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SPECIAL REPORT

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LIMITED BLOC ACTIVITY FORESEEN IN WORLD OIL MARKET

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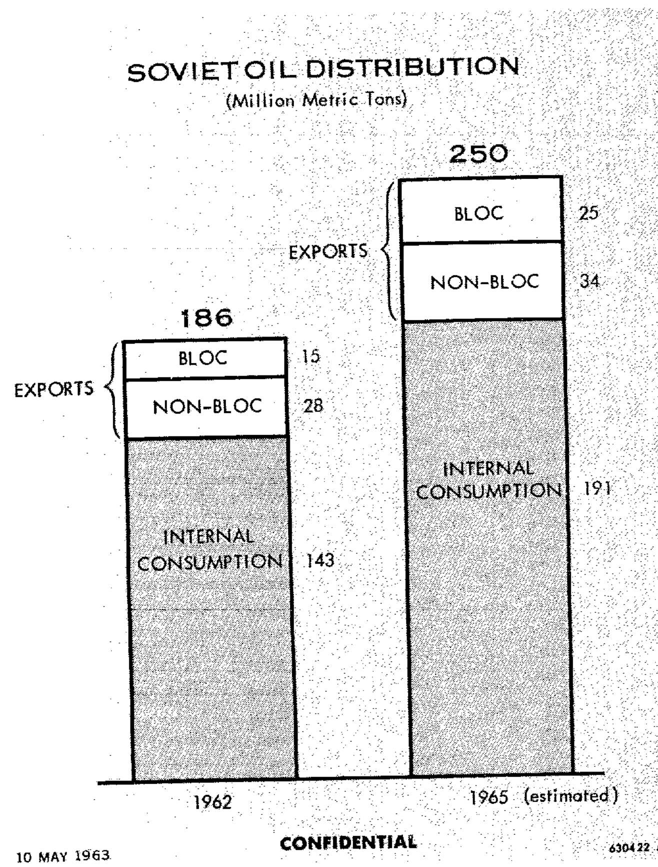
LIMITED BLOC ACTIVITY FORESEEN IN WORLD OIL MARKET

The USSR's production of crude oil is not likely to expand fast enough in the next few years to meet its own growing demands and those of its satellites and at the same time provide any significant increase in exports to the free world. Moscow could, for political purposes as in Cuba, meet a sizable additional export demand, but only by restricting domestic consumption or cutting back existing trade contracts. It might, however, make deliveries to gain a major share of some markets where total demand is relatively small, and it has some flexibility in its sales to more than 20 nonbloc importers whose annual purchases now total less than 500,000 tons apiece.

Oil Production and Availability for Export

The USSR produced 186 million tons of crude oil in 1962, about half as much as the US. Production in each of the first four years of the Seven-Year Plan period (1959-65) has exceeded the plan by a few percentage points, and this pattern is expected to continue, with production in 1965 now forecast to be 250 million tons. Investment in the industry is lagging, and targets for the construction of oil pipelines and other distribution facilities have not been met.



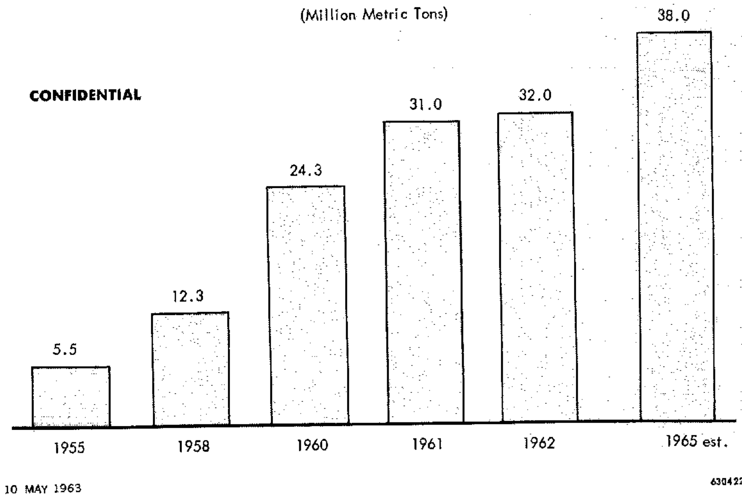
Soviet bloc exports of oil to nonbloc countries had grown at an average rate of 33 percent per year from 1955 through 1961. However, when Soviet domestic consumption sharply increased in 1962, bloc exports grew by only 4 percent to a total of 32 million tons, worth an estimated $400 million. It is expected that any increases over the next three years will not be much above the 1962 rate and that about 38 million tons will probably be available for export to nonbloc countries in 1965.

Most of the oil available for export this year appears to have been committed already. Moscow set an export target of only 850,000 tons of oil for this year in its trade agreement with Brazil--a country seeking to expand trade with the bloc. This would amount to 8.5 percent of anticipated Brazilian oil imports. In negotiations with Turkey in late March this year, Moscow reportedly turned down a relatively small sale because the USSR was "fully committed."

Soviet oil available for export to nonbloc countries is expected to increase slowly, perhaps by 6 million tons in the next three years. Sales to the free world by Rumania, the only satellite oil exporter of any consequence, are not expected to increase and will probably remain at about 4 million tons. During the same period, world requirements for oil are expected to grow rapidly, so that the Soviet bloc share of the total free world market will fall from about 4 percent at the present time to less than 3 percent.

SOVIET BLOC OIL EXPORTS TO NON-BLOC COUNTRIES

(Million Metric Tons)



Sales Outside the Bloc

The pattern of Soviet oil sales appears to be determined by the fact that oil is the USSR's largest earner of the foreign exchange needed to pay for imports of machinery embodying advanced technology. As a result, most sales have been made to the major oil-consuming countries in Western Europe.

International oil companies often portray Soviet sales as a disrupting influence in the market. Experience with Soviet participation has indicated, however, that Moscow is usually more interested in securing a firm position in an expanding market than in destroying existing marketing systems. As has been the case when the USSR first entered other export markets--e.g., tin or aluminum--it began by offering a product meeting international standards at an attractive price. Large variances from posted Persian Gulf oil prices, both by the USSR and international oil com-

SOVIET BLOC EXPORTS
TO NON-BLOC COUNTRIES, 1962
(Million Metric Tons)

INDUSTRIAL COUNTRIES		UNDERDEVELOPED COUNTRIES	
ITALY	7.2	CUBA	4.5
WEST GERMANY	3.0	EGYPT	1.4
FINLAND	2.9	GREECE	.9
JAPAN	2.8	OTHERS	1.3
SWEDEN	2.3		
FRANCE	1.2	total	8.1
AUSTRIA	.9		
BENELUX	.7		
OTHERS	2.9		
total	23.9		

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panies, make exact price comparisons difficult.

It appears that Soviet prices to West European consumers now are established to secure maximum foreign exchange earnings. An important exchange in oil negotiations is the USSR's ability to tie sales to specific Soviet purchases of goods and to tailor payment terms as the situation requires.

The impact and potential leverage of bloc oil sales vary widely in individual countries. At the present time, the bloc is the sole source of oil for Cuba and is the major supplier to Finland and Iceland. In Greece, Egypt, Austria, Italy, and Yugoslavia, the bloc supplies a substantial share of the market. However, enough free-world oil and transport would be available for these markets to minimize the effect of any Soviet attempt to wield political influence by withholding oil. In each of these countries except Italy, which is developing an independent oil capability, the total market is relatively small.

Bloc oil shipments to the underdeveloped countries are, in most cases, to those nations which are partially nationalizing their domestic petroleum industries and in which the government participates directly in the oil trade. The appeal of Soviet oil to some underdeveloped countries is enhanced by its usefulness as a means to pressure the international oil companies. For example, Ceylon, which consumes one million tons of oil per year, is using the threat of increased purchases from the bloc as a bargaining lever in acrimonious negotiations concerning use of oil distribution facilities owned by Western oil

SOVIET BLOC SHARE
OF 1962 MARKET

(more than 15% of local demand)

CUBA	100 %
FINLAND	99
ICELAND	62
GREECE	34
EGYPT	28
AUSTRIA	25
ITALY	22
YUGOSLAVIA	22
SYRIA	17
SWEDEN	17
CEYLON	16

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companies. The universality of the use of oil and the relative ease of substituting Soviet for Western oil also have made it particularly suitable for promoting trade with the underdeveloped countries.

Total consumption in many of these countries is so limited that the USSR, with a small quantity of oil, can secure a large share of the market. Initial Soviet penetration in these countries was made possible to a large extent by the rigid policies of free world oil companies in the mid-1950s. The USSR, not having been associated with the oil industry in the underdeveloped countries prior to 1955, was helped in entering these markets by the efforts of the new governments to gain control of oil facilities in their countries heretofore operated by Western companies.

In 1962, 16 underdeveloped countries, not including Cuba, received 2.5 million tons of oil, only 8 percent of bloc exports to the free world but ranging from 3 to 62 percent of local requirements. These deliveries, often in insignificant quantities, are nevertheless considered by free world oil companies serious inroads in markets developed for their potential.

While Soviet oil sales are primarily economically motivated, important foreign policy considerations could warrant deliveries. Shipments of about 4.5 million tons to fulfill all Cuban annual requirements not only tied up a large share of the Soviet tanker fleet but apparently were made at the expense of Soviet domestic consumption. At the time these deliveries were begun there were reports of shortages in the USSR, and oil conservation programs were put into effect there.

Prospects for Expanded Exports

With only a limited quantity of additional oil available for export and with current sales pressing close to availability, Moscow probably will be very selective in any new offers to the nonbloc world. It is most likely to expand sales to existing commercial markets in Western Europe, which pay in hard currencies. Furthermore, sensitive to charges concerning its reliability as a supplier, Moscow undoubtedly would wish to continue selling to those Western industrial countries which now take over 70 percent of bloc oil exports.

Responsibility to meet Cuban needs will probably continue to account for nearly 12 percent of bloc exports. A relatively small amount of oil will be available for delivery to underdeveloped countries to take advantage of unforeseen economic or political opportunities which may present themselves. (CONFIDENTIAL)

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