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

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HIGHLIGHTS:

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E U R O P E

THE GENERAL SITUATION

The current European business boom will continue at least until the middle of the year. However, the rate of increase is likely to be lower than last year. Furthermore, the rates of growth will vary more between the different countries than they did in 1955. Great Britain will probably show the smallest increase of any major country (there might even by a net decline). Germany, on the other hand, will expand by almost as much as last year. In between will be France whose real economic expansion is beginning to level off but whose wages and prices will probably continue to climb somewhat. Among the small countries, the economic state of affairs in the Scandinavian countries and in Austria can be compared to Britain while developments in the Benelux countries are parallel to those in Germany. Only Italy and Spain have so far remained largely unaffected by the great boom and have still a substantial measure of unemployment and idle capacity. The one feature common to all European countries is the growing inflationary threat which grew throughout 1955.

American exporters will continue to benefit from the boom conditions although, again, the rate of increase of U.S. shipments will not match that of last year but the actual quantities may well be larger. For instance, U. S. coal shipments to Europe are likely to increase by 35% over last year to reach a record total of 33 million tons. However, last year the increase over 1954 had been at the rate of well over 100%. In general, the rise in imports from the U.S. will be kept lower than last year by the sharply increased dollar gap of Western Europe which at a monthly average of $ 200 million in 1955 was about twice the size of the 1954 gap. The reason for the increase lies in the higher imports from the dollar area, unmatched by an equal rise in exports to the dollar area. In 1955 the dollar gap was more than covered by "extraordinary" U.S. Government expenditures in Europe amounting to about $ 2.6 billion. But from now on these expenditures will get smaller each year, although the decline will be very gradual as long as the cold war is on.

Unless the boom really reverses itself, U.S. coal and steel shipments will take an ever-increasing share of the available dollars. Coal production of the six member countries of the European Coal and Steel Community (Germany, France, Italy, Belgium, Holland, Luxemburg) will rise by only 8.8% to 270 million tons over the next two years while overall industrial production (and with it also coal demand) has gone up by almost 10% in 1955 alone. Steel production is slated to rise by about 13% to reach 58 million tons by early 1958. Outside the Community, the situation is even more tight: Britain which has now become a net importer of coal has announced its intention to cut its remaining coal exports by about 5 million tons this year. This will mean that Scandinavian countries, Spain and other traditional British coal purchasers will have to switch to more expensive U.S. coal as well as to more oil imports. A temporary additional factor is the extreme and prolonged cold spell which depleted a large part of Europe's accumulated coal stocks.

Electric power will continue to be among the most rapidly growing users of coal and oil. Last year the 16 members of the Organization of the European Economic Cooperation(O.E.E.C.)spent $ 2.5 billion - 7% of their gross capital formation - on power production and distribution. According to an O.E.E.C. study, power consumption will grow by about 6% per year over the next five years. The bulk of the increase will come from convential-type thermal stations.

In the field of peaceful atomic energy, the controversy between EURATOM (see W.B. Nov.'55 p.3) and the O.E.E.C. plan continues to hold the spotlight. Briefly, Euratom is a plan for pooling atomic energy resources,capital and knowledge after the pattern of the Coal & Steel Community. Like the Community it would involve delegation of sovereign powers to a supranational authority which would provide for:

(1) A monopoly of fissile material which would be leased to the six member countries.
(2) A common market for material, equipment, services and personnel.
(3) Building and operation of a plant for the "enrichment" of uranium.
(4) Joint research in atomic science.

In addition, it has been recommended that the six countries refrain from producing atomic weapons (but not from purchasing them). At present Euratom has the full backing of most major non-communist parties in Europe. It has also the blessing of President Eisenhower. Opponents to Euratom fear that the Common Market would result in discrimination against all outsiders. Incidentally, Euratom planners would also like to see the Common Market idea extended to conventional energy, including natural gas and crude oil. Blueprints for such a scheme were examined in mid-February by the six countries.

The O.E.E.C. plan forsees merely voluntary cooperation among its 16 member countries without delegation of authority. This plan is favored by the British. The O.E.E.C. is also interested in closer cooperation among its members in the field of conventional energy. Its new energy commission is currently engaged in a complete appraisal of conventional energy supply and demand for 1960 - 1975. Incidentally, both plans for pooling atom resources have moved a lot closer to reality as a result of Pres. Eisenhower's recent announcement that 44,000 lbs of uranium would be made available to foreign countries.

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EUROPEAN PETROLEUM DEVELOPMENTS

The Oil Committee of the O.E.E.C., under the chairmanship of J. Angus Beckett of Britain, is currently also undertaking several studies as part of the above mentioned overall inventory-taking of Europe's energy situation. These include a report on European oil consumption for the year 1960-1975, a study of the fiscal burden on oil in the O.E.E.C. countries, a report on oil and natural gas production in Europe and a new geological map of the continent and Britain. When finished, these studies will shed much new light on Europe's oil economy of the future.

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The capacity utilization of all European refineries (with the exception of Italy) was a main feature of the past year. This was all the more remarkable since the big shipments of refined products to East of Suez which characterized 1954 ceased almost completely in 1955. In 1954 Western Europe had shipped 4,420,000 tons of oil products to Asia, Oceania and East Africa while in 1955 the total amounted to only 773,000 tons. Yet, the internal oil demand in Europe was such that no slack developed. In fact, it is now generally agreed that current European refinery capacity of 116 million tons (about 2,320,000 b/d) is insufficient to cover future demand (in the last two years demand rose by 15-17% annually). There is no doubt therefore that Europe will again experience a boom in refinery expansion and new construction. The very large tanker orders (see W.B. Nov. '55, p.6) placed late last year by most major oil companies in Europe plainly foreshadow such a development since the accent was on the big tankers which are best suited to the carriage of crude oil over long distances. Among the 178 new orders for large tankers, no less than 29 will be for over 40,000 tons dead weight, compared to only 5 presently in existence.

If all planned and pending European refinery projects are carried out it will mean an overall increase of capacity by 370,000 b/d which would be over 20% of all refinery projects currently planned or pending in the free world, outside of the U.S. and Canada. Here is a one-glance summary of the various refinery projects, as of late February 1956:

	New Refineries	Additions to Old Refineries
Germany:		
Cologne (Esso), pending	60,000 b/d	
Hamburg (Shell), pending		37,000 b/d
Britain:		
Kent (B.P.), under construction		50,000 b/d
France:		
Strassbourg (local finance group), pending	11,000 b/d	
Bordeaux Area (Esso), pending	35,000 b/d	
Ireland:		
Cork Harbor (Esso-Caltex-Shell), pending	30,000 b/d	
Sweden:		
Gothenburg (Axel Johnson), under construct.	3,000 b/d	
Norway:		
Skjebergkilen (Norsk), pending	29,000 b/d	
Italy:		
Augusta, Sicily (R.A.S.I.O.M.), pending		12,000 b/d
Finland:		
Tupavuori (Neste O/Y), under construction	18,000 b/d	
Greece:		
Athens (Government), under construction	26,000 b/d	
Spain:		
Puertollano (INI), under construction	15,000 b/d	
Escombreras (REPESA), under construction		34,000 b/d
Belgium:		
Antwerp (Esso), under construction		10,000 b/d
TOTAL:	227,000 b/d	143,000 b/d

In addition, Jersey Standard is reportedly considering the possibility of a new refinery of undisclosed size in NORWAY as well as a 30,000 b/d plant in FINLAND and the ITALIAN government has an application for a 19,000 b/d export refinery in Palermo but it has not yet approved it. A project for another refinery in BRITAIN, by Caltex and Trinidad Leaseholds, is reportedly still under consideration while a project for a 20,000 b/d refinery in AUSTRIA, announced recently by the Minister of State Enterprises, is still tied up in the political controversy over government vs. private ownership of Austria's oil properties.

In the crude oil sector Western Europe has also made good progress last year and all indications are that the increase will be even larger this year. Total West European oil production in 1955 (including Austria) was about 190,000 b/d (9.42 million tons). This was 17% above the 1954 production and thus slightly higher than the area's increase in oil consumption. Theoretically, Europe's oil output covered 9.5% of its needs but actually it was less since Austria's 75,000 b/d production was freed from Soviet control only in August. Drilling in Western Europe resulted in the completion of 900 wells. The forecast for 1956 calls for 1,030 completions, a rise of 14.4%.

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Europe's petro-chemical industry is increasing at a very rapid pace and U.S. exporters may soon find the European market closed due to regional self-sufficiency in many petro-chemicals. A recently published O.E.E.C. report sheds some new light on current petro-chemical activities.

The total production of primary petro-chemicals (measured by their quantity of carbon content) has risen from 208,000 tons in 1953 to 360,000 tons in 1955 and will reach 675,000 tons in 1957. At present 588,000 tons of natural gas and 774,000 tons of oil ar used in the manufacture of petrochemicals. Total investment in Europe's petrochemical industry amounts at present to $ 290 million. New investments over the next two years will total $ 260 million. A break-down of current and future investments shows the following:

Country	Investments (as of January 1955)	Proposed Investments (1955 - 1957)
Britain	$ 122 million	$ 61 million
Germany	68 "	85 "
France	46 "	40 "
Italy	44 "	67 "
Netherlands	10 "	3 "
Belgium	--	4 "
	$ 290 million	$260 million

Of particular interest to the U.S. is the state of synthetic rubber manufacture in Europe. At present, nearly one third of the world's total natural and synthetic rubber production of almost 3 million tons annually is consumed in Europe. Most of the synthetic rubber is imported from the U.S. However, projects presently under construction call for at least 159,000 tons per year of additional capacity by 1958/59 which would eliminate most dollar imports of synthetic rubber. Here is a breakdown of the various current synthetic rubber projects:

Country	Additional Annual Capacity	No. of New Plants
Britain	56,000 tons	4 (I.C.I., Monsanto, Dunlop, Internat'l Synthetic Rubber)
Italy	30,000 "	1 (Government oil concern E.N.I.)
France	20,000 "	1 (Esso and 9 other oil and chem. concerns)
Germany	45,000 "	1 (Chemical Works Huels)
Spain	8,000 "	1 (Government oil concern CEPSA)
	159,000 tons	8

Synthetic rubber and other petrochemical products will also benefit from the rapidly increasing natural gas output in Europe - particularly in Italy, Germany, Austria and France in all of which plans are already under way to utilize the natural gas in the manufacture of petro-chemicals.

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EUROPEAN COUNTRY BRIEFS

UNITED KINGDOM: The first two months of 1956 have been of unusual importance to the British economy. In January and February the highest inflow of gold and dollars since October 1954 was recorded while in February the government decreed a series of new disinflationary measures. At the same time the first real signs of slackening home demand in over a year became noticeable.

The increase of the Sterling area's gold and dollar reserves by $ 29 million in January and $ 61 million in February was only partially ground for rejoicing. For it occurred at a time of the year when the sterling area usually adds to its hard currency reserves due to higher raw material shipments to the dollar area. Furthermore, part of the increase was caused by the influx of short-term capital from abroad, following the rise in interest rates. The continued drain of gold reserves to the European Payments Union was particularly disturbing. In view of the prevailing boom in Western Europe Britain should have an export surplus with this area but instead it continues to accumulate deficits. Under current E.P.U. regulations 75% of these deficits must be met in gold. This has accounted for some two thirds of the decline in gold and dollar reserves since the middle of 1955.

The most encouraging feature of the January and February reserve increases is the fact that they were the first ones since last April and that they followed a staggering decline of $ 642 million during 1955 which reduced total sterling area hard currency reserves to $ 2.12 billion, equivalent to only $4\frac{1}{2}$ weeks of imports.

Undue optimism over the reserve increase should be dispelled by Britain's merchandis trade figures for January. These showed a deficit of $ 207.5 million, compared to only $ 141.1 million in January 1954. The January results were again due to a higher increase in imports than in exports.

There is now clear evidence that Britain's difficulties lay mainly in its domestic investment boom. Last year's 9% increase in exports represented a new record. Unfortunately, it coincided with a 15% rise in imports which was at least $2\frac{1}{2}$ times as much as the increase in domestic production. In consequence the merchandise trade deficit rose by

$ 743 million. However, half of the increase is accounted for just by the rise in coal, iron and steel imports while imports of consumer goods rose only moderately. Furthermore, personal spending during the first nine months of 1955 had increased only very slightly over 1954, by 3.6%. On the other hand, capital expenditures rose by no less than 18% and - if left unrestricted - are expected to go up by another 17% this year, compared to a 3% rise in personal spending.

It is clear therefore that any attempt to curb Britain's run-away boom must concentrate largely on the investment sector. The government has now taken several measures to bring this about: it has increased the bank rate from 4.5% to 5.5%, it has ordered heavy cuts in capital spending by government agencies (over 50% of Britain's capital investment comes within the sphere of government spending), it has repealed the 20% tax allowance on new industrial equipment and it has extended restrictions on installment credit to a number of capital goods, including commercial vehicles.

The new restrictions seem severe enough to bring results. Meanwhile, previous restrictions are also becoming effective. The first to feel them are the car manufacturers, several of which have recently had to cut back production. The construction industry will feel the effects somewhat later when the current lower rate of applications for new industrial buildings will show up in reduced building activites. Another sign is a general movement to eliminate overtime.

One industry which will not be affected by any cutbacks is the ship building industry. At present it has an order backlog of 3,287,000 tons, equivalent to three years full production. Over 51% of the orderbook is made up of oil tankers and 42% of the 2,226,000 tons now under construction consists of tankers, Total tanker completions in 1955 amounted to 650,000 gross tons of which 40% went to owners outside of Britain.

Britain's oil industry could become partly affected by a cut-back of economic activity in 1956. Gasoline sales may become further reduced as a result of the recent measures to curb motor vehicle sales. On the other hand, fuel oil demand is bound to increase in line with the government-encouraged shift from coal to oil.

The reason for this policy is mainly the cost differential. Domestic coal contributed less than nothing to the 4.5 million tons of additional coal needed last year. In fact, coal output was 2 million tons below 1954. Thus, 3 million tons of the increased need had to be met by fuel oil and the balance by imported coal. Allowing for thermal value and efficiency in use, the fuel oil equivalent to a ton of coal can be landed in Britain at about $ 12.60, compared to $ 20.00 per ton for the landed price of imported coal. It is therefore no surprise that fuel oil consumption reached last year over 7.75 million tons, excluding automotive gas oil. For 1956, experts estimate another consumption rise of at least 5 million tons of coal or its equivalent. Again the major share of the increase will come from fuel oil.

According to government plans, fuel oil consumption is to triple between 1955 and 1960. This means a 23% average annual increase (compared to a 13% annual increase for all oil products to raise total consumption from 18.7 million to 34.5 million tons over the next five years). Fuel oil consumption units are being increased accordingly. Boiler makers report that the percentage of oil-fired plants will probably amount to 3/4 of all new orders in 1956 compared to 2/3 in 1954 and only 1/3 in 1953. New diesel locomotives will also soon contribute to more fuel oil consumption. The first 171 unit of a planned total of 2,000 will soon be in usage. Of even more importance will be the construction of six large oil-fired power plants and the conversion of ten others from coal to oil.

It is estimated that the oil companies' storage capacity alone will have to be raised by 2 million tons to cope with the growing demand. Altogether, the oil companies total additional investment in tankage and all forms of inland and coastal transportation over the next five years will probably amount to $ 85 million. Of course, this does not take into account any new refineries or ocean tankers.

Where will the additional oil products come from? Eventually from new or expanded refineries in England. In the meantime, they will come from increased imports and lower exports. This trend has already resulted in returning Britain from a net exporter of of refinery products in 1954 to a net importer last year. The net products import balance of 19.4 million bbls in 1955 compared with a net export balance of 5.9 million bbls in 1954. Total oil trade in 1955 consisted of $ 217 million of exports, a decline of 7.7% from 1954, and $ 940 million of (crude and products) imports, an increase of 7.4%. Fuel oil accounted for most of the rise in imports and drop in exports last year.

The average volume of oil imports was 744,200 b/d of which 567,000 b/d was crude oil. An interesting shift among areas of origin of Britain's oil imports has taken place over the last few years, as shown by the following table:

Oil Imports by Main Areas:
(in per cent)

	1955	1954	1953
Middle East	61.9	71.2	75.2
Western Hemisph.	24.7	23.1	21.1
Europe	5.6	4.5	3.6
Far East	7.8	1.2	0.1
Others		0.0	0.0
	100.0	100.00	100.0

The decline of the Middle East's share and the corresponding rise of the Western Hemisphere and European share in 1955 is due to the above mentioned sharp increase in products imports, accompanied by an actual decrease in crude imports. The latter affected mainly Kuwait and Iraq each of whose oil imports to Britain dropped by about 10 million bbls last year. A part of this drop was compensated by higher shipments from Venezuela in line with the increased need for heavy crudes. Total oil imports from Venezuela averaged almost 66,000 b/d in 1955 which was equivalent to about 9% of all British oil imports, compared to 5.5% in 1954.

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GERMANY: There are still no clouds visible on the German economic horizon. The country ended 1955 with record increases in most major sectors and there is good reason to assume a full continuation of the boom for quite some time to come. Unlike most other European countries, Germany does not suffer from serious inflationary pressure, is not loosing foreign exchange reserves and has still a slight reservoir of unemployment. Furthermore, even the current political disputes work for the Germany economy: the more disagreement there is between the various parties the less is the likelihood for the early passage of a national defense act which would mean heavy defense expenditures to equip the new armed forces. Thus, at present Germany has no defense expenditures of her own and next May will probably even cease to contribute to the upkeep of the Western forces stationed in Germany. In the meantime American soldiers spend approximately \$ 237 million annually in Germany through the conversion of dollars into Marks.

It is not surprising therefore that the West German currency is now 100% backed by gold and dollar exchange. At the end of 1955, Germany's total gold and dollar reserves had actually moved ahead of those of the entire sterling area and stood at \$ 2.28 billion, equivalent to six months of imports at the current rate. The increase was largely due to Germany's continued export surplus which was maintained in 1955 (although it dropped to \$ 230 million from \$ 640 million in 1954) despite a 27% rise in imports accompanied by an export rise of only 17%. The increased imports kept domestic prices down by submitting them to the pressure of international competition. The excellent foreign trade position has caused Germany to drop a number of export subsidies, lower the import duties on a long list of goods and ease restrictions on some foreign capital transactions.

Germany's crude oil production increase has again paced the overall rise in industrial production. While the latter rose by 16% last year, domestic oil output went up by 18% (to 3.15 million tons). However, over the last four years the rise in crude oil output and industrial production followed divergent trends. While overall industrial production rose by 7%, 9%, 12% and 18% respectively each year, the annual growth in crude oil production was 28%, 24%, 22% and now 18%. According to new industry estimates, crude oil production will grow by an average of 3.8% over the next five years to reach 3.75 million tons in 1960. This shows that domestic crude oil output will not continue to keep abreast of the country's general economic expansion.

In the refinery sector, last year's increase of 16.9% brought total crude oil throughput to the record figure of 10.34 million tons (206,800 b/d) of which 31% was supplied by domestic crude. Output of the lighter products (particularly diesel fuel) increased by 17.4%, due at least partly to the 33.5% increase in motor vehicle production last year to 909,000 units of which more than half were sold domestically. Residual fuel oil output increased by 19.6%, in line with the prevailing coal shortage. For 1956 the German oil industry association foresees a refinery throughput of 11.89 million tons (237,800 b/d), or 15.1% above last year. Again, the major product will be diesel fuel which will account for 29.6% of the total.

The over-all increase in refinery output will be made possible largely by the re-starting of operations at the Ruhrbau refinery, recently acquired by Petrofina, and the newly converted Ruhrchemie plant in Oberhausen whose 6,000 b/d crude requirements will be met entirely by Gulf Oil from Kuwait. A breakdown of the origin of the 11.89 million tons of crude oil required for 1956 looks as follows, according to the latest revised figures:

German crude oil	28.6%
Saudi Arabian "	31.8%
Iraq " "	18.7%
Kuwait " "	13.3%
Venezuela " "	6.5%
Mexico " "	1.1%
	100.0

In Germany's oil consumption sector much will depend on proposed federal action to drop the duties on fuel oil for heating purposes. The recently approved law to reduce the duty on fuel oil used in gasworks (see W.B. Nov. '55, p.8) seems to have been a first step in this direction. Between 1954 and 1955, industrial use of fuel oil rose from 3 to 4% of all industrial power. Since higher coal prices are almost certain in 1956 (on top of last year's increase) the number of industrial fuel oil users is likely to grow more rapidly. Lower fuel oil duties would strongly enhance this trend.

The argument of the oil industry and a number of trade associations is that current duty on heavy fuel oil for heating purposes ($ 3.56 per ton) has been created mainly to protect the domestic coal industry. Since there is currently a serious shortage of coal requiring imports from the U.S. there is no more justification to continue this protective scheme which helps now imported rather than domestic coal. Another recommendation is to free natural gas (present duty $ 30.62 per ton) and all liquid oil products used for the manufacture of gas from customs duties and mineral oil taxes. In general, the requests have the support of Prof. Erhardt, Germany's powerful Minister of Economic Affairs, It is therefore likely that fuel oil importers will be aforded some sort of customs relief in the current year.

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FRANCE: Inland consumption of major oil products increased by 11.2% last year to a total of nearly 14 million tons (280,000 b/d) while bunkers accounted for an additional 1.74 million tons. The highest increase in inland consumption was registered by fuel oils which rose from 7 million tons in 1954 to 7.75 million tons last year. The rise would have been even higher had it not been for the government-imposed limitation on fuel oil sales to protect the coal industry. Motor gasoline consumption rose by 12% to 4.23 million tons but within this total, premium gasoline rose by 21% and ordinary gasoline by only 8%. In the current year, premium gasoline sales may well increase at a lower rate due to a proposed new tax on premium gasoline to raise funds for the social security system. Fuel oil sales this year will probably increase more rapidly in the building and industrial sectors but will decline in the railroad sector which is now 60% electrified and dieselized. For the same reason, and also due to a sharp increase in commercial road traffic, gas/diesel oil sales are likely to increase sharply.

Virtually all products consumed came from French refineries whose total capacity is now around 500,000 b/d. With the exception of aviation gasoline, there was a significant export surplus in all products which (except for kerosine) was in each case larger than in 1954.

Crude oil produced in France and its North African territories reached the record figure of 1.04 million tons (20,800 b/d), compared to 703,670 tons the year before. Of this total 11,500 b/d came from Esso-Rep's Parentis field whose output from 12 wells had increased to 17,500 b/d by the end of last year. The production of every other concern in France and North Africa showed a decline from 1954.

However, the high level of current exploration activities should bring about some increase of crude oil output during 1956. The output from Parentis is scheduled to rise to 25,000 b/d. In Alsace the well recently discovered by PREPA near Mulhouse is now producing at the rate of 157 b/d, with a water percentage of 30%. Prepa's other recent Alsace discovery, near Haguenau, is still closed in pending further tests. The same goes for Pechelbronn's strike near Strassbourg. Overseas, a Government-backed exploration company, in which Shell has a minority interest, has just reported promising traces of oil in Algeria, near the Lybian border.

Despite these promising signs, domestic crude oil output is not likely to fill more than a small part of total needs for the foreseeable future. Total crude oil imports last year amounted to 24.5 million tons, on the basis of preliminary figures, compared to 23.6 million tons in 1954. Foreign countries shared in the crude oil imports in the following proportions: (based on preliminary figures)

Iraq.........	43.1 %	
Kuwait..........	30.1	
Saudi Arabia.........	11.2	
Quatar	5.4	
Iran	3.3	
Total Middle East		93.1 %
Venezuela...........		3.1
Dutch West Indies........		1.8
Soviet Union		0.6
Algeria		0.2
Other countries......		1.2
		100.0 %

In view of the continued high levels of crude imports, the Conseil Superieur du Petrole (the French equivalent to our National Petroleum Council) has recently recommended continued and extended economy in hard currency payments for oil imports. In particular, it suggested further efforts by the French affiliates of international companies to maintain or increase the proportion of imports to be settled in francs (in case of most U.S. companies 40% of all imports may be paid in francs). The Council also recommended development of the petrochemical industry, greater use of asphalt and the expansion of aviation gasoline production.

Some of these suggestions are already being carried out: A British Petroleum affiliate has begun construction of a bitumen plant (500-700 tons daily) at the Dunkirk refinery, a synthetic rubber plant is being built by Esso in conjunction with 9 other concerns at Esso's Port Jerome refinery and Godfrey L. Cabot is constructing a carbon black plant near Shell's Berre refinery (this plant will cover most of France's 40,000 tons annual needs of carbon black which now have to be imported mainly from the dollar area).

In the refinery sector the most important development is Esso's decision to build a 30,000-40,000 b/d refinery near Parentis to refine that field's (and also the Mothes field's) rising crude output. It will be the first refinery in the southwest of France and fits in well with the government's regional economic development plan. Another smaller refinery (12,000 b/d) will soon be built at Strassbourg. Its importance might be enhanced by the recent oil discoveries in Alsace.

A subject of some concern to French refiners particularly in view of their rising export surplus - could be the contemplated transfer of the Saar from France to Germany which is currently the subject of top-level Franco-German discussions. Under the existing economic union with France ,French goods enter the Saar freely while German products must pay customs duties. This has enabled France to supply all of the Saar's oil needs.

In 1954, French oil shipments to the Saar amounted to $ 23.5 million and in view of the high degree of industrialization and standard of living of the one million inhabitants the Saar's oil consumption is rising rapidly even though it is of course a coal-based economy. If the transfer to Germany should take place, as seems likely, the French oil industry might well loose this exclusive market to Germany.

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ITALY: Italy's proposed new oil law is still a center of major political controversy. The large Communist party but also a number of non-communist groups are definitely opposed to any law which, in their opinion, would encourage the entry of "international oil cartels" into the Italian crude oil-sector. The present draft law is unacceptable to most foreign oil concerns. Their main objection is of course the 60 -40 provision for splitting net profits which, if accepted, could well set a world-wide precedent. The other major objection is the proposed limitation on exploitation concessions which gives each company a total area of only 200,000 acres.

However, there are now some straws in the wind indicating a possible change of heart on the part of the policy makers. Foe one thing, a law has just been passed by a large majority which eliminates most restrictions on foreign investments in "productive enterprises" and on transfers abroad of profits and capital. It will directly benefit the foreign oil companies which make up the major share of Italy's foreign investment sector. The new law illustrates Italy's interest in more foreign investments. Two recent changes in the proposed oil bill, though minor, are also both in favor of the private companies by increasing the time limit in which to apply for development rights after finding oil from one to six months and by clarifying companies' rights to exploitation concessions following a discovery. On the political front, several movements are now afoot to bring about a revision of the draft law. Of particular importance could be the recently announced position of the powerful Catholic Workers Federation in favor of a 50/50 principle of profit sharing. The federation's position reportedly has found sympathetic listeners among top officials at the Ministry of Industry.

A change of the bill's profit-sharing formula has just been proposed by the Minister of Industry. It would involve "scaled" royalty payments of from 16.2% to 28% for free-flowing wells, depending on the rate of flow, and from 12.5% to 21% for wells on pump. Allowance would also be made for wells deeper than 4,000 feet. Since the royalties would be in addition to the 35% income tax payable by all business concerns it would put the government's total share at from 47.5% to 63%, depending on the type of well and the average flow.

The main opposition to the entry of foreign oil companies, aside from the Communists, is generally ascribed to the state oil agency E.N.I. Its chairman Enrico Mattei has denied this but most U.S. oil men and diplomats seem to disbelieve his stated willingness to compete on equal terms with foreign companies. Certainly, under the present draft law, E.N.I. would be assured many important advantages over the private companies including the right to acquire the exploration areas which the private concerns must turn back to the government after oil has been found and freedom from any restrictions on the size or number of concessions.

E.N.I. is now in the process of extending its concessions on the Italian mainland outside the Po valley (where it has exclusive rights) from its present size of 1.7 million acres to about 10 million acres and plans to spend over $ 48 million over the next three years on exploration in the new areas. E.N.I. has already discovered three wells in the Abruzzi area, all near an earlier discovery by Petrosud but not an extension of it.

Elsewhere, E.N.I. is beginning explorations in the Marches area of Central Italy, around Ancona and Pesaro, with seismic operations. Activities are also continuing in E.N.I.'s own bailiwick, the Po Valley. Last year, E.N.I.'s 21 Po Valley wells produced 116.5 billion cft. of natural gas, a 23% increase over 1954. This was equivalent to about 4-3/4 million tons of coal and represented a significant saving in oil or coal imports. Production for 1956 is expected to reach 132 billion cft.

Hopes that the oil bill will yet be amended have attracted some new U.S. companies to the Italian mainland. One of them is Cities Service which has applied for a search permit in the provinces of Campobasso and Foggia, Southern Italy, near the Adriatic. Another is reported to be a Mr. Joseph Coyle from Dallas, Texas, who has requested a concession in the province of Arrezzo, southeast of Florence.

Meanwhile, oil activities are rapidly progressing in Sicily which has its own oil legislation. Proved reserves of Gulf's Ragusa field are eight million tons but total reserves of the field are estimated at 23 million tons (about 160 million bbls). At the moment Ragusa's output amounts to a yearly rate of 320,000 tons (about 6,400 b/d) from eight producing wells. By the end of 1956 it is hoped output will have been raised to twice that much. Gulf is reported to have allocated for 1956 $ 11-12 million to develop its Sicilian fields. According to a press estimate, the total amount Gulf will spend on developing its Sicilian fields may eventually reach $ 150 million. Increased activity is also reported from the "Societa Augusta Ricerche Petrolifere" (Owned by the Italian firm RASIOM and Esso, which has several drillings under way in the Catania region of Sicily.

Sicily's refinery sector is also destined for expansion. RASIOM which owns the island's only refinery is now completing installation of an "ultraforming" catalytic reformer with a daily capacity of 7,000 b/d of high-octane gasoline. It is also reportedly intending to undergo a 12,000 b/d expansion of overall capacity and will soon be directly connected with the Ragusa field by a pipeline. There is also a possibility that a 19,000 b/d export refinery, to run on Middle East crude, will be built at Palermo. Sicilian regional permission has already been received but it is not yet certain whether federal permission will also be granted in view of the large unused refinery capacity in Italy (over 35% of the annual total capacity of 28 million tons) and the expected loss of several major foreign markets to new refineries abroad or purchases from other sources, especially Greece, Turkey, Switzerland. Italy has already registered a 9% drop in oil products exports in 1955, compared to 1954.

Another Italian island in a similar position of constitutional semi-independence than Sicily is Sardinia. The island's regional President has recently announced that it too will work out a special law for oil exploration which may differ from the mainland law. Of course, the issue of whether Sicily or Sardinia really have a constitutional right to adopt different laws than the rest of Italy is still not fully settled. An Italian parliamentary committee is currently reinvestigating it. Previous investigations and supreme court rulings have always held that such separate legislation was fully within the rights of the regions and there is no indication that a different verdict will be reached this time.

Other oil news from Italy include a $ 1.60 per ton price increase for residual fuel oil. The increase was ordered by the State Price Commission to bring domestic prices more in line with prevailing world market price tendencies. The Italian association of mineral oil dealers has requested the Commission to extend the price increases to other oil pro- which they claim are also sold in Italy below the world market level.

SWITZERLAND: A movement to encourage Swiss oil exploration is rapidly gaining momentum. It follows the discovery of oil in commercial quantities in Bavaria, Germany, which forms part of the Central European Molasse Basin, a sedimentary area stretching from Czechoslovakia into Northern and Western Switzerland. One of the main legal obstacles to large-scale exploration, so far, is the fact that each of little Switzerland's 25 cantons (districts) has its own mining laws, often conflicting with those of its neighbors. Now, the canton Zurich has proposed a Concordat among six North Swiss cantons (with others expected to join later) for the purpose of establishing a unified policy in granting exploration and exploitation concessions. The project which has already been approved by the legislatures of the Zurich and St. Gallen cantons will require prior approval by popular referendum in most cantons. For Zurich the referendum date has been set for April 1956.

A restrictive feature of the proposed Concordat is a clause requiring that 75% of the capital of any firm receiving concessions would have to be held by Swiss interests. According to an unconfirmed press report, the Swiss Federal government is currently considering a restrictive law of a similar nature for all of Switzerland.

So far, only one well - at Altishofen - was drilled in Switzerland since World War II. It was financed by Swiss interests and was abandonned after 7,100 ft. Though it failed to establish commercial production it gave definite indications of gas and oil. Currently, another Swiss financial group is being formed for the purpose of prospecting and exploration in northern Switzerland as soon as the Concordat becomes effective. The group has an initial capital of $ 3.5 million. It will be joined by an experienced German drilling firm (possible ITAG which drilled the Altishofen well) which is to contribute another $ 900,000.

In the Western part of Switzerland, not far from Geneva, seismic tests have been carried out for some time by MOFAG Molasse Oil Exploration Co., a Swiss firm which is backed by U.S. oil capital and is administered by a U.S. citizen.

Up to now Switzerland has never been very interested in its oil industry. In fact, it does not have a single refinery and relies mostly on hydro-electricity for its energy needs. However, since heating oil is still cheaper than electricity in house heating, the current high rate of building activity has sharply increased the demand for fuel oil. At the same time, Switzerland's tourist traffic means the entry of vast numbers of transient cars into the country (1.6 million in 1954) so that there are now almost 6,000 service stations on its territory.

Altogether Switzerland consumed close to 2 million tons (40,000 b/d) of oil products last year and may reach about $2\frac{1}{4}$ million tons this year of which 1.5 million tons would be gas/diesel and fuel oil. Half of Switzerland's oil imports come from Italy. Other important suppliers are the Netherlands and Belgium. Under a recent contract with Austria, Switzerland will receive about 120,000 tons of diesel oil annually, probably at the expense of shipments from Italy.

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SPAIN: In Spain, the German oil concern Deilmann-Bergbau reports the discovery of a natural gas field in Andalusia. Deilmann Bergbau which has been active in Spain for some time has a concession in partnership with the semi-public Spanish concern CEPSA. According to the head of the National Gas, Water and Electricity Syndicate, there will be a general increase of drilling activity in Spain this year in line with the favorable signs already encountereed in previous drillings in Catalonia and the Ebro and Guadalguivir basins. One of the firms whose exploration programm is being expanded is VALDEBRO, owned 50% by the Government oil agency INI and 50% by the General American Oil Co. of Texas which is made up of several U.S. firms, including Caltex, Lion Oil, Delta Drilling, E.E. Fogelson, De Golyer & McNaughton and the Bear Sterns investment firm. Valdebro's budget over the next five years has recently been set at $ 10 million. At present it has two rigs in operation.

If oil is found in Spain it would have a ready internal market. Last year the country (excluding the Canaries) consumed about 63,200 b/d of oil which was a 18.4% increase over 1954. In 1954 the increase had been 38% over 1953. Of last year's total consumption, 55.4% was for residual fuel oil (incl. bunker fuel).

In line with the rising demand, several refinery expansion projects have been undertaken. The major one concerns the Escombrera refinery near Cartagena, owned 76% by the Government agency CEPSA and 24% by Caltex. It is now being expanded from 40,000 b/d to 75,000 b/d. The Teneriffe refinery in the Canaries was recently expanded from 28,000 b/d to 40,000 b/d while construction of a 15,000 b/d government refinery at Puertollano has started. These projects should eliminate most products imports into Spain from 1957 on.

ANNEX

SUEZ CANAL PETROLEUM TRAFFIC

During 1955 total oil shipments through the Suez Canal increased by 9.1% to 68.8 million tons. As has been pointed out previously, all of the increase was due to south-north shipments. These increased by 17.4% while north-south shipments dropped by 68.7% as a result of the well-known refinery expansion East of Suez. Of all oil products, only lubricants shipments increased in a north-south direction. This is due to the fact that most of the new refineries in Asia, and Australia do not possess lube plants.

Besides the sharp decline in north-south traffic there was also a change in composition of products. In 1954 residual fuel was by far the most important product accounting for nearly half of all north-south oil shipments. In 1955 this product declined to third position while gasoline moved into the no. 1 spot. The reason for this change is not only the lower demand for imports East of Suez but also the lower availability of export fuel oil from Europe, especially Britain which in 1954 was the main fuel oil exporter via the Canal but needs now most its fuel oil to fill its own rising energy gap. Gasoline, on the other hand is available in large quantities in Europe. In fact, since the expansion of demand is much more rapid for fuel oil than for gasoline, many European refiners have a readily exportable gasoline surplus. Yet, the major free-world gasoline supplier last year was not a European country but the U.S. which shipped almost 180,000 tons via the Suez Canal. A good part of this was aviation gasoline which is generally not made east of Suez.

Another factor of interest concerning north-south shipments last year was the very sharp increase of Soviet Bloc shipments. These accounted for all of the 142,000 tons of crude oil shipped into the Canal, most of which was destined for Egypt.

Most of the increase in south-north traffic was accounted for by a 7.6 million ton rise in crude oil shipments. However, on a percentage basis the rise was much steeper for products shipments which nearly doubled between 1954 and 1955. Residual fuel oil showed the main increase here, in line with the above mentioned fuel oil demand in Europe. The major fuel oil shipper to West of Suez was Bahrein which accounted for almost 1 million tons. It was followed by Saudi Arabia whose residual fuel oil shipment reached 626,000 tons. Among countries of destination the only one which showed no increase at all in total oil shipments from the Middle or Far East was Britain. This fact also accounted for the very small increase in shipments from Kuwait most of which go to Britain. Shipments to the U.S. last year amounted to 8.6 million tons, all of which was crude oil.

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The Suez Canal is now in its 86th year of service as a world shipping route. Its existence as an international corporation will cease in about 12 years when it will become the full property of Egypt. As yet little is known as to what Egypt intends to do once the Canal becomes its responsibility. However, there is definite awareness among Egyptian planners of the responsibility that ownership of the world's major waterway will entail. Under arrangements with the Suez Canal Company, a greater number of Egyptians are now being trained for high-level executive and technical positions. Egypt's Prime Minister Col. Nasser has declared some time ago "it is the duty of the revolutionary government of Egypt to ensure that Egypt would shoulder the burden of the sound administration of the Canal. Preparations are now being made so that we may not be taken unawares and so that the country should be fully qualified to carry out the task".

The Egyptian official who acts as Special Commissioner for the Suez Canal, is Barhane Hassan Said. In an interview in Cairo with a PIRINC correspondent Mr. Hassan Said stated that it would be his office's function to coordinate the activities of the various Egyptian government agencies involved in the scheduled transfer of Egypt's biggest enterprise from private to public ownership. While no definite post-1968 program has yet been worked out, a program is now under way, according to Hassan Said, to take stock of all existing equipment and machinery used by the Suez Canal Company in order to determine what machinery will still be in use after 1968 and what replacements or improvements will be necessary.

Mr. Hassan Said also plans to contact shortly all merchant marine and tanker fleet companies as well as oil companies now using the Canal to send in their recommendations, specify their estimated needs after 1968, give the probable tonnage, size and draft of the ships that will be in use 12 years from now to enable the new Egyptian owners to cope with the situation. Mr. Hassan specifically mentioned the fact that his government would give special consideration to the problems of tankers and particularly supertankers which are now coming increasingly into use. Regarding the problem of international shipping rights, the official declared this would continue to be governed by the Convention of Constantinople of 1888, signed by Europe's major maritime powers. Egypt's right of search and seizure of foreign ships will be strictly limited to nations with which Egypt is directly at war (such as Israel) since defensewise the Suez Canal is part of Egypt's territorial waters.

Meanwhile the Suez Canal Company which has full responsibility for the Canal until 1968 is continuing its program of expanding the Canal to cope with the increased traffic. The present program which is scheduled to be completed by 1960 will deepen the Canal to 36 ft and will also create more by-passes. The two-fold purpose of this program is to make the Canal navigable for bigger ships as well as for more ships. The two new by-passes will be completed by 1958 at which time a daily average of 48 ships (with a maximum of 60 ships) will be able to transit the Canal. At present the optimum daily average is 40 ships, although on occasion considerably more ships have gone through in a single day. The deepening and widening of the Canal will make it possible for most of the supertankers now being built to go through the Canal fully loaded. The few already existing tankers with such a draft must now sacrifice some loading capacity if they want to use the Canal. It is believed that by 1960 even tankers with a 37 ft draft can take off fully loaded from the Persian Gulf. For, by the time they enter the Canal they will have used up enough bunker fuel to rise one inch. Of course, the very few super giants, such as the Sinclair Petrolore or the two 83,000 ton tankers built for D.K. Ludwig in Japan, will never be able to use the Canal but these ships rely on their combined oil and ore carrying capacity to make up the loss suffered by having to go around the Cape of Good Hope on their way to and from the Persian Gulf. The Suez Canal Company has no expansion program beyond 1960 as of now but the possibility of such a further program is by no means excluded should conditions demand it.

On a tonnage basis, the Suez Canal has now become largely an oil tanker route. Tanker traffic makes up nearly two thirds of total traffic and with the recent new oil finds in Kuwait, the Canal's biggest customer, the ratio should increase further. Interestingly enough, as a percentage of ship units, tankers have shown almost no increase over the past five years. In 1951, 50.4% off all ships going through the Canal were tankers. By 1955 the ratio had increased to only 53.5%. The reason lies obviously in the increased sizes of tankers which were able to transport considerably more oil on only slightly more runs.

SUEZ CANAL PETROLEUM TRAFFIC

January - December
1954 & 1955

NORTH - SOUTH TRAFFIC

I. Tanker Movements
(thousands of net registered tons)

	Jan. - Dec. 1954	Jan. - Dec. 1955	Rise or Decline in percentage 1954 - 1955
Loaded Tankers	3,587	1,211	-66.2
Empty Tankers	29,323	37,452	27.7
Total N-S Tanker Movements	32,910	38,663	17.5

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

	Jan. - Dec. 1954	Jan. - Dec. 1955	Rise or Decline in percentage 1954 - 1955
Gasoline	1,599	565	-64.7
Kerosene	1,082	519	-52.0
Gas/Diesel Oil	584	242	-58.6
Residual Fuel Oil	2,771	389	-86.0
Other Oil Products*	48	48	00.0
	6,084	1,763	-71.0
Crude Oil Shipments	----	142	

III. Countries of Orgin
(thousands of metric tons)

	Jan. - Dec. 1954		Jan. - Dec. 1955		Rise or Decline in percentage 1954 - 1955
Great Britain	1,754		71		-96.0
France	1,001		152		-84.8
Italy	1,238		302		-75.6
Netherlands	428		248		-42.1
Total Western Europe		4,421		773	-82.5
U.S.	624		207		-66.8
Caribbean	569		80		-86.0
Total Western Hem.		1,193		287	
U.S.S.R. & Romania		367		820	123.4
Other Areas		103		25	-75.3
		6,084		1,905	-68.7

*Excluding Lubricating Oil shipments which amounted to 268,000 tons for all of 1954 and 356,000 tons for 1955.

IV. Areas of Destination
(thousands of metric tons)

	Jan. - Dec. 1954		Jan. - Dec. 1955		Rise or Decline in percentage 1954 - 1955
India, Pakistan, Burma, Ceylon	1,787		182		-89.8
British Malaya	615		223		-63.7
Australia, New Zealand	561		111		-80.2
Total Far East		2,963		516	-82.6
Red Sea ports	931		631*		-32.2
Aden	1,488		124		-91.7
Persian Gulf	58		36		-37.9
Total Middle East		2,477		791	-68.1
East Africa		406		87	-78.6
USSR (Siberia), China		215		493 **	129.3
Other Areas		23		18	-21.7
		6,084		1,905	-68.7

*of which 476,000 tons went to Egypt (Suez)
**includes 8,000 tons shipped to Viet Minh

SOUTH - NORTH TRAFFIC

I. Tanker Movements
(thousands of net registered tons)

	Jan. - Dec. 1954	Jan. - Dec. 1955	Rise or Decline in percentage 1954 - 1955
Loaded Tankers	31,210	36,754	17.8
Empty Tankers	891	438	-50.9
Total S-N Tanker Movements	32,101	37,192	15.9

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

	Jan. - Dec. 1954		Jan. - Dec. 1955		Rise or Decline in percentage 1954 - 1955
Crude Oil		54,396		61,979	13.9
Gasoline	353		646		83.0
Kerosene	217		436		100.9
Gas/Diesel Oil	668		1,135		69.9
Residual Fuel Oil	1,032		2,461		138.5
Other Oil Products	312		237		-24.0
Total Oil Products		2,582		4,915	90.4
		56,978		66,894	17.4

III. Countries of Origin
(thousands of metric tons)

	Jan. - Dec 1954		Jan. - Dec. 1955		Rise or Decline in percentage 1954 - 1955
Kuwait*	41,258		42,506		3.0
Saudi Arabia	6,320		6,732		6.5
Iran	477		4,958		939.4
Iraq (Fao)	2,764		3,941		42.6
Quatar	3,897		3,873		-0.6
Bahrein	1,000		1,995		99.5
Aden	52		740		1323.1
Total Persian Gulf		55,768		64,745	15.9
Egypt**		61		135	121.3
Indonesia, Malaya, Borneo	1,015		1,967		93.8
New Guinea	134		47		-64.9
Total Far East		1,149		2,014	75.3
		56,978		66,894	17.4

*Including Kuwait Neutral Zone
**Mainly domestic transfer shipments from Red Sea to Mediterranean ports.

IV. Countries of Destination
(thousands of metric tons)

	Jan. - Dec. 1954		Jan. - Dec. 1955		Rise or Decline in percentage 1954 - 1955
Great Britain	20,530		20,544		0.1
France	10,909		12,148		11.4
Netherlands	5,849		7,284		24.5
Italy	5,768		7,341		27.3
Belgium	1,726		2,050		18.8
Spain (incl. Canaries)	1,401		1,943		38.7
Sweden	1,385		1,986		43.4
Germany	879		1,343		52.8
Total, Major European Oil Importing Countries		48,447		54,639	12.8
U.S.		6,597		8,630	30.8
All Other Countries		1,934		3,625	87.4
		56,978		66,894	17.4