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HIGHLIGHTS

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MIDDLE EAST TENSION SLIGHTLY LESSENED

Up to now the precarious truce arrangements, laboriously pieced together by U. N. Secretary General Dag Hammarskjold, have held up and Israel-Arab tension has slightly abated. How permanent this welcome development will be is impossible to judge at this moment. Hammarskjold has received promises from both sides that they would try to control their emotions somewhat better than before in their dealings with each other and, so far, these promises have been kept and the threat of an immediate war has somewhat receded.

Yet, none of the real issues underlying the conflict have been solved or even touched upon by the Hammaskjold visit and neither the Arabs nor Israel have given any indication that they would be willing to compromise on any of them. Meanwhile, certain new developments could well undo what good the U.N. peace mission has accomplished. The most ominous of these is Egypt's recognition of Communist China, a step taken at least partly for the avowed purpose of securing an arms supply source which would not be bound by a U.N. decision to prohibit all arms shipments to the Middle East. China has indicated its willingness to assume this role and has invited an Egyptian military mission to formulate detailed proposals.

Another worrysome development is the new flare-up of anti-Western sentiment in Jordan where the teen-age king has now appointed a 33-year old army officer with outspoken anti-Western and pro-Nasser views to become chief of the armed forces. Israel's threat to divert the water of the Jordan unilaterally in the absence of any regional agreement such as the Johnston Plan is also serious since such an action would undoubtedly bring forth immediate retributions from the neighboring Arab countries which also depend on the Jordan for irrigation.

OIL PRODUCTION IN CASE OF AN ARAB-ISRAEL WAR

Middle East oil is certainly involved in the area's present crisis though it is not in the center of it and need not even be directly affected if war should break out. None of the major oil-bearing states border on Israel and their oilfields are at least 600 miles away from the potential trouble center. The possibility of an Arab oil boycott of the West if Britain, France and the U. S. should directly intervene in the struggle is almost nil. Two of the four major oil producers - Iran and Kuwait - have no official or even sentimental interest in the dispute while Iraq is tied to Britain through the Bagdhad Pact which has become the cornerstone of Iraq's foreign policy. Since the action of these three producers would rend any unilateral boycott by Saudi Arabia largely ineffective, this possibility can also be ruled out. Even more important than the political alliances is the fact that oil royalties are so absolutely essential to each of the four countries that a sudden sharp cutback - even temporary - would create chaotic conditions in their respective economies and might well endanger the safety of the governments. Thus, a true and direct economic interdependence exists between the oil-thirst of Western Europe and the cash-thirst of the Middle East.

The situation is somewhat different in the three non oil-producing countries, JORDAN, SYRIA and LEBANON through which daily about 815,000 bbls of crude oil are transported by pipeline to the Mediterranean shores. These pipelines are physically easily vulnerable since (a) they all run above ground, (b) some of them pass right through the potential combat zone and (c) the three countries which they cross do not depend on the comparatively small pipeline royalties for their economic welfare. Since these 'have-not' countries have lately shown increasing anti-Western sentiments and at the same time are becoming more jealous of their luckier neighbors' rapidly rising oil wealth, there is a real possibility that under certain circumstances they would condone a shut-down of the pipelines by 'popular' demand or sabotage, even if they are not knocked out by military action.

The most vulnerable of the pipelines is, of course, the Tapline. It is the only one to cross all three countries (which means a triple political risk) and at one point it passes within a few miles of the Israeli, Syrian and Lebanese border confluence, a likely trouble spot in case of war. If its 320,000 b/d capacity were temporarly rendered unusable it would not greatly upset the oil supply of Europe as increased shipments through other pipelines, more tanker shipments and a drawing down from the current high level of oil stocks in Europe could fill the gap.

The situation would be considerably more serious if the flow through Iraq Petroleum Co.'s lines to Banias (Syria) and Tripoli (Lebanon) also came to a halt. The Banias terminal handled about 340,000 b/d last year and the Tripoli 154,000. Since Tripoli is over 100 miles and Banias 150 miles north of Israel it is not very likely that either of the two lines would find itself in a hot combat zone. On the other hand, Syria, through which both pipelines pass, is now the weakest link in the Arab Peninsula's chain of countries, from the Western point of view. It is the Middle East's only country with a well organized Communist party (about 10,000 members) and it has made no bones about its hostility to Iraq because the latter defied strong Egyptian-Syrian-Saudi Arabian pressure and joined the Bagdhad Pact. Furthermore, Syrian popular feeling against the I.P.C. which had been whipped up to a pitch last year during the negotiations for higher pipeline royalties is still running pretty high. If the I.P.C. pipelines and the Tapline should both go dry, Europe might find itself in a predicament since these lines supply about one third of Western Europe's total oil needs of about 2.2 million b/d. However, by temporarely eliminating all Middle East oil shipments to the Western hemisphere and by putting all available idle tankers (estimated at about ten) plus the 50 mothballed T-2 tankers of the U.S. Maritime Administration into service the gap could be closed without serious disturbance of the world oil market.

In all these situation much would depend on how long the pipelines remain unusable. It is, of course, impossible to speculate on this point but it is well to remember that Western Europe would not be the only party eager to restore the flow. The above mentioned economic interdependence would put Saudi Arabia, and even more, largely landlocked Iraq in the same camp than Europe and since these are the two richest Arab countries they could exert a powerful influence on their embattled neighbors.

The situation would be very different if the Suez Canal became obstructed. At present about 1.25 million b/d of crude oil and products are shipped through the Suez Canal to Europe. This means it supplies nearly 70% more oil to Europe than the two pipelines combined. The Suez Canal is 120 miles west of the Israeli-Egypt border. It is possible but not likely that Israeli forces would overrun the Sinai Peninsula in which case the Suez Canal area would become a combat zone. Direct intervention by the major powers would almost be certain if this should happen in view of the overriding importance of the Canal as a world shipping route. An Israeli air attack on Suez or Port Said is another possibility although Alexandria and Cairo would seem to offer better targets from a military and psychological point of view. If the Suez Canal did become a temporary war victim, particularly in combination with a shut-down of the pipelines, it would mean that the 80% of Europe's oil supplies which now come from the Middle East would have to be either completely rerouted around the Cape of Good Hope (a 34 day tanker trip compared to 19 days via Suez or 10 days from the pipeline terminals) or be replaced by increased shipments from the Western hemisphere. In either case it would be extremely difficult to fill the gap and temporary oil shortages in Europe would be unavoidable.

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SOVIET ECONOMIC INFILTRATION OF THE MIDDLE EAST

Whatever the direct effect of an Arab-Israel war on the oil industry, it would probably be of a short-run nature only. However, other current developments in the Middle East, though less dramatic, may in the long run have a more serious effect on the Middle East oil industry. The most important of these is the Soviet economic infiltration. Needless to say, the Soviet Bloc will not succeed in driving the Western companies out of the area, if only for the two reasons that (1) being self-sufficient in oil it would have no market outlet for the Middle East's growing output and (2) having nowhere near the tanker fleet of the big Western oil companies it could not possibly take over the job of supplying Europe with Persian Gulf oil. Nevertheless, closer economic relations between the Soviet and the Arab world will undoubtedly help the spread of communism and at the same time create a more hostile local attitude towards the western companies. In turn this could result in strikes, threats and other disturbances all of which would tend to increase the operating costs of the companies.

At the moment the Soviet Bloc is concentrating its economic attention mainly on the non oil-producing Arab countries. Some of the new commercial treaties between Soviet countries and Syria, Jordan, Lebanon, Egypt and Yemen were already reported by W. B. last January (see p. 12, W.B. Jan.'56). Since then practically all the remaining European Soviet satelites plus Communist China have signed barter treaties with Arab countries so that trade between the two areas is likely to skyrocket in the near future. All the agreements call for an exchange of Middle East agricultural products against Soviet machinery, manufactured products and raw materials. Oil has so far been offered to two countries, Egypt which just signed a new agreement with the USSR for 100,000 tons of kerosine vs. cotton shipments and Yemen which also will receive petroleum products from the USSR. (For Soviet oil trade with Israel see page).

THE MELNIKOV MISSION

Of more immediate propaganda value than the trade agreements are the antics of the Soviet Union's Melnikov Mission which just completed a tour throughout the Middle East. Nicolai Melnikov is head of TECHNOEXPORT, the Soviet state monopoly for foreign technical aid. His mission to the Middle East, consisted of six engineer-specialists, including a petroleum expert. In numerous newspaper interviews and speeches Melnikov has expounded on his basic theme, namely that "the Soviet Union wishes to give technical help to the countries of the Near East but does not under any circumstances wish to either participate in the ownership or share in the exploitation of the projects which it will be asked to build". This emphasis on 'aid without strings' is isually followed by a contrast with Western aid which, according to Melnikov, is mainly given to increase the overseas markets of Western European countries, secure control of the Middle East's natural resources and force the recipient countries into a military alliance with the West. Payments for the Soviet aid can be made in any currency on long-term credits at nominal interest rates or in form of barter in almost any product. Melnikov's offer in Beyrut to absorb Lebanon's entire agricultural surplus in exchange for technical equipment was a striking example of the new Soviet approach and paid off immediately in a flurry of favorable publicity. (Of course, Lebanon's agricultural surplus is extremely small by Soviet Union standards and can be absorbed without the slightest effort but the offer was politically rather than economically motivated and could probably not have been made by the West whose import policy is determined by private traders on the basis of conventional commercial principles).

Melnikov who claims to be able to call on Russia's best engineers for the execution of Technoexport projects is taking home with him several offers for plants, powerstations, irrigation systems, railroad extensions and mineral prospection. He also attempted to move into the Middle East's petroleum sector by offering to prospect for oil in Lebanon. (Lebanon is now the only Middle Eastern country without foreign oil exploration). He has also submitted a concrete offer to construct Syria's first oil refinery (for Czechoslovkian offer see p. 7). "In view of the world-wide competition for this refinery the Soviet Union authorized Technoexport to offer a very low price", payable in Syrian goods, according to Mr. Melnikov. The possibility of exploiting natural gas deposits in Syria was also discussed by the mission.

THE NEW LABOR MOVEMENT

Another source of potential trouble is the nascent labor movement. Organized labor is beginning to feel its strength as the recent strikes of pipeline, refinery and dock workers in Syria, Bahrein and Aden showed. In all these strikes the motives were both economic and nationalistic. If the recently founded Pan-Arabic labor movement gains strength in the oil industry - its logical target since it is the area's only large-scale industry - more strikes of this type can be expected. By organizing an independent regional labor movement Col. Nasser, its sponsor, apparently hopes to keep both Communist and Western trade union activities away from the area and at the same time increase his own influence throughout the Arab world. The idea is similar to the Peronista labor movement established throughout Latin America by Col. Peron of Argentina. It collapsed with Peron's downfall but previously its political influence was of some regional significance. As yet, not too much is known about the new Arabian labor movement but it is obviously pro-neutralist and can be expected to publicize its claims through occasional work disturbances in the oil industry.

OIL AND THE BRITISH-ARAB TERRITORIAL DISPUTES

Finally, we must consider the latest flare-up in the long-range campaign to oust the British from their Middle East possessions. The best known example of this is, of course, the BURAIMI dispute which keeps cropping up in international conferences, newspaper headlines and the British Parliament. Saudi Arabia and Britain (the latter representing the trucial sheikdoms of Abu Dhabi and Muscat-Oman) are each at pains to deny that oil has anything to do with their respective claims but each accuses the other of being motivated by the area's alleged oil wealth. Whether Buraimi really contains oil is still guesswork. Many British geologists claim it does not. Their view was reflected in a recent statement by Foreign Secretary Selwin Lloyd. Nevertheless, since drilling rights for the area could go either to Aramco or to I.P.C., depending on the final settlement of the dispute, it is now often referred to as the "Anglo-American oil rivalry". This is also the official view of the British Labor Party whose chairman Hugh Gaitskell complained not long ago in Parliament that the "fierce opposition between British and American oil companies" was one of the main causes of trouble in the Middle East and asked the Foreign Secretary "to settle the ridiculous dispute". Saudi Arabia's recent offer to give the oil rights in Buraimi to IPC in exchange for Saudi sovereignty over the area also highlighted the oil aspect of the affair, though Britain rejected the offer as being not pertinent to the issue at stake.

The second territorial dispute concerns the island of BAHREIN. Again oil finds itself right in the middle of the argument by virtue of the island's daily oil output of 30,000 bbls and its 209,000 b/d refinery, both owned by the Texas Co. and Cal. Standard. The claimant in this case is IRAN which has protested for the past 50 years against the sheikhdom's protective agreement with Britain. These protests have now been officially revived by the Iranian foreign minister. The present sheikh of Bahrein, Sulman ben Hamid, is a staunch friend of the British and has no intention of giving up his British-sponsored independence. However, as the recent rather serious riots have revealed, he is not exactly popular in his own country and neither are his British advisers. What the Bahrein Committee of National Union which staged the riots (with Col. Nasser's support) would want to do, beyond ousting the British, if they came to power is not clear. Its sympathies seem to veer towards Saudi Arabia which also has its eye on Bahrein.

Meanwhile the dispute could lead to renewed British-Iranian friction. Iranian newspapers already started a concerted press campaign to force Britain to discuss the Bahrein issue within the framework of the Bagdhad Pact. Naturally, the sparks are being fanned by pin-pointed propaganda from Moscow. A typical example is a recent Moscow broadcast on the subject which pays special attention to Bapco and the American "exploitation" of the oil workers of Bahrein. It is reprinted in Appendix II (p.).

The last Arab-British dispute involves ADEN and YEMEN. Actually, Britian faces two separate threats in this case. In Aden proper which is a British Crown colony a group of moderate nationalists have asked for independence within the British Commonwealth. Last week, the British Colonial Secretary answered with an unequivocal no. He based its refusal on Aden's strategic and economic importance, an obvious reference to the 120,000 b/d British Petroleum refinery located there which is about to be expanded by addition of an 8,000 b/d thermal reformer to produce high-grade gasoline. The refinery maintains Aden's position as the most important refueling port for British naval units and commercial ships in the Indian Ocean. Britain's adamant position is certainly not going to end the agitation of the local self-determination movement. In fact, it is likely to strengthen the less moderate elements in the colony whose aim is a complete switch from British to Arab allegiance.

Behind Aden stretches the 115,000 square miles Aden Protectorate, a collection of small sheikhdoms under British overall protection. Most of this area is claimed by Yemen which refers to it as Southern Yemen and is agitating among its sheikhs against British rule. Yemen's recent emergence from almost total isolation, its new military pacts with Egypt, Saudi Arabia and Syria and the impending visit to Moscow of its crown prince are all designed to strengthen the desert kingdom's anti-British activities.

Yemen was particularly incensed over the recent action of the British governor of Aden to grant an exploration licence to the British Petroleum Co. on the KAMARAN Islands, just off the coast of Yemen. The Yemen foreign ministry has threatened to take the case to the International Court of Justice. The ministry also pointed out the "similarity" between the Kamaran dispute and the "Anglo-American oil rivalry" in the Persian Gulf. For, in Yemen's view, if the islands were to become Yemenite territory the oil concessions would go to the U.S.-owned Yemen Development Corp. (George A. Allen) which has a concession in the country's northeastern part. (The southern and coastal areas of Yemen are under license to the German firm Deilmann Bergbau which is about to spud the country's first wildcat at Salif, just opposite the Kamarans).

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MIDDLE EAST OIL PRODUCTION

During the first quarter of 1956 Middle East oil output was more than 12% above the same period of 1955. The major increase was recorded in IRAN whose production stands now at 68% of the 1950 level. A comparison of production for the first quarters of the two years is shown below:

	Middle East Crude Oil Output		
	Jan.-March 1955	Jan.-March 1956	Percentage Change
Kuwait	1,062,588 b/d	1,151,857 b/d	8.4%
Saudi Arabia	952,622 "	992,000 "	4.1
Iraq	658,122 "	703,120 "	6.8
Iran	264,288 "	453,296 "	71.5
Quatar	108,333 "	120,824 "	11.5
Bahrein	30,100 "	30,000 "	-0.3
Neutral Zone	20,422 "	30,000 "	46.9
Total	3,096,475 b/d	3,481,097 b/d	12.4

Further sharp increases in production from IRAN can be expected in view of the Consortium's decision to raise the output above the target set in 1954. For all of 1956, Iranian production will surpass 25 million long tons (523,000 b/d), according to a top NIOC official. This would be a 58% net increase over the 1955 average and would give Iran a royalty income of about $150 million. On the basis of April output of 571,000 b/d, this estimate could well err on the conservative side. IRAQ's output is also expected to rise as a result of the recent discovery of a new oil field by the Mosul Petroleum Co., 20 miles south of the declining Ain Zalah field. However, much will depend on the outcome of the current pipeline negotiations with Lebanon* which must be concluded before the planned expansion of the present pipeline network can be undertaken. QUATAR production is also due to go up later in the year when ten new wells will be added to the sheikhdom's thirty producing wells. Drilling for another ten wells is still under way.

Production from the Saudi-Kuwait NEUTRAL ZONE is also scheduled to increase. The Getty Oil Co. has brought in additional drilling equipment and hopes to raise output to 100,000 b/d by year end. Total reserves of the Zone are now estimated at 650 million bbls.

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* These negotiations were broken off last January when Lebanon refused I.P.C.'s offer to base royalty payments on the same ton-mileage formula that had been accepted by Syria. Under this formula Lebanon would receive annually about $2.7 million in pipeline fees while under Lebanon's own formula for a 50/50 profit split it would get $12.8 million. Lebanon has now expressed willingness to resume negotiations but its chief negotiator, state minister Sayib Salem, has declared if I.P.C. continues to insist on the principle of the mile tonnage new talks would serve no useful purpose. In this case Lebanon may revoke I.P.C.'s contractual exemption from import duties and taxes, according to Prime Minister Yafi. A new factor has now been introduced by the Tapline's declared willingness to split its pipeline net profits, estimated at $32 million annually, with Saudi Arabia and the three West Arabian countries crossed by the Tapline.

SYRIA

The most important news from Syria concerns the planned refinery which has now become the center of the East-West economic struggle in the area. Besides the offer of the Melnikov Mission (see p. 3) a very attractive offer had also been submitted by Czechoslovakia. Originally Czechoslovakia wanted to sell a finished 15,000 b/d refinery unit to Syria as a package deal. However, a group of Egyptian refinery experts, called in by the government, recommended a 20,000 b/d refinery. Subsequently, a Czech team of experts went to Syria to make on-the-spot studies and offered to expand their plant to 20,000 b/d. Besides the two Soviet offers, bids have also been submitted by Norway, Holland and the U.S.

The refinery will be an important factor in the country's economy. According to the Egyptian experts' report, Syria would save 50,000 Syrian pounds($23,000) daily if it had a refinery. The report also stated that the quantity of crude oil to be supplied by I.P.C. under the agreement of last December would suffice to satisfy domestic consumption until 1965. Total inland consumption last year amounted to about 10,000 b/d, or 12% more than in 1954. Based on a conservative annual increase, it will reach 25,000 b/d by 1960, according to a report by the U.S. embassy in Damascus.

A good part of Syria's oil products is now supplied by the new Medreco refinery (Caltex and Socony) at Sidon, Lebanon. Medreco's gasoline has an octane content of 79, compared to 64 for the gasoline from I.P.C.'s older plant at Tripoli, Lebanon. Since the average Syrian consumer is not interested in the octane content but only in the price of his gasoline, the higher-priced Medreco product is difficult to market, except when there is a temporary shortage of the Tripoli product. When this occurred last summer, charges of "imperialism" were levelled against the Western marketing companies for allegedly trying to mulct the Syrian consumer. For the first few months of 1956 this situation repeated itself due to the floods which put the Tripoli plant temporarely out of order.

Exploration activities in Syria are currently carried on only by James W. Menhall, U.S. independent (and native Syrian) who has 28 tracts of about 105 sq. miles each, scattered throughout the country. Under the terms of the agreement, Menhall must start drilling by May 26, 1956. He has now joined up with U.S. syndicate headed by the Cleveland fiancier Cyrus S. Eaton which reportedly has put up an initial $200,000 for exploration work. According to press reports, the entry of Eaton means that any oil profits would be split equally between Menhall, the Eaton syndicate and Syria. Other concerns are also showing interest in Syrian oil exploration, according to the Syrian Information Agency which reports informal inquiries with the Government by a Canadian and a German concern. A group of Yugoslavian oil experts is also reported to be in Damascus for the purpose of arranging geological tests and exploratory drilling.

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JORDAN

The proposed construction of the country's first refinery is also the major event in Jordan's economy. The plant is to be built at El-Zarka, 25 miles from the capital of Amman. It will have an initial capacity of about 4,300 b/d, to be increased to 6,600 b/d by 1957. It will receive its crude from the Tapline. A preliminary engineering study of the refinery was recently completed by the Durch firm Comprimo and an initial capital of 750,000 dinars ($2,100,000) has been underwritten by the members of the Amman chamber of Commerce. The refinery construction is part of Jordan's plan to achieve economic self-sufficiency by 1960. Other projects include a $12 million scheme for exploiting the minerals of the Dead Sea, to be financed by the other Arab countries, and the building of a new port at Acquaba with a road connection to Amman.

Exploration in Jordan is carried on only by Edwin W. Pauley who has the superficial exploration rights over all of Jordan and drilling and production rights over a total of one third of the country. The agreement with Pauley was signed last February. A complete copy of it - 18 pages long - is now available at the U.S. Department of Commerce in Washington or its New York field office. It can be borrowed for 5 days from either office. (Readers who are unable to procure a copy directly can get a photostat from PIRINC at the approximate cost of $6.00).

For the two thirds of Syria not covered by Pauley's concessions, Jordan is presently negotiating with several groups. One, a Jordanian businessman by the name of Georges Zananiri, will probably receive one third while the other third is likely to go to one of the three German concerns which applied for concessions some time ago.

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TURKEY

Turkey's economic situation continues to be very precarious. At the beginning of April total gold and foreign exchange reserves stood at about $200 million while total foreign debts amounted to slightly more than $800 million of which $435 million are of a short-term nature. The two main reasons for the country's now almost chronic economic difficulties are the over-rapid industrialization which has been going on since 1954 and the fact that many of the country's agricultural products are domestically supported at prices almost 100% above normal world market prices. This is particularly true of cotton and cereals. Through this price support policy more and more money is pumped into the economy, causing prices to rise further and accelerating the existing inflationary tendency. At the same time the government has increasing difficulties to dispose of its surpluses in view of the saturated world market in cotton and cereals. This divergent trend between the ability to export and the need to import has resulted in a merchandise trade deficit of $184 million ($497 million of imports and $313 million of exports) last year. This year a slight improvement seems to have taken place, so far, with exports somewhat higher than last year while imports remained stable. The higher exports have also enabled Turkey to reduce her commercial debts with Great Britain by $4.2 million over the past twelve months, as foreseen in the British-Turkish commercial debt agreement of 1955. At present these arrears stand at about $37 million.

Other favorable points are (1) the $55 million aid given Turkey this year by the U.S. government (although the Turks had hoped for a $300 million loan which Washington refused in view of Turkey's unwillingness to take certain recommended disinflationary measures), (2) a new German-Turkish trade agreement and debt settlement which provides for annual exports to Germany of $63.5 million over five years and a gradual reduction of Turkey's $50 million commercial arrears with Germany and (3) private investment offers for new enterprises from a number of Western countries, totalling nearly $100 million, including $30 million from the U.S.

However these are only hopeful signs. In the meantime, Turkey is still an extremely poor risk for most foreign shippers. In fact, it is probably the only country where in the recent past bona fide letters of credit could not be honored by government-backed Turkish banks when presented for payment. It also continues to have an extremely high export price level so that most European countries have found it difficult to buy from Turkey.

A very important contribution to the country's economic development is being made by the world oil industry which has been paying increasing attention to Turkey ever since passage of the revised oil law in 1955. Fourteen oil companies*, including ten from the U.S., were recently awarded 141 licenses over areas totalling 35,000 square miles. It is expected that over the next twelve months these companies will spend a total of $6 million on exploration and drilling activities. All the companies have already drilling crews at work on their concessions. Among the first activities to be reported is the drilling of a well near Luleburgaz, 90 miles west of Istanbul, by the Istanbul Natural Gas Co. in which the Ralph M. Parsons Co. of Los Angeles (which rebuilt the government refinery at Batman) has an interest. Officials have expressed hope that the well, located in Turkish Trace, will tap deposits believed to extend downward from the big Romanian oil fields to the north. The company has also found indications of natural gas at Luleburgaz. If they should be of commercial quantities a pipeline to Istanbul is planned. Drilling is also progressing at the Ramandag and Garzan oil fields, near the Batman refinery. At present these fields which are under exclusive concession to the government-controlled Turkish Nat'l Petroleum Co. produce about 4,000 b/d.

Pending a major domestic oil strike, Turkey must continue to import about 80% of her oil needs. Last year, these imports amounted to about 20,000 b/d and cost $42.2 million in foreign exchange. By comparison, total oil consumption in 1938 averaged only 420 b/d and cost a total of $201,000. This tremendous rate of increase continued up to 1954 when oil consumption was twice as high as in 1950. The only reason why there was almost no increase in 1955 was the tight exchange situation and the refusal of the major oil companies - Socony Mobil, Shell and British Petroleum - to extend any further credits to Turkey until the $40 million arrears are reduced. This insistence on cash payments is also likely to keep oil consumption in the current year below actual needs, although the U.S. Defense Department's payments for oil shipments to Turkey - $13 million so far this year - have helped to avoid an actual oil shortage.

Turkey has been able to assure itself of an oil supply of about 5,000 b/d over the next several years which will cost it relatively little foreign exchange. Under a plan to intensify Turkish-Iranian economic relations, a Turkish-financed company has been founded for the purpose of importing oil from the Nat'l Iranian Oil Co.'s Kermanshah refinery in northeastern Iran. Part of the payment will be made in form of free transit facilities for Iranian goods. The balance will be settled on a barter basis. Rail connections across the Turko-Iranian border are soon to be constructed to increase traffic in oil and other goods between the two countries still more. Turkey is also reportedly considering a barter deal for oil imports with Romania. She had also hoped to receive oil from Iraq in settlement of territorial claims against the Mosul area, ceded to Iraq after World War I. However, Iraq has now refused to recognize these claims and Turkey is studying the possibility of bringing the matter before the International Court of Justice at the Hague.

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*Jersey Standard, Caltex, Socony Mobil, Gilliland Oil, D.D. Feldman, Bolsa Chica Oil, Husky Oil, Tidewater (in partnership with Seaboard Oil and Atlantic Refining), Shell, Istanbul Natural Gas, Turkish Nat'l Petroleum, Deilmann Bergbau.

Meanwhile, the most important reduction in foreign exchange expenditures for oil imports will result from the decision of a group of U.S. and Turkish investors to build the country's second refinery. Located at Izmit near Istanbul, it will supply European Turkey where most of the oil is consumed. The new refinery will have a total capacity of 15,000 b/d and will save Turkey an estimated $15 million a year in foreign exchange, according to government sources. Total construction cost will be about $12-15 million of which two thirds are to be borne by Wm. Blair & Co. of Chicago and a Chicago bank and the balance, mostly in domestic currency, by a group of Turkish banks and investors. Together with the Batman refinery which has a capacity of almost 6,000 b/d, the new plant will fill the bulk of Turkey's oil product needs.

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LIBYA

Libya is another Middle Eastern country now for the first time receiving serious attention from the international oil industry. For Libya this is even more important than for Turkey since it is an extremely poor country even by Middle Eastern standards. It is neither self-sufficient, despite the abjectly low prevailing standard of living, nor can it rely on any significant export surplus or on providing any needed service such as transit trade or tourism. Its main source of income is derived from the U.S. and British air and army bases along the country's Mediterranean shore. These provide the major non-agricultural employment opportunity and in addition bring in about $13 million a year in direct payments from the U.S. and Britain plus an annual $8 million from local expenditures of U.S. Airforce personnel.

Like all other Arab countries, Libya too has received some tempting economic assistance offers from the Soviet Union which maintains an unusually large embassy in Tripoli. But, in contrast to most of her Arab League partners, Libya firmly rejected the Soviet offer and will continue to rely solely on the West for its economic aid.

Oil money is only just beginning to flow into Libya. Yet, its government has already received about $1.5 million in fees, rent and exploration permit grants and expects to receive an equal amount in the next fiscal year. This is aside from the direct expenditures of the companies in connection with drilling and exploration activities. Altogether, thirteen oil companies* received a total of about 93.5 million acres of concessions. The only applicant to be rejected was the Pan Coastal Oil Company, connected with the Pantepec group which is currently drilling in Israel.

Interest in Libya's oil possibilities was greatly increased by the recent oil find of the French Company C.R.E.P.S. in Algeria, just three miles from the Libyan border. C.R.E.P.S. is owned 55% by the French government concern Regie Autonome des Petroles and 35% by a Shell Oil subsidiary. Last year, C.R.E.P.S. reported the discovery of an important natural gas deposit and promising signs of oil near In Salah, about 450 miles west of the Libyan border. Its new well, Edjele 101, flowed at a daily rate of about 460 bbls of "light oil of good quality" from a depth of 1,475 ft during a test, according to a company announcement. C.R.E.P.S. has now appropriated $3.6 million to drill

*Socony Mobil, Jersey Standard, British Petroleum, Shell, Cie Francaise des Petroles, Texas Co., California Standard, Amerada, Continental Oil, Ohio Oil, Hunt Oil, Texas Gulf Producing, Caltex.

additional wells and is also building an airstrip nearby and may construct a water pipeline from the nearest water source, 40 miles away. The possibility of building an oil pipeline across Libya to the Mediterranean, if the deposit should warrant it, is also under consideration.

As a result of the Algerian discovery, the Fezzan area in Libya which had previously commanded less interest than the northern area received several bids for the one remaining open block along the Algerian border, northeast of the C.R.E.P.S. well. It was finally awarded to the Cie Francaise des Petroles in which the French government also holds a large interest. The concession directly across from the discovery well is held by Jersey Standard. There is possibility that the existence of an oil deposit so close to the Libyan-Algerian frontier may give rise to an international dispute since the borderline in this particular area has never been exactly fixed.

Prior to the Algerian discovery the main interest was centered around the Barce area in northern Cyrenaica, especially on Jruss El Abeed where eleven companies competed for 2,500 sq. km. When it proved impossible to achieve an amicable settlement among the contestants, the Government Petroleum Commission awarded the choice area to Texas Gulf Producing Co. and two other contested areas to the Conorada group and to Nelson Bunker Hunt of Texas.

The reason for this preferential treatment of the independents was explained several months ago by the Petroleum Commission in a statement printed in a Tripoli newspaper. The Commission felt that the best way to assure maximum production at the earliest opportunity was to give the geological choice areas to companies which have no production elsewhere in the Middle East, in order to prevent any Libyan oil production from ever "becoming tied to Middle East output" since such a tie could well result in a prorating of Libyan output below capacity. The Commission made it clear, however, that its decision was not to be taken as an act of hostility against the majors. "Such (major) companies have their important role in the other parts of the country which need their patience, perseverence and experience in their search for petroleum. They are to realize the far good while the Commission sought the acquirement of the immediate good also".

Texas Gulf Producing Co., the main beneficiary of Libya's oil policy, has already started its drilling activities. In order to secure the necessary capital for its venture it has given a minority interest in its Libyan subsidiary to the international investment firm W. R. Grace & Co. which will put up a total of $7.5 million.

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ISRAEL'S OIL PRODUCTION AND IMPORTS

Since the beginning of exploration activities in 1953 a total of 18 deep holes and 62 structural holes has been drilled in Israel at an overall cost of $13 million. The total depth had reached about 53,000 ft by the end of 1955. At the moment there are three producing wells in the country, Heletz I and the offset wells Heletz II and Heletz III. Heletz I is now producing slightly below 300 b/d. It has put out a total of 45,000 bbls since its discovery and has an estimated oil reserve of 3.7 million bbls within an 0.6 mile radius of the well. Heletz II came in last March and tested at a reported daily rate of 1,500 bbls. Heletz III came in at about 300 b/d. Two oil layers have been found in all three wells and Heletz III is being drilled deeper in the hope of finding a third layer. The total size of the Heletz field is now estimated at 3.9

sq. miles and the reserves are placed at a minimum of 50 million bbls.

At present 900,000 acres, or three quarters of the country's total area, are under exploration. Since the beginning of the year two new companies have entered the oil search in Israel: the Israel-owned Naptha which has an operating agreement with Husky Oil's Israel-American Oil Corp. and the Yellow Knife Power Co., a subsidiary of the Alberta Consolidated Gas Utilities of Edmonton, Canada.

So far, Israel's domestic oil supply meets only two or three percent of the country's total demand, estimated at 26,000 b/d for the current year. Oil imports loom therefore very large in the country's foreign trade. About half of them are paid in sterling currency provided under the German-Israel repr̥arations agreement. For the current fiscal year $18 million, out of a total annual reparations payment of $60 million, has been earmarked for this purpose.

A significant shift in oil imports has taken place over the last two years. In 1954, nearly 11,000 b/d of the country's total consumption of 20,000 b/d came from the Caribbean while about 4,000 b/d came from the Soviet Bloc and the balance from various other countries. In 1955 Israel's petroleum imports came from the following countries:

Israeli Oil Imports, 1955
(in barrels daily)

Venezuela	1,300	
N. W. I.	1,900	
Iran	11,900	(unofficial figure)
Soviet Bloc	7,700	
	22,800	

In other words, the sharp reduction in Venezuelan shipments (N.W.I. shipments registered an increase) was due mainly to shifting sterling purchases to Iran and nearly doubling barter trade with the Soviet Bloc. Of course, all Iranian shipments have to go around the Cape of Good Hope since Egypt still bars Israeli-destined ships from using the Suez Canal. Despite this, Iranian oil can apparently be landed cheaper in Haifa than Caribbean oil.

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MIDDLE EAST COUNTRIES TO BUILD TANKER FLEETS

Three Middle Eastern countries have recently advanced plans to build their own tanker fleets. In KUWAIT a tanker purchasing company was reported to have been formed under the auspices of the Sheikh with an initial capital of $10.3 million. Representative of the new concern are scheduled to go to London for discussions with B.P. and Gulf Oil officials. EGYPT is also planning a national tanker fleet. A recent decision of the National Production Council raised the tanker budget from $4.3 to $9.5 million and directed the purchase of two oil tankers. A government spokesman declared that Egypt was very interested in the creation of an oil tanker fleet and is currently considering offers from certain international companies to supply tankers in return for cotton. Finally, ISRAEL which is about to take delivery of its first oil tanker, an 18,500 ton vessel made in Germany, has announced plans to add a dozen oil tankers to its merchant fleet within the next three years.

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EXPORT DEALS OF THE NAT'L IRANIAN OIL CO.

The NIOC has signed a barter agreement with Egypt to barter 100,000 tons of Iranian fuel oil against Egyptian cotton. At the same time the NIOC has ceased to supply the Japanese firm Idemitsu Kosan, one of the very few firms which continued to buy Iranian oil during the British blockade. Saham Soltan Byatt, NIOC administrator declared, "our shipments of oil to Japan have been interrupted because of the insistence of Idemitsu on obtaining price reductions which NIOC can not grant. We are ready to sell our oil to independent companies but only on the basis of international prices".

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EGYPTIAN OIL CONSUMPTION

Col. Mahmoud Younes, technical councellor to the Ministry of Commerce, has declared that Egypt currently consumes about 74,000 b/d of oil. He predicted that by the end of next year Egyptian refinery capacity will be sufficient to meet all domestic needs with the exception of kerosine of which there is an excessive use in the economy. The government is now studying means to curb kerosine consumption. Col. Younes also estimated oil production from the El Balaim field on the Sinai Peninsula at 7,000 b/d by the end of this year and at over 17,000 b/d by the end of 1957. Total Egyptian oil production amounted to 34,500 b/d in 1955, compared to almost 38,000 b/d in 1954. In the first quarter of 1956 it has hovered around a daily average of 36,000 bbls.

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APPENDIX I

SUEZ CANAL PETROLEUM TRAFFIC
(JANUARY-APRIL 1956)

Total petroleum traffic through the Suez Canal during the first four months of 1956 amounted to 25,734,000 tons (approx. 188 million bbls.), or 16% more than for the same period of 1955. NORTH-SOUTH traffic increased by 8%, compared to last year, but the increase was again due entirely to Soviet Bloc shipments to Egypt and the Communist Far East which were almost three times as high as during Jan.-April of 1955. About half of the total of 500,000 tons (3.6 million bbls) went to Egypt and the balance mainly to China and Soviet Siberia. Again, all crude oil shipments to East of Suez came from Russia and Romania.

Among Free World shipments, only U.S. and Caribbean registered a significant increase. The bulk of these shipments, 2/3 of which consisted of gasoline, went to Southeast Asia. West European shipments to East of Suez have now been reduced to an insignificant quantity. Among the recipient countries of north-south traffic, the major increase, aside from Egypt, was registered by British Malaya and Indonesia. As was already mentioned, this was due mainly to higher shipments from the Western hemisphere.

SOUTH-NORTH traffic rose by almost 16% over the same period of last year. Again, while 90% of the shipments consisted of crude oil, it was the products shipments which registered the steeper increase, 62% compared to 12% for crude oil. Among the Persian Gulf suppliers, all countries except Kuwait and Saudi Arabia improved their exports with the smaller suppliers generally showing the sharpest increases. Higher shipments from Southeast Asia went mainly to the Netherlands and, to a smaller extent, to Great Britain. About two thirds of these shipments consisted of crude oil and most of the balance of residual fuel oil. Among the recipient countries of south-north traffic, Europe showed its customary increase in which almost all countries joined. Shipments to the U.S. registered a slight drop from last year while Canada which had received no oil at all through the Canal in 1955 seems now to have become a regular recipient of such shipments.

SUEZ CANAL PETROLEUM TRAFFIC

January-April
1955 & 1956

NORTH - SOUTH TRAFFIC

I. Products & Crude Shipments
(thousands of metric tons)

	Jan. - April 1955	Jan. - April 1956	Rise or Decline in percentage, 1955 - 1956
Gasoline	246	248	0.8%
Kerosene	199	216	8.5
Gas/Diesel Oil	95	50	-47.4
Residual Fuel Oil	91	49	-46.2
Other Oil Products*	18	25	39.9
	649	588	9.4
Crude Oil Shipments	---	112	

*Excluding Lubricating Oil shipments which amounted to 104,000 tons for the first quarter of 1956 and 97,000 tons for the same period of 1955.

II. Countries of Origin
(thousands of metric tons)

	Jan. - April 1955		Jan. - April 1956		Rise or Decline in percentage 1955 - 1956
Great Britain	45		8		-82.2%
France	65		9		-86.2
Italy	149		22		-85.2
Netherlands	95		1		-99.0
Total Western Europe		354		40	-88.7
U.S.	72		105		45.8
Caribbean	36		49		36.1
Total Western Hem.		108		154	42.6
U.S.S.R. & Romania		180		501	178.3
Other Areas		7		5	-28.6
		649		700	7.9

III. Areas of Destination
(thousands of metric tons)

	Jan.- April 1955		Jan. - April 1956		Rise or Decline in percentage, 1955 - 1956
India, Pakistan,) Burman, Ceylon)	117		44		-62.4%
British Malaya, Indonesia	74		97		31.1
Australia, New Zealand	54		-		--
Total Far East		245		141	-42.5
Suez	74		262		254.1
Other Red Sea Ports	68		19		-72.1
Aden	24		3		-87.5
Persian Gulf	12		5		-58.3
Total Middle East		178		289	62.4
East Africa		75		13	-82.7
Siberia, Communist China, etc		148		252	70.3
Other Areas		3		5	66.7
		649		700	7.9

SOUTH - NORTH TRAFFIC

I. Crude Oil & Products Shipments
(thousands of metric tons)

	Jan. - April 1955		Jan. - April 1956		Rise or Decline in percentage 1955 - 1956
Crude Oil		20,046		22,499	12.2%
Gasoline	107		232		116.8
Kerosene	112		165		47.3
Gas/Diesel Oil	397		692		74.3
Residual Fuel Oil	854		1,413		65.5
Other Oil Products	96		33		-65.6
Total Oil Products		1,566		2,535	61.9
		21,612		25,034	15.8

II. Countries of Origin
(thousands of metric tons)

	Jan. - April 1955		Jan. - April 1956		Rise or Decline in percentage, 1955 - 1956
Kuwait	14,345		14,329		-0.1%
Kuwait-Neutral Zone*	152		210		38.2
Saudi Arabia	2,234		2,226		-0.4
Iran	1,197		2,879		140.5
Iraq (Fao)	1,179		1,467		24.4
Quatar	1,018		1,702		67.2
Bahrein	596		1,133		90.1
Aden	268		387		44.4
Total Persian Gulf		20,989		24,333	15.9
Egypt**		39		30	-23.1
Indonesia and other Far East		584		671	14.9
		21,612		25,034	15.8

*Aminoil shipments only; Getty Oil Co. shipments are included in Saudi Arabian total.
**Mainly domestic transfer shipments from Red Sea to Mediterranean ports.

III. Countries of Destination
(thousands of metric tons)

	Jan. - April 1955		Jan. - April 1956		Rise or Decline in percentage, 1955 - 1956
Great Britain	6,899		7,672		11.2%
France	3,850		4,775		24.0
Netherlands	2,527		2,898		14.7
Italy	2,189		2,784		27.2
Belgium	647		1,014		56.7
Spain (incl. Canaries)	641		597		-6.9
Sweden	541		638		17.9
Germany	543		541		-0.4
Portugal	307		325		5.9
Turkey	134		166		23.9
Other Europe (incl. Medit. bases)	283		291		2.8
Total Europe		18,561		21,701	16.9
Egypt*		294		452	53.7
U.S.		2,559		2,476	-3.3
Canada		---		159	---
All other countries		198		246	24.2
		21,612		25,034	15.8

*Including some domestic transfer shipments, as per table II above.

APPENDIX II

PERSIAN-LANGUAGE BROADCAST OF RADIO MOSCOW'S NEAR EASTERN SERVICE, MAY 11, 1956:

"......there are few newspapers in Iran which have not mentioned BAHREIN lately. The refusal of the Western powers to discuss the present conditions in Bahrein and their open statements to the effect that they consider it their own colony have provoked the violent indignation of Iranian social and government circles. .....The most important wealth of Bahrein....is oil which has been seized by foreign firms. All the oil resources...are now in the hands of two U. S. firms, Standard Oil of California and the Texas Co. ....there are no health services for the (oil) workers. The American monopolists will not even let the workers study and qualify for promotion because they think that backward workers can be better exploited. .....As a result of this ruthless exploitation of the local population, production of Bahrein oil costs extremely little for American profiteers, that is 20¢ per barrel. They sell the oil for $2.22 per barrel thus every barrel of oil brings the American monopolists $2.00 net profit. Taking into account the fact that more than 60,000 barrels (sic!) of oil are extracted daily ......the profit of the American profiteers exceeds the enormous sum of $120,000 a day. It is this enormous profit which makes Americans preserve her domination over Bahrein.....America and Britain often use the Bahrein Islands to fight the Persian Gulf countries. For instance, in the years of the Iranian people's struggle for the nationalization of their oil industry, the monopolists, using Bahrein as a base, blockaded Iran and prevented free trade between Iran and other countries....The recent strike of Bahrein oil workers ....shows that the people of Bahrein receive not only the support of the Iranian people but of all honest individuals throughout the world who consider colonialism a stain on humanity".