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ALTERNATIVE SOURCES OF POL SUPPLY FOR COMMUNIST CHINA

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ALTERNATIVE SOURCES OF POL SUPPLY FOR COMMUNIST CHINA

Communist China in recent years has supplemented its domestic supplies of petroleum products with imports obtained almost exclusively from other Bloc countries. In 1962, China imported petroleum products (there have been no significant imports of crude oil in the last 2 years) equivalent to a rate of about 37,000 barrels per day (bpd), virtually all from the USSR. The peak of Communist China's imports of petroleum occurred in 1960, when deliveries from other countries averaged 63,000 bpd.

The only sizable recent imports of petroleum from non-Bloc sources occurred late in 1960 and early in 1961, when British and French suppliers shipped about 800,000 barrels of products to China. China also has imported small quantities of lubricating oils through brokers in the UK for the past several years.

Since about 1958, there have been recurring reports regarding the possible sale of crude oil and/or petroleum products to China by Iraq, Egypt, Japan, Indonesia, and the UK. There is no evidence, however, that any sales have been consummated.

1. Alternative Sources of POL Supply

In addition to the US, there are a number of non-Bloc suppliers who have the capability to supply, in whole or in part, China's demand for imports of petroleum products. Although only a few of these suppliers could provide aviation gasoline, many of them probably could provide jet fuel.

Indonesia

The Government of Indonesia does not now own or control refining capacity sufficient to meet China's requirements for imports of petroleum products. The Shell Oil Company alone has refining capacity sufficient to supply all of China's import demand, including China's relatively small demand for aviation gasoline. In 1962, Shell refineries in Indonesia operated at a level of about 160,000 bpd and had unused capacity equivalent to about 30,000 bpd, or about 80 percent of China's total imports of petroleum products in that year.

Japan

The Shell Oil Company owns or controls refining capacity in Japan that could provide products (except aviation gasoline) to China. Idemitsu Kosan, the largest independent oil company in Japan, also has refining capacity sufficient to provide products (except aviation gasoline) to China. Idemitsu Kosan procures some of its crude oil from the Gulf Oil Corporation (and some from the USSR).

UAR

Egypt has refining capacity at Suez (on the Gulf of Suez) that could provide petroleum products (except aviation gasoline). Egypt's refineries have imbalances in product output that occasionally result in surpluses of certain products -- for example, three cargoes of motor gasoline were shipped to China in 1962 on the Soviet account. These deliveries were effected under a Soviet-Egyptian arrangement whereby the USSR agreed to help Egypt dispose of excess motor gasoline.

Syria, too, has a surplus of some products, but toll charges for the Suez Canal would add to the total cost of delivery.

Middle East

The British Petroleum Company refinery at Aden represents a possible source of supply of petroleum products (except aviation gasoline) for China. The Consortium refinery at Abadan (Iran), in which both British Petroleum and Shell have an interest, also represents a possible source for products, including aviation gasoline.

Italy

Although Suez toll charges and added ocean freight would militate against Italy as a source of products for China, there are several independent oil companies, as well as ENI (Ente Nazionale Idrocarburi), which could contribute to China's supply of petroleum.

Others

For the past several years, trade agreements between Iraq and China have provided for the sale of crude oil to China, but no deliveries of crude oil under these agreements have actually been made. The government-owned refinery at Baghdad does not have sufficient capacity to provide products to China.

Ceylon also has been mentioned as a possible intermediate supplier for China. Recent reports, for example, discuss construction of a refinery at Colombo that might process Indonesian crude oil, which China in turn could purchase. Such an arrangement, however, probably could not be implemented for at least 2 years.

2. Prospects for US Attempts to Block Sales to China

As long as China refrains from overt aggressive action, it is unlikely that the US could get sufficient international cooperation to block sales of oil to China. Even under conditions of Chinese aggression, there may be difficulties in limiting shipments from certain suppliers. There are no established international agreements -- to which the US is a signatory -- that could be implemented to prevent such sales. The petroleum products that China would want to import are not on the COCOM embargo list, and there is practically no possiblility that such products could be added to the list. Reestablishment of a denial list to apply only to China (and only to petroleum) is considered politically impossible. Under present circumstances an attempt by the US alone to impose on its NATO allies and Japan its position with respect to petroleum shipments to Communist China would provoke at the least an extremely unfavorable reaction and probably would be ineffective.

A recent message from Averell Harriman, Under Secretary of State for Political Affairs, to Mr. Wilkinson, a director of Shell Oil, made known to Shell, US anxiety at the possible sale of oil to China by Shell (from Indonesia or elsewhere). Wilkinson in reply indicated that although Shell is not now interested in sales to China, he could not say that there would be no change in Shell's attitude toward such sales.

3. Problems with Respect to Alternative Sources of Supply

Communist China's selection of alternative sources of supply of petroleum would necessitate a shift from almost complete dependence on rail transport, which characterizes the current pattern of imports, to dependence on ocean transport. China has a very limited tanker lift capability that is now fully employed in coastal service. In the continuing soft tanker market, however, China probably would have no difficulty in chartering Free World tankers.

A shift to non-Bloc suppliers in most instances probably would require that China pay for its petroleum imports (and transport) in hard currency. Considering the estimated value of its POL imports in 1962 (about $80 million -- based on prices f.o.b. Singapore), China could generate sufficient foreign exchange to purchase these imports from Free World sources by diverting its export trade from the Bloc to non-Bloc areas. Moreover, immediate requirements for hard currency could be provided from current foreign exchange holdings.

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Next 3 Page(s) In Document Exempt