, at least for the time being, and Prime Minister Faure can apply himself more fully to the problem of modernizing the economy. In a recent interview he declared that above all the tax structure should be revised and the burdensome transaction tax (under which a tax must be paid each time a product is shipped from one concern to another, whether for resale or further processing) should be removed.

In the field of foreign trade the improvement is due almost exclusively to a sharp increase in exports to other European countries while imports remained fairly steady. As a result France has for several months now accumulated surpluses with the EPU for which she is receiving payment in gold. Improvement of France's trade position has now made possible the further liberalization of regional imports to 75% of their 1948 level. The key economic issue to watch for in the months ahead is the possibility of renewed inflation undoing the recently achieved gains. With 5% wage increases already granted in the first quarter of 1955 and the probability of higher steel prices this issue may soon be put to a test.

The current situation in the French coal industry seems to indicate that the distribution system of the European Coal and Steel Community still leaves something to be desired. While coal shortages in Germany and England (which has consultative status with ECSC) were the major bottlenecks last winter in further industrial expansion, coal piled up in increasing quantities at French pitheads despite output reduction. Coal Board officials blame this situation mainly on the increase in the use of fuel oil in France which went up by about 20,000 barrels daily to an average of over 145,000 barrels daily in 1954. To combat this inroad of fuel oil French collieries reduced their prices by 3% last October. Since this measure was apparently insufficient, an agreement was concluded earlier this year between French Coal Board officials and the Petroleum Industry Association to limit consumer fuel oil sales in 1955 to the quantity sold last year.

In the oil industry the big news is still the Parentis field. According to latest figures, production there is currently around 10,000 barrels daily but is expected to be double that quantity by fall which would give France a total crude production of about 25,000 barrels daily. Of special importance is Parentis well No.7 which is still being drilled. If oil is found there it would mean that the Parentis deposits extend much further westward than had

previously been thought. All exploratory and production work at Parentis will from now on be carried out by a new company, Esso-Rep, owned 89% by Esso Standard and 10% by the French Government.

The Parentis discovery has also spurred oil exploration elsewhere in France. Among the most active companies is Finarep (Société Financière des Petroles), a French investment firm which has French Treasury backing. Finarep will invest a total of almost \$ 3.5 million in domestic exploration activities and additional amounts in French North Africa in conjunction with various other firms. Included in this budget are \$ 2 million for a 1% interest in Esso-Rep. Most of the companies in which Finarep is investing are also eligible to receive financial aid from the French Government's Petroleum Investment Fund. Further increases of exploration activities may be expected if and when the expected new tax regulations concerning oil explorations are issued. Under these, it is believed, private companies will receive full tax relief on all exploration investment if their capital is at least \$ 2.15 million and their shares are offered on the Paris Bourse.

Recent international activities of the French petroleum industry evolve mostly around Compagnie Francaise des Petroles (35% Government-owned). CFP's latest foreign transactions include the setting up of a firm for marketing in South Africa, the acquisition of a 50% interest in the Italian firm Aquila Soc. and a minority interest in the Sociedad Nacional de Petroleos of Portugal. CFP is also planning to increase its activities in metropolitan France and is currently sponsoring the formation of a new distributing organization which will market petroleum products under the brand-name "Total".

GERMANY: May 5th, 1955 may well be considered the most important date in German history since May 7th, 1945, when Germany's unconditional surrender took place. On that date West Germany was admitted to full and equal partnership in NATO and received permission to have an army and manufacture all "conventional" weapons. Germany's new status (which does not extend to the City of Berlin) will undoubtedly bring with it new economic problems. However, these are not expected to show up in the near future.

The most important of these problems, arming the proposed 500,000 man military force, will not come up for some time since it must be preceded by a change in the Federal Constitution and many other preliminaries. When the military build-up does start its first-year budget of 9 billion D Mark (\$ 2.2 billion) will not mean much of an additional burden on the economy since at the same time the 7.2 billion DM German contribution to the Allied occupation costs will also end. However, in an economy precariously balanced at capacity production and employment any additional demand might be enough to start an inflationary trend. Actually, most manufacturers would prefer not to make arms themselves but to continue to expand their civilian goods export markets and with the proceeds import military equipment. This idea has received official indorsement in a recent speech of Chancellor Adenauer's

Foreign Secretary. The trouble with this scheme is that the increase in imports is already outstripping the gain in exports with a resulting decline in the trade surplus. The exigencies of rearmament, combined with the present high level of domestic consumption and employment, are therefore bound to cause a weakening of Germany's balance of payments position.

Meanwhile, Germany is going ahead with further liberalization of imports from the dollar area as well as tariff reductions. With the expected early issuance of a new list of freely importable items 70 to 75% of all dollar area goods (on the basis of imports in 1952) will have been freed from currency restrictions. Another factor which will bring about an increase in imports from the U.S. is the doubling of last year's coal purchases from the U.S. to nearly four million tons, mainly to meet the expanding needs of the German steel industry.

Increases in all sectors of the petroleum industry outdistanced again those in the rest of the economy during the first quarter of 1955. Crude oil production at about 58,000 barrels daily and refinery and hydrogenation plant output at about 1,860,000 barrels daily were respectively 20% and 25% above the first quarter of 1954. In the crude oil sector the main area is now the Hanover region which is currently producing slightly more than the Emsland fields. The latest official figures on German crude reserves, just released, show an estimated total of 65.4 million tons of which 47.7 million tons represent proved reserves. This is a considerable improvement over last year's estimates and, at current drilling rates would be equivalent to over 20 years' output.

Gasoline consumption in Germany which increased last year by only 12% (compared to 24% for all petroleum products) may be further affected by higher taxes for gasoline and diesel oil starting May 1st which will cause an increase in retail prices. Rising fuel prices are also worrying some German car manufacturers interested in creating a real domestic mass market for cars. They now feel that fuel costs might be a bigger deterrent to many potential car buyers than the initial cost price. Consequently, they are now bringing out very small cars (three-wheel and four-wheel types) which can do up to 100 miles per gallon. It is hoped they will attract those Germans unable to afford the operating expenses of a Volkswagen.

ITALY: Oil and party politics continue to be heavily interwoven in Italy, to the detriment of both the Italian economy and the private oil companies. There is still no saying when (or even if) Petrosud, S.A. (owned jointly by Gulf Oil & Montecatini Chemical) will receive permission to exploit its two major producing wells of light crude discovered several months ago in the Abruzzi region of the Italian mainland. The delay is, of course, tied up with the controversial Bill No. 346 which has been bottled up in the Italian Parliament since 1953. Under the provisions of this bill private domestic and foreign companies would be permitted to explore as well as exploit oil resources outside the State-reserved Po Valley (under the present law exploration rights do not automatically

entail the right to exploit any discoveries). The reason why Bill No. 346 has not been acted upon is due to the rigid opposition of the Italian State oil concern E.N.I. and its chief Enrico Mattei to the entry of foreign concerns into Italian crude oil production.

Italy's political forces have grouped in two camps around Mattei's E.N.I. and Bill No. 346. Premier Scelba and a large number of other Christian Democrats are definitely in favor of letting the foreign oil companies come in while the left-wing section of the Christian Democrats as well as the Republicans, right-wing and left-wing Socialists and the Communists are opposed to it for a variety of often contradictory reasons. Under these circumstances any new political development is likely to have a direct bearing on the oil issue.

Thus, the recent election of left-wing Christian Democrat Giovanni Gronchi as President of Italy was definitely a victory for all those elements supporting the E.N.I. and the principle of state enterprise. At the same time Premier Scelba and his group admittedly suffered a heavy defeat and President Gronchi may well call upon someone else, such as his friend and supporter Ezio Vanoni, to form the next Cabinet. Vanoni, is the author of the law establishing the E.N.I. as a state oil monopoly.

In the meantime E.N.I. is rapidly expanding both at home and abroad. In Italy it now has in addition to its huge natural gas monopoly 20% of all gasoline stations, produces asphalts, lubricants, soaps, electrical energy and (with the help of Union Carbide & Carbon and Phillips Petroleum) is building Europe's largest synthetic rubber and nitrogen plant. Outside Italy it recently bought a 20% interest in the International Egyptian Oil Co. and is reported to be negotiating for exploration rights in Spain and Argentina.

Oil has also become a lively political issue in semi-autonomous Sicily. This island has its own petroleum law which permits exploration and exploitation of resources by foreign concerns. At present a great deal of activity is going on in Sicily following Gulf's recent discovery of low-gravity crude near Ragusa where it now has five producing wells. Other firms currently exploring in Sicily are Standard Oil (N.J.) in conjunction with the Italian firm Rasiom (owner of Sicily's only refinery), British Petroleum and McMillan Petroleum.

Sicily's regional elections next June could have a direct effect on all these activities. The Communists who now control one-third of the island's assembly are already bringing in their top propagandists from the mainland and are making "oil imperialism" their main election slogan. They have been joined in this by some non-Communist groups which accuse the foreign companies of wanting to discover oil only in order to "sit" on it so as not to upset their market for Middle East oil. If the June elections should bring major gains to these various groups, foreign oil companies in Sicily might be in for a difficult time.

T H E M I D D L E E A S T

Two major political developments took place in the Middle East in the recent past; of these one had the effect of bringing more unity into this troubled area while the other added to its internal dissension. At the recent important Afro-Asian Conference at Bandung the Arab nations all acted in unison and received the conference's full indorsement on their stand on all issues. On the other hand, the signing at Baghdad of the Middle East defense treaty and its subsequent British affiliation with it has caused a sharp cleavage within the Arab League between Egypt, which is strongly opposed to any Arab alliances with powers officially committed to either side of the cold war, and Iraq which is now pushing for an extension of the new regional defense system to Pakistan and Iran.

At Bandung this conflict remained subdued and the Arab nations managed to display a more or less united front on all regional issues. Consequently, the conference, trying to avoid involvement in any intra-conferree disputes gladly indorsed their collective stand on Israel, supported Yemen's claim to the British Protectorate of Aden and exhorted France to grant independence to the Arabs of North Africa. It also gave encouragement to the often-rumored establishment of an Arab League Oil Council by voicing hope in the Conference's final comunique "that exchange of information on matters relating to oil, such as remittance of profits and taxation, might finally lead to the formulation of a common policy." Interestingly enough, no similar direct reference was made at Bandung to any of the other commodities abounding in Asia and Africa.

The occasion of the Bandung conference also gave the Soviet Union its cue for voicing official concern over "colonialism in the guise of defense" in the Middle East. In a protest, timed to coincide with the conference's opening, it accused the Western powers, in an obvious reference to oil, of wishing "to continue, in order to enrich their big monopolies, to exploit the peoples of the Near and Middle East, exploiting in a rapacious manner the natural riches of these countries" and threatens to complain to the U.N. about the new defense pacts. It does not seem that Russia's blast has had much of an effect so far. Iraq's delegate at Bandung has just announced that Pakistan would join the Iraq-Turkish-British pact within a month and Iran would follow suit by midsummer. There is little reason to doubt Pakistan's early membership in the pact but Iran's reported willingness to do likewise may well be checked by that country's treaty with Russia, dating back to 1921, under which Iran is bound not to allow any organization hostile to Russia to set up installations on its soil as a "base of operations" against the Soviet Union. In case of violation the treaty gives the U.S.S.R. the right to "advance its troops into the Persian interior." There is as yet no indication whatever that Russia has any intention to make use of the treaty if and when Iran joins the Middle East defense pact but it has been made very clear in Russia's official denouncement of this pact that it considers it a direct threat to its own security.

## MIDDLE EAST PETROLEUM DEVELOPMENTS

The most important current development in the Middle East oil industry is the general round of direct and indirect revenue increases requested, and generally obtained, by the governments of several of the main producing countries. Most of the additional revenue demands are based upon reduction of the prevailing price discounts allowed the foreign oil companies in computing the 50 - 50 profit sharing agreement between them and the Government of the producing country. The first one to cut down price discounts was Iran which was followed by Iraq late last March. Presently Kuwait is negotiating for a similar agreement with the Kuwait Oil Co. (Gulf Oil & British Petroleum) and, according to some reports, Saudi Arabia is also getting ready to ask Aramco for higher prices. The pattern of these negotiations shows again that in the matter of oil royalties the Middle East producing countries are firm believers in the most-favored-nation principle and will insist on receiving any additional benefits granted to one of their neighbors.

## MIDDLE EAST COUNTRY BRIEFS

**IRAN:** Iran recently hiked the costs of foreign oil companies operating on its territory. It did this by the simple device of raising the exchange rate of the Persian rial by 10% last February. It is estimated that the revaluation will cost the International Oil Consortium about \$3.5 million per year in additional revenues for wages and other local expenses.

However, the foreign oil companies are not the only ones to spend more money on oil operations in Iran. The National Iranian Oil Company (NIOC), which under last year's settlement is the actual owner of all Iranian oil properties as well as the country's marketer of petroleum products, is planning to spend over \$32 million for the construction of a 575 mile 10" pipeline from Ahwaz (north of the Abadan refinery) to Teheran, the country's only major petroleum market. The planned capacity of the pipeline is 40,000 barrels daily which is one-third more than the total current oil consumption in Iran. When finished the pipeline will carry all required petroleum products to Teheran, except residual fuel oil which will continue to be shipped by rail. Construction contracts for the line have already been awarded to a British and a French concern.

Another project of NIOC, recently announced by the Shah in a speech to Abadan refinery workers, is to transport NIOC's share of Iranian oil production in its own tankers in the near future. Under last year's agreement NIOC is to receive one-eighth of the International Consortium's total oil output which it is free to sell either back to the Consortium or to anyone else in the world. At present this share just about covers the country's domestic needs but by 1957, when production is scheduled to reach 600,000 barrels daily, at least half of NIOC's share will be exportable. The Shah's statement would thus seem to presage NIOC's eventual full-scale entry into the world oil market. Present negotiations between NIOC and the Japanese firm Idemitsu Kosan for long-term crude deliveries are also pointing in this direction.

IRAQ: The increase in royalties to be received by Iraq under the reduced discounts allowed to I.P.C. on crude prices has raised these prices from \$13.66 to \$14.96 per ton, at the point where the IPC pipeline crosses the border into Syria, and will give Iraq almost \$1.00 per ton in additional revenue. The agreement will bring Iraq's oil income in 1955 to just over \$200 million. In 1954 oil income amounted to \$160 million to which must now be added \$29 million paid retroactively under the new agreement. Retroactive payments for 1953 are still under discussion between the company and the government. The agreement also provides that in the future royalty payments are to be figured on the basis of prevailing world oil prices. However, the government specifically reserves the right to claim the same oil price formula any neighboring country may adopt if it is more favorable than Iraq's existing agreement.

Even more important than the reduced price discount for the Iraqi Treasury may be IPC's planned production increases which should raise output in 1955 by more than 10% over last year's daily average of about 600,000 barrels. Here are some of IPC's expansion plans: 1. It is considering bringing in the new field at Jambur, 25 miles south of Kirkuk, where a discovery well last June had a test-flow of 17,000 barrels daily of 40° gravity crude (most other IPC crude has only 32 - 36 gravity). Two additional wells are presently being drilled at Jambur and a pipeline to Kirkuk is planned. 2. It is studying the possibility of building a new deep-water terminal near the port of Fao (pipeline terminal for IPC's Basrah Petroleum Co.) to increase exports from Rumailia and Zubair fields. 3. It plans to raise pipeline capacity to the East Mediterranean by about 120,000 barrels daily and, if and when Syria gives the right of way, will transfer the Kirkuk-Haifa pipeline, presently unused due to the Arab blockade of Israel, to Lebanon. This would add another 120,000 barrels daily and bring IPC's total pipeline capacity to the Mediterranean to over 800,000 barrels daily.

What does Iraq do with its royalties from oil which have already quadrupled since 1951? The answer is that 70% of them are specifically allocated for development purposes. For the three year period 1951-56 the government is planning to spend a total of about \$420 million on development plans, outside of the regular budget to which the other 30% of oil income is allocated. For the following three years (1956-59), according to figures just released, these expenditures will be doubled to reach about \$850 million. An analysis of the plans shows that while the main expenditure during the first development plan are going into agriculture, the emphasis in the second plan is somewhat more on communications (2000 miles of new roads are to be completed between now and 1959) and industrial and power developments. These latter will include utilization of the country's natural gas resources to fuel several power stations and produce fertilizer as well as the erection of a large government-owned refinery and lubricating plant at Baghdad to meet domestic petroleum needs. A special plan has also been worked out for municipal developments throughout Iraq and further funds have been allocated, all from oil revenues, to finish the giant project to control the floods of the Tigris and Euphrates Rivers.

Iraq's ability to pay for all these plans was illustrated recently when the country repaid the outstanding balance of \$6.3 million of a \$12.8 million World Bank loan ten years ahead of time. The reason given was that Iraq feels now fully able to provide for the completion of development projects out of her own funds.

Iraq's oil riches had also affected its imports from the U.S. which last year rose by 45% to a record total of \$27.5 million. However, since Iraq is a member of the sterling bloc and sells most of its petroleum exports in Europe the bulk of its \$200 million import requirements is, naturally, coming from that area.

EGYPT: Egypt's outstanding external political problem at the moment is how to regain the prestige it lost when Iraq openly defied it by signing a defense pact with Turkey. Premier Nasser's recent rapprochement with Red China via a cotton barter deal to be followed by diplomatic recognition suggests that Egypt's strong man may try to regain the leadership position in the Arab League for his country by playing the same Neutralist role in the Middle East which has made his friend Nehru one of Asia's key figures. However, there are also some potent economic reasons for Egypt's current attempts at increasing its contacts with Communist countries. Egypt has an unusually high cotton surplus which it does not seem to be able to sell in the Western countries while Iron Curtain countries are willing to absorb some of it on a barter basis. The result are such deals as the one with Red China or the two agreements just concluded with the Soviet Union and Romania to exchange a total of \$8.6 million worth of cotton for a similar amount of petroleum. In explaining such deals Premier Nasser implied that the uncertainty of U.S. agricultural policy in regard to cotton, by causing many Western buyers to hold back, had forced Egypt to look for Eastern markets.

On the whole, however, Egypt's economic orientation continues to be pro-Western, if only by virtue of the continuing aid from the United States, Egypt's dependency on the British Treasury for releases of its blocked sterling and, above all, the country's desire for more private foreign capital. Steps to increase private investments were recently discussed at a meeting in Cairo between Egyptian officials and several U.S. business men. One of the recommendations made was to establish an Egyptian business information bureau in the U.S. to explain the country's foreign investment laws to American firms.

A more immediate source for U.S. dollars in Egypt is the recently allocated \$23.3 million of U.S. foreign aid for the current fiscal year (out of a total aid appropriation of \$40 million granted Egypt last fall). The release of the aid funds was followed shortly by a further easing of all imports from the dollar area.

An increase in trade relations between Egypt and Great Britain may also be in the offing if Egypt's request for an increase in the release of its blocked sterling from £ 10 to £ 25 million per year is granted by the British Treasury. The present £ 10 million agreement has been in force since Egypt's withdrawal from the Sterling Block in 1951.

In the economic development sector the indefinite postponement of Egypt's largest project, the new high Aswan Dam, could be the result of the recent breakdown of negotiations with the Sudanese Government on the division of the waters of the Nile. Another development project, the dieselization of the railroads, is faring better. The Government is presently accepting bids for 56 diesel locomotives to be paid out of U.S. aid funds.

The most active sector in the economy is at present the oil industry whose progress has accelerated since the beginning of 1955. In the crude oil sector the International Egyptian Oil Co. (owned by a Swiss group, Belgium's Petrofina, Italy's E.N.I., the Blair Holding Corp. and Southern California Petroleum which also handles the drilling) has now three producing wells in the Belayim area of the Sinai Peninsula, all having a flow capacity of over 1100 barrels a day. The firm also has two smaller wells at the port of Feiran, eight miles south of Belayim. Further drillings are planned at both places and by the end of the year the company's total production should be around 10,000 barrels daily, according to a Southern California Petroleum spokesman in Cairo. Shipment of the crude by coastal tanker from Feiran's marine terminal to the Government refinery at Suez has just started but will be substantially increased as soon as the pipeline from Belayim to Feiran has been completed. Another recent find in the Gulf of Suez area was made by Anglo-Egyptian Oil Fields (Shell Group) in a new extension of its coastal Ras Gharib field.

In the western part of the country there is now also some drilling activity on Conorado's 75,000 square mile concession. The operating company is Egyptian-American Oil Co. (a Continental Oil Co. subsidiary). It has been stated that Conorado intends to spend \$7.5 million for exploration in the area.

In the refinery sector there are also important developments: At Alexandria two refineries will be constructed this year: one by the Egyptian Government and the other, smaller one, by a concern financed by a local distributing firm of Caltex products, the Swiss "Ipsa" Company and the Suez Canal Co. At the port of Suez, modernizations and expansions are planned or under way at both the Government refinery and the Anglo-Egyptian Oilfields refinery. When the present refinery program is finished it will bring about a major shift in Egyptian oil imports from products to crude oil. However, Egypt hopes that if the current pace of oil development continues it can soon make sharp reductions in its total oil import volume which amounted to 40,000 barrels last year.

F A R   E A S T

Asia seems to be on an unusually tight conference schedule these days. The big Bandung conference where everybody attended was hardly over when India invited all countries receiving U.S. aid to a conference at Simla to start on May 9th. As soon as that conference closes Chamber of Commerce delegates from nine Asian nations will start conferring with their colleagues from all over the world in Tokyo at the first International Chamber of Commerce Congress held in Asia.

In a way these three conferences symbolize the problems of present-day Asia. At Bandung the note was on anti-Colonialism and the emergence of the new nations of Asia. At Simla the emphasis is on the utilization of economic help from outside Asia. And in Tokyo the business men of the West will have an opportunity to convince their counterparts in the East "that the principles of free enterprise and international cooperation are the only secure foundation on which to base the economic development of Asia." Underlying all three conferences is the fact that the focal point of the cold war lies currently in Asia. This gave Red China's Chou-En-lai his key position at Bandung, furnished the main justification for the U.S. Government's increasing emphasis on Asia in its aid program and it will, undoubtedly, bear heavily upon any decisions of the Western business men at Tokyo on investments in that part of the world.

Of the three conferences, Simla should be of most direct interest to U.S. business since it deals exclusively with U.S. non-military expenditures in East and Southeast Asia. While the total amount of non-military aid which the government proposes to allocate to that area is hardly larger than last year, \$1.45 billion against \$1.36 billion, its share in our total aid program is increased to two-thirds, thus emphasizing Washington's concern with that part of the free world. The most interesting aspect of the aid program to the countries meeting at Simla should be the proposed \$200 million regional fund which is not to be allocated to any specific country but, at the President's direction, would be used to further economic development benefitting the entire area. Whether such regional planning can be successfully accomplished in Asia appears somewhat questionable. Preliminary reports from Simla indicate that only Japan, of all the participants, shares the U.S.'s enthusiasm for the establishment of regional trade and payments organizations, patterned after the successful European models. Most of the other countries seem to be worried over getting less aid under a regional pooling program than under existing bilateral arrangements with the U.S.

FAR EASTERN PETROLEUM DEVELOPMENTS

In the Far Eastern petroleum industry the emphasis continues to be on exploration. Increased activities are currently going on in India, Pakistan, Formosa, the Philippines, Australia and New Zealand. No major oil wells have been discovered but extensions

of existing fields have been found in India, a "significant" gas show has been reported from a Burmah Oil Co. wildcat in the Beluchistan province of East Pakistan and as yet undisclosed quantity of oil and gas has reportedly been discovered in Formosa.

### FAR EASTERN COUNTRY BRIEFS

INDIA: As the economic development of India gathers momentum the problem of public vs. private investment becomes ever more prominent. It is looming behind the recently passed constitutional amendment regarding expropriation of private property, it comes through in the discussions of India's second five-year development plan and it forms the background for the nationalization of India's Imperial Bank.

The question, of course, is not one of 'either - or' but rather of how much of India's economy should be in private hands and how much should be owned and managed by the state. The constitutional amendment passed in April by a wide majority in both Houses of Parliament is regarded by many observers as the most revolutionary step taken so far in "the realization of a Socialist pattern of society" which would concentrate all major investments in the hands of the government. Briefly, the amendment transfers authority to determine compensation for any expropriated property from the judiciary to the legislature. Through this device the previous absolute and legally inforceable guaranty of adequate compensation for any expropriated property has now ceased to exist and the legislature has been made supreme in fixing the compensation for property it wishes to nationalize. Within this framework the amendment also gives full constitutional sanction to any future laws authorizing the government to assume management of industries, order amalgamation in the interest of efficiency and change existing agreements in the oil, mineral and public utility sectors. Finally, it permits the establishment of state monopolies. Previously, all such actions would have been ruled unconstitutional by Indian courts.

The amendment was introduced by Prime Minister Nehru himself who declared that India was too poor to pay "the market rate for properties acquired for large-scale reform." To opponents of the bill who expressed fear the new amendment might scare away private foreign investors Nehru said "nothing could be farther from the intention of the bill than in any way to injure foreign capital or business interests in India" and that it was intended mainly to break up large land holdings and speed social reforms. He also rejected categorically a Communist suggestion that all foreign capital be immediately expropriated without compensation, declaring "even the Soviet Union will never do it." According to reports from New Delhi the Indian government also wishes to overcome any unfavorable reaction created in the U.S. by the amendment and is considering the possibility of expressly guaranteeing all U.S. investments in India against expropriations.

An examination of India's second five-year plan (1956-61) tends to confirm Nehru's claim that private capital has an important part to play in the development of India despite the increasing emphasis on the public sector of the economy in the new plan. Since the private sector was fully able to meet its investment target under the previous plan, while the public sector lagged way behind, it will be encouraged by the government to double its target to \$5.2 billion of new private investments during the next five year. It will be helped in reaching this figure by the recently established Industrial Credit and Investment Corporation of India with an initial capital of \$35 million subscribed by private investors in India, the U.S. and Great Britain as well as the Indian Government and the World Bank. Private industry - foreign and domestic - will also benefit from certain tax exemptions expected to be approved soon by the legislature. The most important of these is a "development rebate" on the installment of new machinery. This would permit businesses to deduct depreciation allowance at a higher rate and up to 125% of the cost of the new equipment. Another proposal, of special interest to foreign firms, is a limited tax exemption for foreign technicians privately employed in India.

Government-owned industries will expand mostly in the basic industry sector under the new plan. They will include a one-million ton steel plant to be built by the Soviet Union, a major plant for heavy electrical equipment, plants for machine tools, for DDT, for agricultural equipment, etc.

The government is also planning to enter the oil and petrochemical industries by establishing, with foreign capital participation, a synthetic fuel plant which would utilize local coal deposits for the manufacture of gasoline and other fuels as well as chemicals. Other proposed activities in India's oil sector were recently revealed by the Minister of Production who stated that the Government would set up its own department for oil survey and exploration. This latter activity is probably prompted by the Assam Oil Co.'s (a Burmah Oil subsidiary) recent find of a fourth well at its Nahorkatiya field and the eastward extension of the older Digboi field. Government spokesmen believe that the two fields may be able to supply up to 25% of the country's crude oil requirements. In 1954 these amounted to somewhat over 80,000 barrels daily.

Important developments are also taking place in the still completely privately owned refinery sector of India's oil industry: Assam Oil's Digboi refinery, recently expanded to 7000 barrels daily, may now be further increased to an 11,000 barrels daily capacity to accommodate the increased domestic crude oil supply; Caltex's refinery under construction at Visakapatnam, on India's East Coast, will have a capacity of 13,500 barrels daily instead of the previously announced 11,000 barrels daily; Burmah-Shell's new 40,000 barrels daily refinery on Trombay Island, near Bombay came on stream late last February and is now operating mainly on Middle East crude.

The 3000 workers employed in these three refineries and at Standard-Vacuum's plant at Bombay are presently subject of a labor union organizing campaign which is partly financed by the newly established International Federation of Petroleum Workers whose world headquarters are in Denver, Colorado.

Indian foreign trade officials have expressed hope that the new and expanded refineries plus the recent oil finds will eventually bring about enough of a reduction in the country's oil imports, which now hold first place in India's import trade, to eliminate India's international trade deficit. In 1954 oil imports amounted to about \$ 182 million while the total excess of imports over exports stood at \$ 61 million.

### 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

An examination of recent East-West trade in oil and coal reveals that these two major exportable commodities of the Soviet Bloc are now moving in opposite directions. Recent agreements for Polish coal deliveries to Western Europe are almost all substantially below those of the preceeding period. The reason for this is generally not to be found among the West European purchasers who, at the present high level of economic activity, are in need of all available energy sources at acceptable prices. It seems rather that Poland (and also Czechoslovakia) is experiencing production difficulties in its mines plus a higher domestic rate of consumption and is unable to supply Western Europe with as much coal as in the past. It has therefore both curtailed deliveries and also raised its price (between \$ 1.00 and \$ 2.00 per ton above 1954). Furthermore, Poland has not even kept delivery terms on previously contracted shipments.

There is a potential significance in this trend for the Western European fuel economy which had come to rely on Poland to supply a small but essential part of its coal requirements. With Western Europe's inability to raise the level of its own coal production above pre-war, the drying-up of this supply source would certainly add to the region's increasing shortage of its traditional major energy source.

Oil exports from the Soviet Block, on the other hand, are presently on the increase. In 1954, Black Sea exports of Russian and Romanian oil to Non-Communist countries were in the order of 94,000 barrels daily, or about 22% above 1953 exports. In 1955 this figure is expected to reach about 120,000 barrels daily. According to some estimates, one-third of last year's total exports to the West came from the Romanian port of Constanza while the rest was of Russian origin. The significance of these exports to either Western Europe or Russia and Romania lies mainly in the upward trend of these figures. In actual quantities they represent only

about 5% of Western Europe's total inland consumption and 7% of Russia's and Romania's combined crude output. However, unlike Polish coal, Soviet Block oil sales are actively solicited at Western markets at present. This ties in with current reports of increases in Russian crude production, particularly in the Bashkirian and Tatarian Republics in each of which output by the end of this year is expected to equal that at Baku (340,000 barrels daily), still Russia's major oil field.

#### TRADE AGREEMENTS AND OTHER ARRANGEMENTS INVOLVING SOVIET BLOCK OIL EXPORTS

Egypt has signed a barter deal with the Soviet Union in April under which it will ship \$ 4.75 million worth of cotton and cotton yarns to the Soviet Union against Soviet gasoline and kerosine shipments in the same amount. A similar agreement involving an exchange of \$ 3.9 million worth of goods each way was concluded at the same time with Romania.

France signed an agreement at the end of last December with Romania for petroleum imports throughout 1955. Quantities to be delivered are as follows: avgas 3,000 tons; gasoline 110,000 tons; fuel oil 80,000 tons; unrefined petroleum coke 5,000 tons; calcined petroleum coke 5,000 tons. France will also receive 10,000 tons of Polish gasoline and benzol in the first 11 months of 1955.

West Germany has signed a trade agreement with Romania for \$ 5 million worth of Romanian petroleum imports (25% more, in value than provided under the previous annual agreement) to be delivered in 1955. West Germany has also contracted for \$ 2.6 million worth of benzine and tuluoil and \$ 220,000 worth of fuel oil from Poland for the period January 1955 - June 1956.

Israel has contracted in April for delivery of 118,000 tons of fuel oil and 50,000 tons of crude oil from the Soviet Union. This is in addition to the 250,000 tons of Soviet oil contracted for last November.

Italy has signed an agreement with the Soviet Union early in 1955 for purchase of 513,000 tons of crude oil to be paid for with Italian tanker tonnage and drilling equipment. Negotiations for similar arrangements are reportedly under way with Romania. Italy is also currently receiving some Russian fuel oil (7800 tons of it, coming from Odessa, were unloaded at Genoa last March). Further quantities of Soviet Block oil will be available to Italy under a \$ 2.6 million trade agreement signed several months ago with Albania which provides, among other things, for 25,000 tons Alabanian crude oil imports.

Sweden was the most recent country to sign an oil purchasing agreement with the Soviet Union. The contract, signed on April 22, calls for the delivery of 600,000 tons of Soviet oil products in 1955 with the provision that this quantity may be increased by

Sweden if necessary. The quantity agreed upon is below last year's total shipments of 900,000 tons of Soviet oil to Sweden. However, Swedish officials expect to make use of the provision for increases to bring the total for 1955 to about 1 million tons.

Yugoslavia was reported to have signed a trade agreement with the Soviet Union in March under which it will receive 140,000 tons of crude oil and 5,200 tons of avgas. Other Iron Curtain country shipments to Yugoslavia will include 70,000 - 140,000 barrels of crude oil from Bulgaria (in exchange for 85,000 barrels of Yugoslavian gasoline) and 7,000 barrels of transformer oil from Poland.

### IRON CURTAIN COUNTRY BRIEFS

ALBANIA: A recent radio broadcast from the Albanian capital Tirana stated that crude oil production in 1954 was 17.5% higher than in 1953. No actual production figures have been reported since 1951. However, on the basis of the announced annual increase since then, production in 1954 is estimated to have reached almost 4000 barrels daily. The official plan foresees a further increase of 8.2% for 1955 which would bring production to around 4300 barrels daily. The much lower rate of increase in 1955 as compared to previous years seems to indicate that capacity production is about to be reached in Albania. The broadcast also announced that gasoline production had increased by 20% in 1954. This is probably due to a slight increase in the capacity of the country's three topping plants which now have a total output of 600 barrels daily. The country's first refinery is presently under construction at Cerrik. It will have a capacity of 3000 barrels daily and will be completed, according to an official announcement from Tirana, during the current year. Meanwhile, most Albanian crude which is of low gravity will continue to be refined in Romania and Italy.

ROMANIA: It was officially announced in Bucharest in April that a liquefied petroleum gas pipeline has just been completed between Ploesti and Bucharest and that a liquefied petroleum bottling plant in Bucharest was about to be completed. According to the announcement, the new pipeline will insure the uninterrupted supply of LPG to Romania's capital at all times.

Other Information about the Romanian oil industry is contained in a speech delivered on March 11th by Minister of the Oil Industry Ion Dumitru over the Romanian Radio. The minister stated that in the past year the oil industry succeeded in increasing labor productivity in its extraction sector by 2.4% above the target set. Increased attention was given to the organization of the "production process .....(this) enabled certain oil fields to increase production". The minister praised the management of the No.3 Trust in Ploesti for "establishing the best methods of operation" by such devices as "level measurements with the Yakovlev apparatus, bottom control and investigating oil wells dynamometers". On the other hand he criticized the management of the Trust at the Moldava field for not giving "proof of the same thoroughness".

The increase in labor productivity, in the minister's view, is due "especially to the expansion of secondary recovery operations and of pressure maintenance by injection of water and gases into the oil layer. This resulted in an increase of approximately 9% in the total output of crude oil".

The operation time of oil wells between repairs has also been significantly lengthened, according to the minister, through the extensive use "of rivetted casings, chromium-plated pistons, and the vibrator separator at the oil wells". The cost of crude oil extraction was reduced by 1.89% in 1954. However, not all fields joined in this improvement and some actually exceeded planned costs, said the minister. The reason for this was an excessive consumption of liners, pumps and spare parts in those fields.

In the drilling sector successes have been achieved mainly "by the large-scale application of advanced Soviet methods such as rapid drilling, drilling with water, turbine drilling and the moving of derricks without first dismantling them."

The minister noted, however, that despite these "outstanding successes .....the planned cost of drilling per meter was not achieved, (largely) because drilling equipment is kept in excess of the time planned for the drilling of the oil wells."