PIRINC REPORTS ON

WORLD BUSINESS

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

Published by the PETROLEUM INDUSTRY RESEARCH FOUNDATION, INC., *122 East 42nd Street, New York 17, New York* • *Telephone: OXford 7-3774*

1957

OIL AND THE COMMON MARKET

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It is now as certain as future political events ever can be that before the end of this year both the Common Market treaty and the Euratom treaty will have been ratified by the legislatures of all six countries concerned (Germany, France, Italy, Belgium, Netherlands, Luxemburg). This means that by January 1958, at the latest, the Common Market and Euratom will actually begin to function.

At first their activities will be hardly noticeable, except in terms of voluminous paper work, large-scale staff hirings, publicity releases and all the other characteristics commonly associated with the birth of a new bureaucratic brain child. But within five to six years after its inception, virtually every European business concern of significant size as well as every firm trading with Western Europe will have begun to feel the effects of the two organizations. Within twelve to fifteen years the two institutions will have wrought a bigger change upon the European economy than the area has experienced in the sixty previous years.

In assessing the effects of the Common Market on the European oil industry, we must consider both the general features of the new organization as well as those specifically applicable to the oil business.

Rome THE TREATY AGREEMENT

The basic and, so far, only official document concerning the Common Market is the Treaty Agreement signed last March by the plenipotentiaries of the six contracting parties. This 57-page document with its voluminous annexes provides a constitution as well as a general directive for the proposed new economic unit. It is this document which has just been ratified by Germany and France and is still to be ratified by the four other participating countries before the project can come to life, probably by the end of the current year.

In view of the importance of the Treaty document, the following is is largely an analysis and commentary of its main features, with special emphasis on those points with a direct bearing on the oil industry.

GENERAL PURPOSE OF COMMON MARKET TREATY

The general purpose of the Treaty is to establish a European Economic Community among the "Six Contracting Parties". In order to achieve this goal, the following actions are to be taken:

"(a) the removal of customs duties, as between Member States, and of quantiitative restrictions on the importation and exportation of goods as well as of all other measures with equivalent effect,

(b) the establishment of a common customs tariff and a common commercial policy towards States outside the Community,

(c) the abolition, as between Member States, of obstacles to the free movement of persons, services and capital,

(d) the inauguration of a common agricultural policy,

(e) the inauguration of a common transport policy,

(f) the establishment of a system ensuring that competition shall not be hampered in the common market,

(g) the adoption of procedures to enable the economic policies of Member States to be coordinated and to remedy disequilibria in their balances of payments,

(h) the removal of differences in national laws so far as is necessary for the operation of the common market,

(i) the creation of a European Social Fund in order to enhance possibilities of employment for workers and contribute to the raising of their standard of living,

(j) the establishment of a European Investment Bank to facilitate economic expansion of the Community by creating fresh resources,

(k) the association of overseas countries and territories with the Community with a view to increasing trade and to pursuing in common efforts towards economic and social development."

The achievement of these goals is to be gradual over a transitional period of twelve to fifteen years. This period shall be divided into three stages of four years each. The first stage can, however, be prolonged to five or six years at the wish of <u>any</u> member country. The second and third stages can only be extended with the <u>unanimous</u> approval of all member countries. But under no conditions is the entire transitional period to surpass a total of 15 years from the date of entry into force of the treaty.

DUTY REDUCTIONS

During this period all customs duties and taxes of equivalent effect applied between member states shall be progressively abolished by them under the following conditions:

"the basic duty to which the successive reductions shall apply shall be the duty applicable on January 1st, 1957." The timing of the reductions is fixed as follows within the transitional period:

Three duty reductions are to be carried out in the first four-year stage, (the first of these is to be completed within one year after the treaty becomes operative); three further reductions in the second stage; the remaining ones are to be carried out in the third stage of the transition period. Thus, at the end of the 12-15 period, all custom duties between member states will have been eliminated.

The first duty reduction is to be on the order of 10% for each product, based on the January 1957 rate. Each subsequent reduction is to reduce the total customs receipts of each member country (based on the customs receipts in 1956) by 10%, but the reduction for each product is to amount to at least 5% of its basic duty. The aim of this procedure is to ensure an at least 25% reduction on the basic duty of each product at the end of the first stage and at least a 50% reduction at the end of the second stage of the transitional period. The remainder of the reductions is to take place in the third stage.

COMMON CUSTOMS TARIFF

At the same time that the intra-Common Market duties are progressively eliminated a common customs tariff to the outside world is to be fixed. In principal this new tariff is to be computed from the arithmetic average of the duties levied by the member countries on January 1, 1957, although there are many exceptions to this. For tariff groups whose duties, as of January 1, 1957, differ from the new common customs tariff by no more than 15%, the Common Market tariff is to apply within four years after the entry into force of the treaty. For other tariffs a 30% reduction is to be made at the end of the first stage of the transitional period, and a further 30% at the end of the second stage. At the end of the entire transitional period the common customs tariff is to be applied in its entirety for goods entering the area from abroad.

END OF QUOTA RESTRICTIONS

The treaty also stipulates that all member states refrain from introducing any new direct or indirect quantitative import or export restrictions between themselves. This is to be coordinated with the trade liberalization measures decided by the 17-member OEEC in January 1955. Any existing bilateral quotas between member states are to be converted into global quotas open to all other member states within one year after the treaty becomes effective. At the same time each global quota for each product is to be increased by 10% with further increases to follow each year.

At the end of the tenth year, each import quota must be equal to at least 20% of the restricted item's national output. If there is no national output, the Commission which is to supervise the application of the provisions of the Common Market Treaty is to fix an appropriate quota.

EXEMPTIONS FROM TARIFF SPECIFICATIONS

In analyzing the effect of the above treaty provisions on the petroleum industry, or on any industry for that matter, it is essential to bear in mind that actually most of the treaty provisions are quite flexible and are hedged with so many exceptions and special treatments that at least during the first six years of the treaty no country will be forced to accept any part of the Common Market if it conflicts with its immediate economic interests.

For instance, France is specifically permitted to continue "the system of aid granted to exports and of special taxes on imports in force in the franc area." Only when France's balance of payments has remained in equilibrium for more than a year, and its monetary reserve "have reached a level considered as satisfactory" can the Common Market Authorities end their special privileges to France.

In the second and third stage of the provisional period the treaty becomes somewhat more rigid and many of the existing escape clauses can then only be applied with the approval of all Common Market partners. What the final product to emerge from the 12-15 year transition period will be can not yet be fully judged. On the basis of the present treaty, however, the Common Market will then be a reality in all its ramifications, with the exemptions, escape clauses and special treatments which characterize the transition period largely eliminated or, at any rate, confined strictly to the alleviation of temporary emergency situations.

SPECIAL REGULATIONS FOR OIL TRADE

Among the permanent exemptions to the standard treaty provisions are a large number of goods whose common customs tariff will not be computed on the basis of the arithmetic average of the duties of the six members on January 1, 1957, but on some special basis. Virtually all petroleum products and many petro-chemicals fall under these special provisions. These are listed in Lists A to G of the official annexes to the Common Market Treaty.

LISTS OF SPECIALLY TREATED PRODUCTS

List A sets special duty rates (different from the actual duty rates) to be taken into account for France for the purpose of computing the arithmetic average for the Common tariff on a selected number of items. Goods of interest to the petroleum industry on this list include aromatic hydrocarbons and nitrogenous fertilizers.

List B is in respect of goods of which duties under the common customs tariff may not exceed 3%, regardless of the arithmetic average. The only products of interest to the petroleum industry included in the list are natural bitumen or natural asphalt.

List C contains goods whose duties under the Common customs tariff may not exceed 10%, regardless of the arithmetic average. These products include coal tar oils, ozokerite, petroleum bitumen and other petroleum and shale residues, except petroleum coke.

List D specifies the goods for which the Common Customs tariff may not exceed 15 percent. There are no petroleum products in that list.

List E which sets a 25% limit on common customs tariffs consists, among others, of organic chemicals, including such petrochemicals as aromatic hydrocarbons (excl. napthalene), dichloromethane, chloride of monomer vinylidene and paratoluene.

List F contains the items on which the eventual common customs tariff has already been fixed by mutual agreement among the member countries. This list is of special significance to the oil industry since it sets a duty rate of zero on all crude petroleum and shale oils as well as on petroleum coke. It also fixes the eventual common duty for carbon black at 5%, and for napthalene and tertiary butyl alcohol at 8%.

Finally, List G, in respect of which duties under the common customs tariff are yet to be specifically negotiated between the member states, includes all refined petroleum products not elsewhere specified as well as gaseous hydrocarbons, petroleum jelly, paraffin wax, butyl alcohols and synthetic rubbers.

SPECIAL OIL PROTOCOL

All the commodities on these seven lists form exceptions to the general principle of a common customs rate for all imports into the area, as specified in the main body of the treaty. Yet, in a number of cases these exceptions are still not enough to prevent harmful effects on specific industries in specific member countries. In order to further mitigate these a number of special protocols are included in the treaty. Of great significance to the oil industry is the "PROTOCOL CONCERNING MINERAL OIL AND CERTAIN OF THEIR DERIVATIVES". This protocol was included mainly upon the urgings of Germany. Its main function is to protect that country's high-cost crude oil production against low-cost foreign oil.

The wording of the Protocol is as follows:

"1. Each Member State May, for a period of six years from the entry into force of the Treaty, maintain, vis-a-vis other Member States and outside States, the same customs duties or taxes with equivalent effect as were levied on products under hearings Nos. 27.09, 27.10, 27.11, 27.12, and ex 27.13 of the Brussels Nomenclature (see footnote below) on 1 January 1957, or at the date of the entry into force of the Treaty, if then lower. Nevertheless, the duty maintained

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27.09 - crude petroleum and shale oils
27.10 - petroleum and shale oil, other than crude
27.11 - petroleum gases and other gaseous hydrocarbons
27.12 - petroleum jelly
ex 27.13 - paraffin, waxes of petroleum and shale oils and paraffin residues

on crude oils may not be such as to result in an increase of more than 5% in the difference existing on 1 January 1957 between the duties imposed on crude oils and those imposed on the derivatives referred to above. Should no such difference exist, no difference created later shall exceed 5% of the duty in force on 1 January 1957 on products listed under heading No. 27.09. If, before the end of the period of six years, a reduction is made in the customs duties or taxes having an equivalent effect for products listed under heading No. 27.09 , those customs duties and taxes having an equivalent effect which are levied on the other products referred to above shall be subjected to a corresponding reduction."

"At the end of this period, the duties maintained under the conditions provided for in the preceding paragraph shall be completely abolished vis-a-vis other Member States. At the same date, the common customs tariff shall apply vis-a-vis outside States."

"2. Any assistance granted to the production of mineral oils under heading No. 27.09 of the Brussels Nomenclature, insofar as such assistance appears necessary in order to bring the price of the crude oils down to that of the world market c.i.f. European port of a Member State, shall come under the provisions of paragraph 3(c) of Article 92* of the Treaty. During the first two stages, the Commission shall make use of the powers provided under Article 93*only to the extent necessary to prevent the unfair application of such assistance."

The meaning and purpose of this special protocol is to give any member country a six-year grace period before abolishing all existing intra-Common Market tariffs on oil products as well as reducing the common customs tariff on crude oil imports to zero, as stipulated in List F. However, during this grace period the relationship between the duties on crude oil and refined products must not be significantly altered from what they were on January 1st, 1957. The protocol imposes therefore a 5% limit on the increase in the duty differential between crude oil and products so that any reduction in crude oil tariffs during this interim period must carry with it a corresponding reduction in products tariffs.

After the six years all internal oil tariffs shall cease to exist, as shall all external crude oil tariffs. A common external tariff for products is to be instituted, the magnitude of which is still to be determined by negotiations, as per List G.

SUBSIDIES FOR OIL PRODUCTION

After the protective tariffs have been abolished, member countries may still protect their crude oil production through state subsidies. In the first two provisional stages (8-10 years) no special permission from the Common Market Authority is required for such a subsidy. Thereafter,

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* Article 92, par. 3(c) permits the granting of state aid "to facilitate the development of certain activities...provided such aid does not disturb trading conditions to a degree contrary to the common interest."

it must have the Authority's majority consent. Since Germany is the only country which presently protects its crude oil producers by means of a high tariff on foreign oil, the protocol will have most meaning for it.

CURRENT FISCAL BURDENS ON OIL

This is shown by the following table of duties and taxes on crude oil and major products in the Common Market countries:

Tariff and Tax Burdens on Oil in Common Market Countries

(as of middle 1956 in dollars per metric ton)

		GASOLINE			GAS/DIESEL OIL			FUEL OIL		
	Imported Crude Oil	Imported	Made from Imp.Crude	Made from Dom.Crude	Imported	Made from Imp.Crude	Made from Dom.Crude	Imported	Made from Imp.Crude	Made from Dom.Crude
BELGIUM		108.29	104.62	--	3.31	3.50	--	1.00	1.19	--
NETHERLANDS		69.96	60.45	60.45	1.81	--	--	0.93	--	--
LUXEMBURG		98.64	--	--	1.76	--	--	0.62	--	--
W.GERMANY	30.73	105.05	70.86*	70.86	76.46	43.00*	43.00	0.69	--	--
FRANCE		183.32	178.96	178.96	116.17	114.55	114.55	4.03	3.45	3.45
ITALY		208.21	201.35	201.35	111.88	108.67	108.67	6.41	5.95	5.95

* plus $30.73 duty on the imported crude oil

(based on table in Erdoel & Kohle, Feb. 1957)

According to this table, only Germany imposes a high tariff on foreign crude oil and products made from it. In all other member countries domestic and imported oil products carry nearly the same fiscal burden and compete therefore on an equal basis.

SCOPE OF DOMESTIC CRUDE PRODUCTION

The difference between Germany and the other Common Market countries regarding the tariff treatment of oil reflects, of course, the fact that while German crude oil (current production 76,000 b/d) supplies nearly 30 percent of all domestic requirements, indigenous production in the five other countries is, or has until recently been, either non-existent or relatively insignificant. It is interesting, however, that just as the Common Market is about to become a reality, three of the five countries are beginning to develop a significant crude oil production of their own which may well force them to take protective measures too.

Up to now, the domestic oil output in none of these countries looms nearly as large in total consumption as it does in Germany. France's production of 30,000 b/d and Italy's production of 25,000 b/d provide only 7-9 percent of their countries' respective needs while the Netherlands output of 26,000 b/d is equivalent to 17-18 percent of total requirements. However, in all four of these countries recent significant additional discoveries have been made and existing fields are being further developed so that the increase in production is expected to grow at a faster rate than the increase in consumption.

The most important of these new discoveries is, of course, France's find in the Algerian Sahara. If current estimates are even half-way correct these deposits should make France Europe's largest oil producer by the time the Common Customs duty on crude oil is to be abolished. Whether, and by what means, France will then wish to protect Algeria's oil production against Middle East competition depends, of course, on the political state of Algeria six years from now. The Common Market treaty does recognize the existence of France's Algerian problem in a special protocol but specifically avoids taking any position on the subject.

EFFECT OF COMMON MARKET ON INTRA-EUROPEAN OIL TRADE

What will be the effect of the Treaty's oil tariff on Europe's oil trade? The abolition of the external crude oil duties may have some effect on some of the Community's four producing countries. But these could easily be nullified by the introduction of producing subsidies.

CURRENT INTRA-COMMON MARKET OIL TRADE

The abolition of all internal tariffs on oil products is, per se, also unlikely to alter significantly the oil trade pattern of the Common Market countries. The main reason for this is that every one of them is more than self-sufficient in refinery capacity and, therefore, does not need to rely to an important degree on products imports from any other member country. The following table shows the refining surplus in each of the six countries:

	Refinery Capacity (End 1956)	Consumption (1956)
Belgium/Lux.	137,000 b/d	106,000 b/d
France	503,000 "	395,000 "
Germany	300,000 "	295,000 "
Italy	525,000 "	242,000 "
Netherlands	260,000 "	140,000 "
	1,725,000	1,178,000

In 1956 the six countries together imported about 200,000 b/d of major products, equal to 15 percent of their combined total major products consumption. However, they also exported 445,000 b/d, thus making the area a net exporter of 225,000 b/d. Only about one third of the imports and one sixth of the exports represent shipments between Common Market countries.

Thus, intra-Common Market oil shipments are at present equal to only one seventeenth (5.7%) of the six countries'combined consumption. They are therefore not an important factor in the region's oil supply and demand pattern.

In the case of Germany - the only one of the six countries with a sizeable deficit in its oil products trade - the abolition of intra-regional tariffs should bring about some increase in oil purchases from other Common Market countries and a corresponding decline in outside purchases. Otherwise, oil trade within the Common Market is unlikely to be increased by the mere abolition of customs duties which (again, except for Germany) are already quite insignificant anyway.

CONSUMPTION PATTERNS IN COMMON MARKET COUNTRIES

The difficulty in raising the level of intra Common Market trade in oil products lies largely in the fact that the consumption patterns of the six countries show a certain similarity in that they consist in each case of a high degree of fuel oil consumption and a correspondingly low degree of gasoline consumption, as the following figures show:

Share of Major Products in Total Consumption*
of Common Market Countries
(1955)

	France	Italy	Germany	Netherlands	Belgium-Lux.
Gasoline	28.1	14.0	29.6	15.6	27.0
Kerosene	1.1	2.8	2.2	6.5	1.9
Gas Oil & Distillates	31.2	17.9	42.9	26.4	36.7
Fuel Oil	39.6	65.3	25.7	51.1	34.4
	100.0	100.0	100.0	100.0	100.0

* Exclusive of lubricant and other specialty products.

Thus, even at the prevailing low refinery yields of light products all six countries had a surplus of gasoline in 1955 and the first 10 months of 1956, while - except for Germany - all were at least self-sufficient in black oils. This means that under present conditions not much complementary trading can exist between them since they all face the problem of how to dispose of their excess gasoline. In fact, unless there is a drastic change in the area's consumption pattern, this problem is bound to become worse. The following comparison of last year's increases in gasoline, diesel and fuel oil consumption is an indication of that.

Percentage Increase in Inland Oil Consumption
from 1955 to 1956

	Gasoline	Diesel Oil	Fuel Oil
France	6.5	18.1	11.3
Germany	16.4	12.7	76.4
Italy	11.0	10.0	23.0
Netherlands	10.9	11.5	34.1

In each country fuel oil consumption increased at least twice as fast as gasoline consumption. In Germany it was even 4.5 times as fast. Furthermore, all projections show that this disparateness in the growth rate between gasoline and fuel oil consumption will continue for the foreseeable future.

SPECIALIZATION OF REFINING OUTPUT

Yet, this may be just the kind of problem towards whose solution, or at least alleviation, the Common Market may be able to make a real contribution. Once the economic boundaries between the six countries have been removed there will be no real reason for the refineries in any given country to strive to meet that country's entire run of oil products needs. This could very well lead to greater specialization in refinery output throughout the Common Market area and, consequently, to more complementary intra-regional trade.

Such specialization, predicated on the existence of a larger market than is offered by any one of the six states, lies, of course, at the very basis of the entire Common Market philosophy. Another aspect of this development will be the possibility of selecting future refinery sites strictly on the basis of economic and geographic factors without consideration of national borders. Of course, in all this, theory and practice do not usually develop hand in hand. For quite a while, therefore, nationalist attitudes can be expected to assert themselves in opposition to any project which would make one member country dependent on a supply source located outside its political boundaries. But by the end of the transitional period the spiritual Europeanization of the area should be far enough advanced to overcome such imponderable barriers to free trade.

ATOMIC ENERGY AND OIL CONSUMPTION

Even more important than the Common Market organization in reducing the imbalance between Europe's light and heavy oil products consumption may be its twin brother Euratom. According to the European Coal & Steel Community's recent report, "A Target for Euratom", about two thirds of the projected annual rise in the six countries' electricity requirements would have to be met by new thermal power stations, if atomic energy is not employed. Since according to the report, all the fuel for these new thermal stations would have to be imported, it is likely that the bulk of them would be oil-fueled rather than coal-fueled, in view of oil's greater burning efficiency and lower ocean transportation cost per unit of weight. Also, coal imports - being mainly of U.S. origin - would require a considerably higher dollar outlay than oil imports which come mainly from the Middle East.

Thermal power stations already account for about 7 percent of the six countries' total fuel oil consumption. And since electricity requirements in the Euratom area are expected to grow at nearly twice the annual rate of total energy requirements over the next two decades, both the amount and the share of fuel oil required by thermal stations would increase very steeply in the future, in the absence of atomic energy.

However, according to the report, atomic power stations will begin to play an important role in supplying Europe's electricity needs from 1963 on. In fact, of the 22.5 million kw of new thermal station capacity (aside from replacements) needed between 1960 and 1967, some 15 million kw will be supplied by atomic energy, according to the report. If this estimate proves correct, the actual rise in conventional thermal power needs over the next ten years would be considerably less than in the last ten years. After 1968, atomic energy would obviate all needs for new conventional thermal stations. It can easily be seen that this development will have a significant retarding effect on the rise in European fuel oil consumption, starting from 1963.

OVERSEAS EXTENSION OF COMMON MARKET

Outside of the customs duty provisions, several of the more general directives of the Common Market treaty may also have direct applicability to the oil industry. Among these is the agreement -- limited at first to a 5-year trial period -- to extend the treaty to the overseas territories of the member countries. This association of the dependent "overseas countries and territories" with the Common Market will mean that in their trade with these areas "the member States shall apply the same conditions as they accord each other by virtue of the present Treaty." Thus, "goods originating in the (Overseas) countries and territories shall on importation into Member States benefit by the total abolition of customs obstacles which is progressively to take place between Member States in conformity with the provisions of the.....treaty." This does not mean that all duties between the overseas territories and the Common Market States will necessarily be totally abolished. The overseas areas are given specific permission to "collect customs duties to meet the needs of their development...or to contribute to their budget." However, all such duties must "be progressively reduced to the level of those imposed on importation of products coming from" the mother country of each overseas country or territory. Thus, for example, an oil exporter in Italy will be able to sell oil to the Belgian Congo under the same conditions than his competitor in Belgium. On the other hand, British or U.S. exporters may well find themselves excluded from these territories by virtue of the higher tariff rate applied against their products.

The treaty also stipulates that nationals and companies of all member states shall progressively be given the same "right of establishment" than is now extended to nationals and companies of the dependency's mother country.

SPECIAL TREATMENT OF NETHERLANDS WEST INDIES

The list of the overseas countries and territories includes virtually all overseas dependencies and trusteeships of France, Belgium, the Netherlands and Italy in the Eastern hemisphere but leaves out most Dutch and French possessions in the Western hemisphere. This is of special significance to the oil industry because of the great importance of the Netherlands West Indian islands of Aruba and Curacao to international oil trade.

In fact, in the case of the Netherlands West Indies the treaty annex contains a special protocol which stipulates, among other things, "that the application of the Treaty establishing the European Community shall not entail any change in the customs treatment applied at the time of the entry into force of the Treaty in respect to the importation into the Benelux countries of goods originating in and coming from Surinam or the Dutch West Indies." The same protocol also states that goods entering the Benelux countries from Surinam or the Dutch West Indies shall not be "freely available" for re-exports to other member states, such as is foreseen for most other imports entering any member country from the outside.

The full meaning of this provision is not quite clear since a list of the goods which will be affected by it has yet to be submitted to the Common Market Commission. However, it would appear that its consequences will be (1) that any special import arrangements for oil products from the Dutch West Indies into the Benelux countries are not automatically extendable to the rest of the Community, and (2) that the principle of the abolition of intra-Common Market duties will not automatically apply to the re-exportation of Dutch West Indian oil products from the Benelux countries to any of the three other member countries.

INVISIBLE AND INDIRECT EFFECTS

Finally, the treaty also contains a list of invisible transactions on which all "member states undertake not to introduce between themselves any new restrictions" as regards exchange transfers for payment of these transactions. The following items in the list are of special concern to the oil industry:

- Maritime freight, including chartering, harbor expenses
- Inland waterway freight, including chartering
- Road transport, including chartering
- Air transport, including chartering
- All means of maritime transport (bunkering and provisioning, etc.)
- All means of commercial road transport; fuel oil, minor repairs, etc.
- All means of air transport.

THE COMMON MARKET PSYCHOLOGY

In assessing the full consequences of the Common Market to the oil industry -- or any industry, for that matter -- it is necessary to consider not only the spelled-out provisions, as we have done here, but also the intangible ones which may in the long run well prove the more important ones. For, if the Common Market scheme is a success it will bring about a fundamental change in the public approach to "national economics". This, in turn, may well have wider repercussions on any regional project than the carefully worded step-by-step approach of the treaty, often followed by an equally carefully worded escape or postponement clause.

For instance, a regional pipeline system crossing the borders of all six countries may no longer be considered a political risk for just that reason. In the recent determination of whether to lay a crude oil pipeline to the Ruhr from Wilhelmshaven or Rotterdam, the consideration that Rotterdam would have necessitated the crossing of an international boundary had certainly something to do with the final choice of Wilhelmshaven. In a fully integrated Common Market such considerations should become increasingly insignificant.

MORE GOVERNMENT CONTROL OF ENERGY SECTOR

Finally, in considering the effects of the Common Market on the oil industry, we must ask whether it will not mean more government control of the industry. While it is, of course, quite impossible to answer this question at this stage of the project, the prerequisites for such a development exist already.

Oil may soon be the only part of the European energy sector not directly controlled by national or supra-national organizations. Coal has already been under some form of control, including stand-by price control, since the inception of the European Coal and Steel Community which will now become affiliated with the Common Market and Euratom. Since Euratom will also have final control over all peaceful uses of atomic energy, the regional organization will actually be directly responsible for over 55 to 60 percent of total energy consumption by 1970, according to present plans. Since hydro-electricity and natural gas production in the six countries are already almost exclusively in government hands, only the oil sector would still remain private.

It is easy to see that this makes it a "natural" target for the advocates of government supervision for Europe's energy sector. Of course, such control would by no means be tantamount to nationalization of the industry. The European coal industry has now lived for over five years within the framework of the Coal and Steel Community without any further nationalization. Yet, the freedom of decision of private coal concerns, as far as pricing and sales policy is concerned, is considerably less than that currently enjoyed by private oil companies operating within the ECSC countries. There are no specific provisions in the Common Market or Euratom treaties to suggest the extension of the coal-type or atomic energy-type of control to the oil sector. But, then, the most important aspect of the Common Market will probably not be its written directives, arrived at prior to any practical experience in the field of full economic fusion, but the application of its basic principles to the economic problems of the day.

THE COMMON MARKET AND U.S. OIL EQUIPMENT EXPORTS

Besides the oil industry, the Common Market is also expected to have a direct effect on the <u>oil equipment industry</u>. This, in turn, is significant for the U. S. oil equipment industry since Western Europe and the Middle East are currently the major market outlets for U. S. Oil equipment exports. (One of the largest oil field and refinery equipment manufacturers reports that his sales to these two areas are now equivalent to 25 percent of his total annual sales volume of about $300 million).

The Common Market is bound to stimulate the European domestic oil equipment industry by giving it a larger market as well as the benefits of regional restrictions against outside imports, i.e. mainly U. S. imports. It will also give it advantages over U. S. firms in the European overseas dependencies in Africa and Asia. Thus, American oil equipment sales to Europe will not fully share in the growth of the European (and also North African) oil industry. Certain specialty items will undoubtedly continue to be bought from the U. S. but for any equipment for which the Americans have to compete with local European manufacturers, they are likely to find themselves at a permanent disadvantage within two or three years.

OVERCOMING OBSTACLES OF COMMON CUSTOMS TARIFF

One way to overcome this obstacle would be for the American firms to open subsidiary plants <u>within</u> the Common Market area. This would give them the opportunity to join in the expected growth of the new economic unit and in the overseas extension of its system, under the same conditions than local firms. Another way of jumping the hurdle of the Common Tariff might be for U. S. firms to extend licenses to European concerns to manufacture certain patented or brand-named U. S. equipment.

It should not be implied from the above that the increase in intra-regional trade in the Common Market area will be entirely at the expense of imports from the outside world. The economic fusion of the six countries will, per se, bring about a higher level of economic activity and, thus, an increase in effective demand. However, the supplier located <u>inside</u> the new community will, of course, reap the main benefit of the increase while the supplier on the <u>outside</u> will have to overcome the traditional disadvantages of any importer vis-a-vis the domestic producer. To a certain extent this has, of course, always been the case. But from now on any importer into a Common Market country will not only have to take into account his competitors in that country but in the five other member countries as well.