

WORLD BUSINESS

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DEVELOPMENTS OF INTEREST TO THE PETROLEUM INDUSTRY

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THE GENERAL SITUATION

Current economic trends in Latin America, as usual, do not clearly point in one direction. Countries whose chief earnings are derived from the sale of oil, iron ore or copper have at their disposal an expanding world market with stable or rising prices. On the other hand, agricultural commodities which account for the major share of Latin America's world trade must generally be pushed in markets characterized by oversupply and dropping prices. The one big exception to this is coffee, Latin America's biggest export commodity. Coffee exports have sharply increased by volume and unit value since late last year, compared to the same period a year ago. However, there are now strong indications that the brief coffee boom is about over, in view of the replenishment of stocks in the U.S. and the rise of the coffee surplus in Brazil. Colombia and Central America may still find a ready market for their type of coffee for some time since their crop was hit particularly hard by last year's heavy rains, thus creating a shortage, but unless Brazil and the other coffee producers make a concerted effort to keep the expected new coffee surpluses off the world market (by means of the still controversial international coffee agreement, recommended by the Intern American Economic Council) a price decline seems in the offing.

The prospects are even worse for the area's cotton producing nations: Peru, Mexico, Paraguay and, to a lesser extent, Brazil, Nicaragua and El Salvador. In the first three of these countries, cotton is the chief source of foreign exchange earnings. Cotton has been selling in a declining world market for some time now. But, in the view of these countries, any chance for a revival of the cotton market has been spiked indefinitely by the U.S. government's recent announcement that it would dispose abroad of its huge cotton surplus at competitive world prices (which are below domestic support prices). The action has had political and economic repercussions throughout Latin America. Uruguay, a non-cotton country has asked the Inter-American Economic & Social Council to investigate the effect of the U.S.'s decision on the economy of Latin America. Peru has officially protested against it and its press has unanimously labeled it an "unfriendly act" on our part. Several nations have also proposed some sort of an Inter-American Court of Economic Appeal where hearings would be held before any more "unilateral" actions of this type take place.

According to some Latin American statesmen, our cotton policy might also help the Soviet Bloc to get an economic foothold south of our border. A recent suggestion by Czechoslovakia to negotiate price stabilization deals with underdeveloped countries, even though obvious propaganda, is now falling on much more attentive ears. Many Latin countries are evidencing increased interest in selling their surplus goods to the Soviet Bloc. In Brazil, President Kubitschek has called trade with Russia "probable" while a Polish trade mission has offered to buy coffee, cocoa and minerals in exchange for heavy machinery and oil industry equipment. Chile has recently signed compensation agreements with several Soviet satellites (in each case nitrates vs. machinery). Argentina is expanding its trade agreements with Russia, under which it receives substantial quantities of oil, and has recently bought 60 twin-engined planes from Czechoslovakia and large quantities of coal from Poland. Meanwhile, Soviet trade missions are currently negotiating in Uruguay and Mexico.

Altogether, there are now some twenty trade agreements in force between Latin America and the Soviet Bloc. They call for an exchange of \$ 500 million worth of goods each year. In the past, the Soviet Bloc has proved itself unable to fulfill its part of the bargain and in 1954 actual commerce amounted to only \$ 200 million. Compared to the \$6.6 billion merchandise trade with the U.S. this is an insignificant sum but the Communist trade infiltration of Latin America has now become official Soviet policy. At

the same time, Latin America's resistance to trade with the Communist world is rapidly waning.

One way of combatting this trend - at least psychologically - is to bring home to Latin America the immense benefits it is deriving from U.S. trade and investments. A survey, currently conducted by the U.S. Department of Commerce on the activities of the 2,000 branches and subsidiaries of U.S. firms in Latin America in 1955 could be of great importance in this connection since it will for the first time measure the overall contribution of U.S. foreign investments on the economy of Latin America. The survey should help to overcome the false impression easily created by the figures in our official balance of payments which show a net outflow of direct investment capital to Latin America of only \$220 million over the past two years. Actually our contribution was considerably more since a very large part of our investment outlays, especially by petroleum and mining concerns, are financed out of undistributed subsidiary earnings as well as depreciation, depletion and other charges against income, none of which show up in our balance of payments. In 1954, undistributed subsidiary earnings (i.e. earnings not transferred to the parent company) alone amounted to more than the total net capital outflow.

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LATIN AMERICAN COUNTRY AND AREA BRIEFS:

CENTRAL AMERICA: The economic integration of the five Central American republics (Guatemala, Costa Rica, Nicaragua, El Salvador and Honduras) is making steady if unspectacular progress. At a meeting held at the end of January among the five countries' ministers of economy it was decided to draft a multilateral free trade agreement for the region, preparatory to a full customs union. At the same time the ministers proposed establishment of a Central American Commission for Industrial Development which would examine economic integration of industries considered to be of common significance to the area. Petroleum products, fertilizers, insecticides, metal piping and road transport were specifically listed as falling under this category.

The U.N.'s Economic Commission for Latin America is also advocating closer economic cooperation among the nations of Central America. This was the conclusion reached by the Commission's Committee on Central American Economic Cooperation which recently met in Nicaragua. A common market for petroleum products and a recommendation to construct Central America's first oil refinery were among the major topics at the meeting. The committee felt that if all Central American countries agreed on a common market, a regional refinery would be justified. In 1954, total oil consumption of the five countries amounted to about 14 - 16,000 b/d for a total population of about 8.5 million. If Panama, exclusive of the Canal Zone, were to join in the Common Market it would increase oil consumption by another 4,400 b/d. However, though Panama has sent an observer to the regional U.S. meeting, it has indicated no interest in the scheme.

Of much more significance than the oil market developments could be the current news from Central America's oil exploration sector. Until 1954, virtually none of the Central American republics could command the interest of foreign oil companies while at present oil news is making headlines in four of them. In COSTA RICA the Union Oil Co. of California which as a 3-million acre concession has announced the first oil strike in Central America's history. It came after Union Oil had drilled three dry wells since 1954 in the country's southeastern jungles, and incurred a total expenditure of \$ 5 million. The discovery well which yielded gas and high-gravity oil is located less than 1 mile from the Panamanian border and 30 miles from the Caribbean coast. The company is now deepening its well from 5,500 to 10,000 ft and will soon start a second boring close to

the first. It also has a concession in Panama, just across the border. If commercial oil production starts, Union Oil, under a special contract with the government, reportedly is obliged to give Costa Rica 17% of the gross production and 30% of the value of the remainder and must relinquish all but 371,000 acres of its exploration concession. A government spokesman has also expressed hope that the oil find will result in the construction of a local refinery. Meanwhile, the Costa Rican Legislature is preparing the country's first oil concession law to cope with the expected influx of other foreign oil firms.

Meanwhile in HONDURAS John W. Mecom, the Houston independent who recently made oil exploration deals with Colombia and Haiti has acquired about 14 million acres of northern coastal concessions and 36 million acres of adjacent off-shore concessions from the Compania Petrolera Hondurena, a U.S.-Honduran venture. Petrolera Hondurena which retains 15% of its former concession is now drilling its first wildcat, scheduled to go to 4,500 ft. Mecom has already announced plans for an extensive exploration program and expects to spend about \$1 million over the next 12 months. If oil is found the government will receive 25% of the net profits, under the original agreement with Petrolera Hondurena. According to press reports, another Texan, Lynn Scott Holmes of Corpus Christi, has also just applied for oil concessions in Honduras. He is said to have offered to form a Honduran firm with initial capital of \$200,000 and pay the government 25% of the net profits. In view of the increased oil interest and perhaps also spurred by the oil rush in neighboring Guatemala, the Honduran government is now considering the possibility of a new oil concession law and has begun informal inquiries on the subject.

Oil news have also come from NICARAGUA where, according to a still unconfirmed report, the British American Oil Co. is negotiating for a concession. Meanwhile, an S.O. (Cal.) subsidiary has found natural gas in the country's north-central part.

In GUATEMALA, although not a single drilling rig has yet moved in, the oil rush is already affecting the country's economy. Road contracts into the presumed oil areas have been let or are in the planning stage, business ventures hinging on oil development are being formulated and an influx of geologists searching for other minerals has been reported. In the meantime, efforts are under way to settle the many overlapping concession applications. Undoubtedly, some of the confusion results from the fact that the government expected just a handful of concerns to apply for perhaps 20 concession areas. Instead, 29 concerns requested 91 concessions. The government's inability to handle this flood of applications has resulted the moratorium on all concessions until May. After that date, the government expects to issue concessions to several additional firms.

It is not yet clear what will happen if the concession conflicts can not be worked out amicably among the various applicants. According to one authority, the highest cash bidder among the disputants would then get the lease. According to another, the government would simply make the grants "as it sees fit". This could certainly open the door for bribes, shady deals and middle men. However, the whole issue will probably soon become academic since the various parties seem well on the way to an amicable settlement before the April 20th deadline. The major area under dispute is the Peten province, bordering on British Honduras. Of equal importance is the Lake Izabal area which includes Puerto Barrios, the country's only large Atlantic seaport. The importance of Puerto Barrios lies in the fact that if oil in commercial quantities is found it will have to be exported since Guatemala itself could provide a market for only about 5,500 b/d.

Oil interest in Peten province may have been somewhat lessened by a recent dry well in BRITISH HONDURAS, just 20 miles east of Peten (which was intently watched by all Peten applicants). Gulf Oil had drilled the well to 9,000 ft after over three years of

exploration work. It plans to start another well next month 25 miles to the northeast.

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BOLIVIA: The entry of Gulf Oil into the Bolivian oil sector could mean a historic turning point for the country's economy. With declining world tin prices and a deficit in the operation of the nationalized tin mines, the country is desperately in need to diversify its exports. The recent recommendations of President Eisenhower to close the U.S. government's Texas tin smelter - the only one in the Western hemisphere capable of utilizing Bolivian tin - is bound to drive tin sales down even further. Only U.S. aid, to the tune of \$53 million over the past two years, has helped to avert what would otherwise have amounted to an economic breakdown.

Oil is therefore looked upon as the economic salvation by many Bolivians but two big factors so far stood in the way of a full utilization of the country's oil potential: (1) lack of capital and (2) Bolivia's landlocked position, a major handicap for an oil exporter. Gulf Oil now is helping to solve both these problems. Its new Bolivian subsidiary (in which Williams Brothers, Barry & Reiner and Falcon Seaboard Drilling, all of Tulsa, have a combined 20% interest) will drill for oil on the lands of the state oil agency Y.P.F.B. and will help in financing a pipeline from the Bolivian town of Sicasica to the Chilean Atlantic seaport of Arica.

Gulf's new contract has nothing to do with the recently passed oil legislation (see W.B. Jan. '56, p.10) which opens most of the country to foreign oil. For Gulf has made its contract with Y.P.F.B. and will work on the territory exclusively reserved to Y.P.F.B. under the new oil code. The conditions offered Gulf are therefore quite different and more advantageous than those applicable in other parts of the country since oil in commercial quantities is definitely known to exist in Y.P.F.B.'s reserved area (where Glenn McCarthy also has a concession from Y.P.F.B.). Gulf will pay Y.P.F.B. 30% of its net profits in form of royalties and exploitation taxes of which at least 11% will be in form of crude oil. It will also finance half of the \$ 10.5 million cost of the 201-mile pipeline to Arica, to be amortized over an 8-year period. The pipeline will have a potential capacity of 50,000 b/d but for the time being it will carry only 6,000 b/d. It is hoped full capacity utilization can be achieved by 1957 when Y.P.F.B. plans to build a 50,000 b/d pipeline from Sicasica to the Camiri oil field. The cost of the latter line is estimated at \$ 35 million and Gulf has an option to finance it too. Both pipelines will be constructed by Williams Bros.

It is hoped that the Sicasica-Arica pipeline will be completed by September 1957. Chile has already an option for about half of its original crude oil flow of 6,000 b/d while a refinery in Ecuador - presumably Anglo-Ecuadorian which has just received permission to construct a 6,000 b/d refinery - has an option for the other half. Williams Bros.' original idea to use the 15,000 ft descent to Arica for an oil-driven electric power station in Arica has been abandoned.

The new line will substantially raise the country's oil output. At present, total productive capacity from the Camiri field (whose proved reserves are officially estimated at 47 million bbls.) and the Bermejo field amounts to 13,000 b/d but actual output is only 6-7,000 b/d due to lack of outlets. Bolivia has built a pipeline to the Argentinian border in order to increase its exports to this neighbor country but is unable to utilize its capacity since Argentina has so far not made good on its promise to extend the line to the San Lorenzo refinery. McCarthy's two producing wells are also still completely shut in, due to lack of a pipeline. McCarthy is now trying to raise capital for the building of a line.

Meanwhile, Y.P.F.B. continues to increase its exports through existing transportation channels. It has just signed a new agreement with Chile under which it will ship each month 10,000 bbls of automotive gasoline to Antofagasta. A deal for a similar quantity of gasoline and kerosine has been made with Peru, with deliveries to start in June; most of the gasoline will reportedly be sold to the International Petroleum Co. of Peru. Y.P.F.B. is also exporting small quantities of oil to Brazil and Paraguay.

Y.P.F.B.'s own activities this year will consist of the drilling of 38 new wells for which a total of 11 rigs are available. It has also signed a contract with the United Geophysical Co. to survey the zone east of Camiri. It is hoped that by the end of 1956 total productive capacity will be 17,000 b/d. Last year's increase over 1954 was 59% while domestic consumption rose by about 22% to 6,000 b/d. In order to improve the inland distribution of oil products a plan to transfer a 2,000 b/d from Sucre to Santa Cruz is under consideration. This would bring needed supplies to an area currently undergoing intensive agricultural development. Eventually it is even planned to build a pipeline from Camiri to Santa Cruz.

Elsewhere in Bolivia, tentative interest in exploring the country under the new oil legislation has been expressed by Shell, Richmond Oil, Socony Mobil and the Japanese firm Teikoku Oil. These and other firms had until the end of March to make applications for concessions. The entire country, except for the Y.P.F.B. concession, is open to foreign firms. In taking out a concession these firms will deal not with the Y.P.F.B. but with the Bolivian government to whom they must pay a 50% share of their net profit. It is believed that the Northern La Paz area will be of most interest to foreign concerns.

The new oil legislation exists at present in form of a presidential decree rather than a law. But it is scheduled for ratification next August by the legislature to be elected in May.

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VENEZUELA: In 1955 Venezuela continued in its position as Latin America's most stable economy and all signs point towards a further consolidation of this achievement in 1956. With the rising demand for heavy oil, the near-certainty of new concession grants this year and the distinct possibility of a crude oil price rise it is safe to say that economic progress in 1956 will even outstrip the record achievements of last year. Basic revenues during the first half of the current fiscal year (June-December 1955) amounted to \$433.8 million, or about 23% more than the estimate at the beginning of the year. In the calendar year 1955, Creole Petroleum, which accounts for about 45% of the country's total oil output, alone paid Venezuela \$288.4 million in royalties, an increase of 21% over 1954. To a much smaller extent Venezuela is also increasing its foreign exchange income from iron ore. Last year's production of 9 million tons, mined by U.S. Steel and Bethlehem Steel, was 66% above the previous year and resulted in foreign sales of over \$50 million. At the present rate of expansion, iron ore exports might well reach \$100 million by 1957.

The high rate of dollar income is reflected in the increasing number of development projects undertaken by the government. Last year an estimated \$400 million - over 50% of the national income - were spent on development projects. Naturally, this has resulted in greater interest in the Venezuelan market by all countries which export engineering products. The U.S. is, of course, still Venezuela's number 1 supplier but though imports from the U.S. increased last year by \$ 22 million to \$556 million, our share in Venezuela's total imports is steadily declining due to European competition. This is especially obvious in the awarding of development projects which automatically

go to the lowest bidder. Of five recently awarded major projects with a total value of \$233 million, the U.S. bid unsuccessfully in all cases against European competitors.

The prize project, a \$173 million steel mill, went to Italy. This government-owned plant which will be fully completed by 1959 will have an annual capacity of 420,000 tons of steel. If the price of the Venezuelan-made steel is competitive (which is not certain in view of the relatively small - and possibly uneconomical - size of the plant) the mill could be of great significance to the foreign oil companies which currently import about half of Venezuela's total steel requirements of 500,000 tons per year.

The government is also building a petro-chemical industry and has recently awarded a \$30 million contract to a group of Italian firms for a petro-chemical complex near Puerto Cabello. Among other things the plant will produce 150,000 tons of fertilizer per year. Establishment of a natural gas pipeline network is another current government project. The Venezuelan Development Corporation hopes to include the preliminary expenditures for this project already in its 1957 budget.

Of course, the biggest expenditures continue to come from the oil sector. Creole's budget for 1956 amounted to \$ 187 million while Shell has upped its new budget by 47% over last year to \$156 million. Creole's budget includes provisions for the expansion of the Amuay refinery to 300,000 b/d while Shell is increasing its Cardon refinery to the same capacity. Both companies are also building plants and pipelines to increase the use of natural gas in Venezuela in order to free more fuel oil for export.

Other developments in the Venezuelan oil sector are still overshadowed by the pending award of new concessions. However, there are no significant additional news on this subject since the official announcement early this year and the subsequent information that bidding on new concessions would stay open indefinitely. According to preliminary information, the originally expected invasion of new European oil interests into Venezuela will not take place. The reason is the lack of capital among all but a few of the top producers but most of these are partly government-owned which automatically excludes them from Venezuela. The Belgian concern Petrofina, a German concern, a Spanish group and the Teikoku Oil Co. of Japan have expressed interest in obtaining concessions but only Petrofina seems likely to have the financial resources to follow through.

Meanwhile, exploration activities are continuing in several areas. At Barinas, Sinclair has now brought in nine wells and is drilling two more. All wells are shut in pending the construction of transportation facilities. Sinclair is now considering a 238-mile pipe-line from Barinas to the Caribbean Sea in view of the field's large reserves, estimated provisionally at from 66 to 183 million bbls. Exploration activities are also reported from the Amacuro Delta where two major companies are said to have become favorably impressed with the oil possibilities.

Recently released figures for Venezuelan oil exports in 1955 show a slight shift from Western to Eastern hemisphere shipments for both crude oil and products, compared to 1954:

	<u>CRUDE EXPORTS</u>				<u>PRODUCTS EXPORTS</u>			
	<u>1</u>	<u>9</u>	<u>5</u>	<u>4</u>	<u>1</u>	<u>9</u>	<u>5</u>	<u>5</u>
Western Hem.	487,029	92.1%	541,650	91.1%	97,535	77.5%	109,200	74.2%
Eastern Hem.	41,622	7.9%	52,758	8.9%	28,371	22.5%	37,918	25.8%
	<u>528,651</u>	100.0%	<u>594,408</u>	100.0%	<u>125,906</u>	100.0%	<u>147,118</u>	100.0%
	(all figures in thousands of bbls.)							

The reason for the greater share of sales to the Eastern hemisphere lies in the great demand for fuel oil in Europe as a result of the decline in coal production relative to demand. The following two tables show the sharp increase for both crude and refined oil in the United Kingdom and Continental Europe. The decline in products shipments to Asia, Australia and South America is due mainly to the coming on stream of local refineries in all these areas which at the same time brought about a rise in crude oil sales. Of course, as far as the refined products alone are concerned the picture is not really complete without the exports from the Dutch West Indies' refineries, figures for which are not yet available. But taken together the figures in the following tables show clearly that Venezuela is in the process of regaining a share of its former markets in Europe.

V E N E Z U E L A N O I L E X P O R T S

(thousands of bbls.)

DESTINATION:	C R U D E			P R O D U C T S		
	1954	1955	Change (%)	1954	1955	Change (%)
U. S.	129,183	140,444	8.7	43,270	59,422	37.3
Canada, Newfoundland	58,068	67,553	16.3	4,192	4,665	11.3
Dutch West Indies	264,599	276,021	4.3	20,010	17,843	-10.8
Caribbean, Central Am.	15,868	19,775	24.6	6,634	9,352	41.0
South America	19,311	37,857	96.0	23,429	17,918	-23.5
Australia, New Zealand	298	372	24.8	720	301	-58.2
Asia	3,663*	464*	-87.3	4,462	1,506	-66.3
Africa (incl. Canaries)	3,740	3,056	-18.3	5,232	7,886	50.7
Continental Europe	23,130	34,873	50.8	11,535	15,323	32.8
United Kingdom	10,791	13,993	111.5	6,422	12,902	100.9
	<u>528,651</u>	<u>594,408</u>	<u>12.4%</u>	<u>125,906</u>	<u>147,118</u>	<u>16.8%</u>

*Israel was the only Asian country to receive Venezuelan crude in 1954 and 1955.

The decline in crude shipments to Asia was therefore due only to Israel's partial shift from Caribbean to Soviet Bloc oil.

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BRAZIL: Brazil's current economic situation was succinctly summarized by President Kubitschek last month as "disastrous". According to his statement, the nation's economic progress is now supported mainly by foreign investments. The president also acknowledged that so far he had not been able to halt the inflationary price spiral. Coffee exports, the nation's main income source, are currently moving fairly satisfactorily and certainly at a much higher level than last year but the accumulated surplus is not being reduced and will, in fact, be augmented by the expected surplus from this year's crop. This in turn could bring about another price decline.

The government hopes to combat inflation mainly by measures designed to cheapen food prices at the source and in the market. This would mean subsidies, guaranteed minimum prices and foreign exchange priorities for agricultural equipment imports. The danger is that this additional outlay of money, together with an announced \$200 million salary increase for all army and civil service personnel, could further increase money circulation and price rises.

However, there are also some positive aspects to the economic situation. The most important of these is the fact that Brazil ended 1955 with a substantial foreign trade surplus, compared to a \$75 million deficit in 1954. The main reason for the reversal was

was the sharp decline in imports following severe foreign exchange restrictions. Imports from the U.S. were particularly affected, dropping by almost 50% from the 1954 high of \$453 million. Indications are that the favorable trade balance has continued throughout the first quarter of 1956, albeit at a heavy sacrifice to Brazil's industrialization which is being seriously retarded by the cut in imports. An increase in imports could result from the planned extension to other European countries of the multilateral payments agreement concluded last summer between Brazil, Germany, the U.K. and the Benelux countries. This "currency club" makes it possible for Brazil to use foreign exchange earned in one country as a means of payment in any of the others. Extension of the currency club might further reduce the U.S.'s share in Brazil's total imports, following its decline from 32% to 22% between 1954 and 1955.

Another positive factor in the Brazilian economy is the increased interest shown recently by foreign capital, especially Germany. Krupp, Siemens, Mannesmann and several other major industrial concerns have advanced concrete and detailed plans for building up the country's machinery and heavy equipment industry. From the U.S. comes word that American & Foreign Power expects to spend \$200 million in foreign exchange over the next five years to increase the country's electric production. The U. S. has also given three substantial loans - via the Export-Import Bank - to the new government. One was for \$35 million to expand the Volta Redonda steel plant, one for \$20 million (to which private U.S. interests added another \$5 million) to finance railroad construction and the third, a \$4 million loan, went for expansion of Brazil's iron ore output. The Bank is expected to give Brazil a further loan in the near future to refund its various previous loans for which Brazil must now pay \$80 million annually in principal and interest.

The government's planned foreign exchange reform which would abolish the present multiple exchange rate system has still not got off the ground. According to several reports, nothing will be done about it while coffee exports remain favorable. Meanwhile, the government's other project related to foreign trade, a revision of customs tariffs, designed to increase the country's revenues, has now been presented to Congress.

Pres. Kubitschek's philosophy that "remunerative economic expansion" is the only answer to inflation, should have a direct effect on Brazil's oil consumption. True, the extremely sharp cut in car imports last year (17,500 compared to 43,000 the year before) as well as in domestic assembly of cars and the further restrictions on vehicle imports imposed in 1956 may cause a temporary levelling-off in gasoline consumption (last year's rise was 4%, compared to nearly 10% for all oil products). On the other hand, the number of Brazilian vehicle production and assembly plants is steadily rising and should soon make up for the lower imports. Consumption of other oil products should increase in line with the expected further expansion of building and industrial activities. Available foreign exchange, rather than demand, is therefore likely to set the upper limit to the country's oil consumption in the near future. In 1955 oil imports required foreign exchange outlays of \$294 million, equivalent to 17% of the country's total imports. Only ten years earlier it had been no more than 5% of total imports.

However, efforts to make Brazil self-sufficient in the output of refined products are making rapid progress. Total refinery output supplies currently about 60% of the country's inland consumption of some 180,000 b/d. This share will increase considerably when the 15,000 b/d addition to the big Cubatao refinery is completed and the Manaus refinery comes on stream, sometimes this year. Extensions of the Mataripe refinery and still tentative plans to build a 60 - 80,000 b/d refinery at Rio de Janeiro should bring the total to over 200,000 b/d by 1960, the official goal set by Pres. Kubitschek. Brazil will also soon be self-sufficient in lubricants and asphalt and expects to have an export

surplus in turpentine, now produced at the Cubatao refinery. Other petrochemical plants at Cubatao will be built by the Borden Company and by Union Carbide while a U.S.-Brazilian concern is to build a large carbon black plant near Santos. Petrobras, the state oil agency, is also about to take delivery of its first two liquid gas tankers which will ply between Gulf ports and Brazil. They will be an important factor in Petrobras' current drive to popularize LPG consumption.

Improvements are also expected in Brazil's crude oil sector. At present, total production, all from the Bahia fields, runs around 7,000 b/d but it is hoped that the 14 exploratory wells scheduled to be drilled in Bahia will increase output to 25,000 b/d by the end of the year. In addition, the Amazon valley will be the scene of nine well drillings this year, all in the vicinity of the Nova Olinda discovery well. In Nova Olinda itself a powerful pump is soon to be installed "to run a final test for ascertaining the oil possibilities of the well.....which does not have sufficient pressure to make the oil flow", according to Col. Janary Nunes, Petrobras' new chief, who also quoted technicians as claiming the discovery well hit the border of an oil structure and that the next two wells would be located in its center. A total of four other wells are scheduled for the South Parana and the North East Coastal Basins. In the latter area a current test at Rio Grande do Norte is said to have revealed "substantial oil evidence", according to press reports. Petrobras also hopes to utilize its shale oil deposits in Sao Paulo state, estimated at 3 billion bbls. An experimental oil-shale retort plant was recently completed.

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CHILE: The sustained high world demand for copper has brought about a very marked improvement in Chile's international payment position. An even sharper improvement can be expected in the future as a result of the decision of the country's two major copper producers to tie their prices for U.S. copper sales to quotations at the London Metal Market. Prior to this, sales to the U.S. had been made at substantially lower prices than to Europe. At least 60% of the price increase will go to the government in form of taxes. On the basis of the new price system the Chilean minister of the economy has estimated that copper exports in 1956 will amount to at least \$550 million, compared to \$380 million last year and \$453 million in 1952, the best year on record so far.

The improved economic situation is giving the country a chance to put into practice some of the recommendations made recently by the U.S. consulting firm Klein-Sachs which made a study of the country's economy at the request of President Ibanez del Campo. The president has already raised the interest rate of commercial banks to 16.5% and has put through Congress a bill designed to hold the line in wages and prices, in line with Klein-Sachs' recommendation for a deflationary policy. A free foreign exchange system, with rates fluctuating only in accordance with supply and demand for the peso, has also just been announced. It will be the first time in 25 years that the country's currency is unfettered by government control. A \$75 million exchange stabilization fund, financed by the International Monetary Fund and the U.S., will support the newly freed peso. Klein-Sachs has also inspired an anti-monopoly bill currently before Congress. It is not known whether the bill would do away with ENAP, the government oil monopoly.

Chile's improved foreign exchange situation is helping the foreign oil industry in collecting its trade arrears. At the end of last June these amounted to \$9.3 million. The minister of finance has now submitted proposals to the Congress for paying \$7.3

million at the exchange rate ruling at the time the oil was imported. The balance and other current commitments will be paid in monthly installments of \$450,000.

Meanwhile, Chile's crude oil production increased to a daily average of 7,060 bbls. in 1955, or almost 50% above the 1954 average. Since November 1955, production averaged 8,500 b/d. The activities of the Santa Fe Drilling Co., under contract with ENAP, are largely responsible for the increase. It is expected that production will soon reach 10,000 b/d.

Consumption is also bound to rise sharply. The vastly increased activities of the big copper companies (Anaconda alone expects to spend over \$100 million on expansion projects and Cerro de Pasco is entering the country for the first time with an initial investment of \$50 million) and the building of a large government copper smelter are sure to bring about an increase in the country's fuel oil consumption - 6 million bbls in 1955 - since over 2/3 of it is used by the copper and nitrate companies. Total consumption of all oil products last year amounted to 12.8 million bbls., an increase of 6.8% over 1954. This year's increase should be larger, especially for fuel oil which registered no rise between 1954 and 1955.

ENAP's refinery at Concon which operated somewhat sporadically throughout 1955 as different units came on stream is expected to provide about 5.6 million bbls of the oil products in 1956. The refinery's yields should supply about 90% of total gasoline consumption, 20% of kerosine consumption, 60% of diesel oil and 20% of the nation's fuel oil demand. According to Chilean estimates, the refinery will save the government some \$4 million in foreign exchange in 1956. In addition, it will serve as a supply source for a new LPG bottling plant. The construction of asphalt, paraffin and lube oil plants at Concon is now contemplated by ENAP. Tentative plans to build a pipeline from the refinery to Santiago, at an estimated cost of \$1.5 million, are also afoot.

There are no news regarding the long pending law to permit private oil companies to engage in oil exploration and exploitation in Chile. Last year, Pres. Ibanez stated that the nation should develop its oil reserves "before the atomic discoveries displace it as a source of energy" (for other similar Latin views on the necessity of speeding up oil exploration in view of the "approaching atomic age", see W.B. Jan. '56, p.2). Ibanez also expressed his belief that ENAP should be allowed exclusive rights over Tierra del Fuego, where all present oil is produced, but that foreign companies should have access to the rest of the country.

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ARGENTINA: Now that the final decision not to let any new private company enter Argentina's oil sector has been unanimously approved the big problem is how to finance the desperately needed expansion of the country's oil production in order to alleviate the heavy drain of oil imports on the country's meager foreign exchange resources. Last year's imports of 7.3 million tons (146,000 b/d) were 16% above the 1954 figure. The rapid increase in oil imports in the last three years, especially refined products which now account for about 2/3 of total oil consumption, is shown in the following table:

ARGENTINA'S OIL IMPORTS
(thousands of tons)

	<u>1953</u>	<u>1954</u>	<u>1955</u>
Gasoline (incl. avgas)	55	64	112
Kerosine	3	41	201
Gas/Diesel Oil	185	344	533
Fuel Oil	<u>2,024</u>	<u>2,172</u>	<u>2,600</u>
	<u>2,267</u>	<u>2,621</u>	<u>3,446</u>
Crude Oil	<u>3,187</u>	<u>3,678</u>	<u>3,842</u>
	<u><u>5,454</u></u>	<u><u>6,299</u></u>	<u><u>7,288</u></u>

The state oil agency Y.P.F. is now banking on the building of additional refinery installations and, even more, new pipelines to reduce these imports. Pipeline construction will be concentrated for the time being on the oil fields in the Northern Salta province. A line from this area would serve two purposes. It would open the now shut-in wells at Campo Duran and at Madre Jones where the country's biggest gusher with a daily output of 4,220 bbls of oil and 23,700 cft of gas was just found and it would permit greater imports from Bolivia which has built a pipeline to the Salta province border (see also P. 4).

On the basis of a report submitted recently to the Argentinian government by George R. Elliott, a U.N. oil expert, confirming an earlier study by the President's economic adviser Roul Prebisch, it is assumed that an expansion of the pipeline system and full exploitation of existing and known wells, particularly in the Salta and Mendoza provinces, would increase oil production from its present level of 90,000 b/d to 200,000 b/d within three years. Together with the necessary refinery expansion and drilling equipment this would cost a total of \$200-250 million in foreign exchange plus domestic expenditures of 3 billion pesos. However, according to the U.N. expert, once the installations are built they would result in annual foreign exchange savings of about \$175 million so that the entire investment could be written off in less than two years after completion.

Since the Argentinian government cannot possibly finance such a project out of its own resources, the main question is what foreign country or private firm or international institution is willing to advance the longest and lowest credits terms. The government has now officially invited tenders for eight major projects totalling \$226 million to be distributed as follows: \$95 million for pipelines (about 1,500 miles); \$76 million for drilling equipment; \$55 million for refineries and storage facilities. It claims to have received so far 36 bids from "prominent U.S. and European firms". These must be confirmed by May 15th. A government mission has now opened an office in New York and another has gone to London to discuss the various bids. It is reported that the most serious offers, all on 15-year credit terms, have been made by two U.S. and two European firms.

ANNEX

SUEZ CANAL PETROLEUM TRAFFIC

During the first two months of 1956 a total of 12.1 million tons of crude oil and products (about 1.4 million b/d) was shipped through the Suez Canal in both directions. The total was about 16% above the same period for 1955. This was steeper than the percentage increase registered between 1954 and 1955, largely due to the fact that the very sharp curtailment of North-South products shipments, following the opening and re-opening of refineries East of Suez, had about levelled off by the end of 1955. Increased North-South shipments of the Soviet Bloc also contributed substantially to the higher totals of the period. In fact, the 3.8% increase in North-South shipments over Jan-Feb 1955 is entirely due to Soviet crude oil shipments. Without these there would have been an 8.5% decline. About half of the total Soviet North-South shipments of 190,000 tons went to Egypt and the balance to Communist areas in the Far East. Other interesting developments are the virtual disappearance of West European North-South shipments (which in the first two months of 1955 had still accounted for close to 60% of all North-South shipments) and the sharp rise of U.S. and Caribbean shipments to East of Suez. The U.S. shipments consisted virtually all of gasoline while the Caribbean shipments were made up mainly of fuel oils and kerosine.

South-North oil traffic increased for both crude oil and products approximately in line with the average increases last year. Within the totals some changes took place, the most moticeable being the sharp drop of oil shipments from the Far East, compared to a steady growth of these shipments throughout 1955. Also of interest is the sharp rise in crude shipments from Quatar. These were due in part to higher takings by the U.S. However, U.S. consignments from all other Middle East countries (with the exception of Iran) were lower than for the same period of last year thus causing total oil exports to the U.S. via the Suez Canal to decline by 18%. (For statistical details see following pages.

S U E Z C A N A L P E T R O L E U M T R A F F I C

January-February
1955 & 1956

NORTH - SOUTH TRAFFIC

Products & Crude Shipments
(thousands of metric tons)

	<u>Jan. - Feb. 1955</u>	<u>Jan. - Feb. 1956</u>	<u>Rise or Decline in percentage 1955 - 1956</u>
Gasoline	137	129	-5.8
Kerosene	93	96	3.2
Gas/Diesel Oil	76	21	-72.4
Residual Fuel Oil	1	28	2700.0
Other Oil Products	9	15	66.6
	<u>316</u>	<u>289</u>	-8.5
Crude Oil Shipments	---	<u>39</u>	

Countries of Origin
(thousands of metric tons)

	<u>Jan. - Feb. 1955</u>	<u>Jan. - Feb. 1956</u>	<u>Rise or Decline in percentage 1955 - 1956</u>
Great Britain	26	4	-84.6
France	38	8	-79.0
Italy	115	11	- 9.6
Netherlands	<u>3</u>	-	-
Total Western Europe	182	23	-87.4
U.S.	48	74	54.2
Caribbean	<u>6</u>	<u>38</u>	533.3
Total Western Hem.	54	112	107.4
U.S.S.R. & Romania	76	190*	150.0
Other Areas	4	3	-25.0
	<u>316</u>	<u>328</u>	3.8

*Including 1,250 tons of oil from Poland

Areas of Destination
(thousands of metric tons)

	<u>Jan. - Feb. 1955</u>	<u>Jan. - Feb. 1956</u>	<u>Rise or Decline in percentage 1955 - 1956</u>
India, Pakistan, } Burman, Ceylon }	74	31	-68.2
British Malaya, Indonesia	2	68	3300.0
Australia, New Zealand	26	-	--
Total Far East	102	99	-3.0
Red Sea ports	56*	134**	139.3
Aden	12	1	-91.7
Persian Gulf	5	1	-80.0
Total Middle East	73	136	86.3
East Africa	74	12	-83.8
USSR (Siberia), China, Viet Minh	66	79	19.7
Other Areas	1	2	100.0
	<u>316</u>	<u>328</u>	3.8

*of which 27,000 tons went to Egypt (Suez)

**of which 119,000 tons went to Egypt (Suez)

SOUTH - NORTH TRAFFIC

Crude Oil & Products Shipments
(thousands of metric tons)

	<u>Jan. - Feb. 1955</u>	<u>Jan. - Feb. 1956</u>	<u>Rise or Decline in percentage 1955 - 1956</u>
Crude Oil	9,492	10,642	12.1
Gasoline	69	103	49.3
Kerosene	55	73	32.7
Gas/Diesel Oil	197	360	82.7
Residual Fuel Oil	320	616	92.5
Other Oil Products	46	14	-69.6
Total Oil Products	687	1,166	69.7
	<u>10,179</u>	<u>11,808</u>	16.0

Countries of Origin
(thousands of metric tons)

	<u>Jan. - Feb. 1955</u>	<u>Jan. - Feb. 1956</u>	<u>Rise or Decline in percentage 1955 - 1956</u>
Kuwait	6,972	6,932	-0.6
Kuwait-Neutral Zone	75	108	44.0
Saudi Arabia	1,029	1,091	6.0
Iran	463	1,100	137.6
Iraq (Fao)	491	725	41.7
Quatar	452	808	78.8
Bahrein	258	557	115.9
Aden	81	176	117.3
Total Persian Gulf	9,821	11,497	17.0
Egypt*	9	20	122.2
Indonesia, Malaya, Borneo	317	291	-8.2
New Guinea	32	--	--
Total Far East	349	291	-16.6
	<u>10,179</u>	<u>11,808</u>	16.0

*Mainly domestic transfer shipments from Red Sea to Mediterranean ports.

Countries of Destination
(thousands of metric tons)

	<u>Jan. - Feb. 1955</u>	<u>Jan. - Feb. 1956</u>	<u>Rise or Decline in percentage 1955 - 1956</u>
Great Britain	3,410	3,750	10.0
France	1,738	2,095	20.5
Netherlands	1,045	1,342	28.4
Italy	1,057	1,399	32.4
Belgium	290	466	60.7
Spain (incl. Canaries)	292	282	-3.4
Sweden	221	343	55.2
Germany	197	254	28.9
Portugal	141	174	23.4
Turkey	80	73	-8.8
Other Europe (incl.Medit.bases)	79	109	38.0
Total Europe	8,550	10,281	20.2
U.S.	1,426	1,168	-18.1
All other countries	203	353	73.9
	<u>10,179</u>	<u>11,808</u>	16.0