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Directorate of Intelligence

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International Economic & Energy Weekly

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1 August 1986

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1 August 1986
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Synopsis

1 **Perspective—Israel: Political Versus Economic Reality**

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The Israeli Government faces the dilemma of attaining a high and growing standard of living while preserving its social welfare system and providing for its massive defense needs—it cannot afford all three. While many argue that economic reform is needed, circumstances—such as Israel's costly defense needs—and political realities will not allow anything but gradual change at best.

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3 **Israel: Austerity After One Year**

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The economic stabilization program begun by Israel's National Unity Government one year ago has achieved some remarkable results—in particular, cutting inflation from 27.5 percent to 1.6 percent per month, stabilizing the shekel, and slashing the budget deficit. Prospects for continued effective austerity, however, will be severely tested in coming months by delicate wage negotiations, the scheduled rotation of the prime-ministry from Labor to Likud, and growing political pressure to spur growth.

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7 **Algerian Gas: Tough Negotiations Ahead**

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With the decline of Algeria's oil reserves, which could well be exhausted by the end of the century, the country's vast natural gas resources are assuming a more prominent role in the economy. Ongoing negotiations with Algiers' West European customers, particularly France, will establish the price and volume of Algerian gas exports for at least the next two to three years, and, perhaps more important, could go a long way toward determining Algeria's ability to be a major international exporter of natural gas.

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11 **Malaysia: Persisting Economic Slump**

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Malaysia's current economic slump, ending more than a decade of dynamic growth, is likely to continue at least through mid-1987. In spite of the weak economy, the government of Prime Minister Mahathir will retain power in the 3 August general election.

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15 **Tin Market Collapse: Continuing Fallout**

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We expect weak market conditions for tin to persist for the next few years. Although most major tin-producing countries will probably emerge with smaller, more efficient industries, some, such as high-cost-producer Bolivia, may see their tin sectors dramatically reduced.

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19 **Romania: Economic Adjustment Strategy Falters**

President Ceausescu's obsession with paying off foreign debt continues to burden the economy but has left Bucharest still dependent on foreign creditors. Consequently, Romania will have to endure austerity considerably beyond 1988—Ceausescu's original goal.

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Perspective

Israel: Political Versus Economic Reality

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The Israeli Government faces the dilemma of attaining a high and growing standard of living while preserving its social welfare system and providing for its massive defense needs—it cannot afford all three. Many Israeli economists—people who know what should be done to alleviate the country's substantial economic problems—lack the political clout to implement needed reforms. Economic officials throughout the government agree that marginal tax rates are too high and the tax system should be reformed; that subsidies should be cut and the deficit reduced; that the government should stop dominating the capital markets and allow private businesses freedom to operate effectively; and that even the pervasive indexation found throughout the economy should be eliminated.

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These same people, who zealously defend their convictions, admit that none of these reforms are anticipated any time soon. They state that economic stability has not yet been achieved; that it is not yet time to press these issues. What they mean is that circumstances—such as Israel's costly defense needs—and political realities will not allow anything but gradual change at best.

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The outside observer often overlooks the Israelis' affinity for the quasi-socialist philosophy of government that was instituted by Israel's founders. The government acts in large part as a leveling agent, taxing at a rate equal to 50 percent of GNP and then returning over two-thirds (36 percent of GNP) in the form of transfers and subsidies. The government is Israel's largest employer and owns at least a part of most of the major enterprises. Moreover, many of the country's agricultural and business units are communes, many founded in the early years of the Jewish resettlement of Palestine. Finally, the country's powerful labor organization, Histadrut, which includes as members over 80 percent of the Israeli labor force, exercises control over the cooperative sector of the Israeli economy. Histadrut is also Israel's second-largest employer, and runs the health insurance fund to which 83 percent of the population belongs. Altogether, Histadrut accounts for 20 percent of Israel's GDP; the public sector, 30 percent; and the private sector, the remaining 50 percent.

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Perhaps unique to Israel is that, with every important government decision, its leaders must keep in mind the potential effects that decision may have on migration. Practically everyone in the country is aware that Jewish immigration is falling, that Jewish emigration is increasing, and that in 1985—for only the second time since the nation's founding—more Jews left Israel than came in.

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All of these factors and more push the government into a balancing act that strives to keep worker benefits high and unemployment low, while encouraging business investment and export growth.

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Israel: Austerity After One Year

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The economic stabilization program begun by Israel's National Unity Government one year ago has achieved some remarkable results—in particular, cutting inflation from 27.5 percent to 1.6 percent per month, stabilizing the shekel, and slashing the budget deficit. Foreign exchange reserves have increased $1 billion to almost $3.5 billion. Prospects for continued effective austerity, however, will be severely tested in coming months by delicate wage negotiations, the scheduled rotation of the prime-ministry from Labor to Likud, and growing political pressure to spur growth.

The Stabilization Plan

Following the failure of the government to cure an inflationary and deteriorating economy with a series of so-called package deals—introduced in late 1984—which tied workers and employers to programs freezing prices and wages, the government in July 1985 imposed an austerity program that consisted of:

- *A price freeze.* After cutting some $750 million in government subsidies and allowing general prices to rise 17 percent, the government froze practically all prices.
- *A stable exchange rate.* The shekel was devalued 19 percent against the dollar, and then held stable.
- *A restrictive wage policy.* After giving a partial compensation for past inflation, the government froze and deindexed wages, later allowing wages to rise gradually in line with inflation.
- *A restrictive fiscal policy.* After cutting annual expenditures about $1.2 billion, the government raised taxes. The budget deficit was cut from about 14 percent of GNP in FY 1984/85 to about 4 percent in FY 1985/86.
- *A restrictive monetary policy.* The Central Bank kept interest rates high, pushing real rates as high as an annualized 100 percent at one time.

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Help From the Outside

Several external factors have helped the government exceed its goals. The unexpectedly steep oil price drop helped hold down inflation because part of the benefits were passed on to consumers. The price decline will also save Israel $550-600 million per year on its oil import bill.

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The fall of the dollar against most of the major currencies enabled Israel to maintain its competitive position in nondollar trade areas without a devaluation. The resultant stability of the shekel against the dollar increased the population's faith in the austerity program and helped hold down the demand for imported durables and the pressure for increased wages. A devaluation also would have triggered increases in the popular dollar-linked savings plan, thus feeding purchasing power.

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Supplemental US aid in 1985 and 1986—in addition to the normal annual military and economic aid, almost $3.2 billion in 1985—provided an extra $750 million per year in economic assistance. The supplemental aid, which ends this year, was incorporated directly into the Israeli budget.

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Remarkable Results, But . . .

The stabilization program broke the back of inflation, which had reached 400 percent a year. The government has deregulated prices of about 55 percent of goods and services, suggesting that the underlying inflation rate remains low, and we expect deregulation

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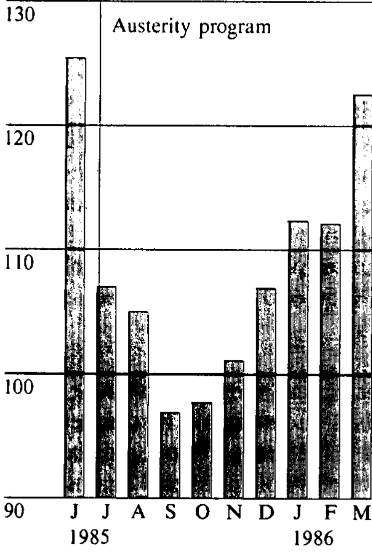
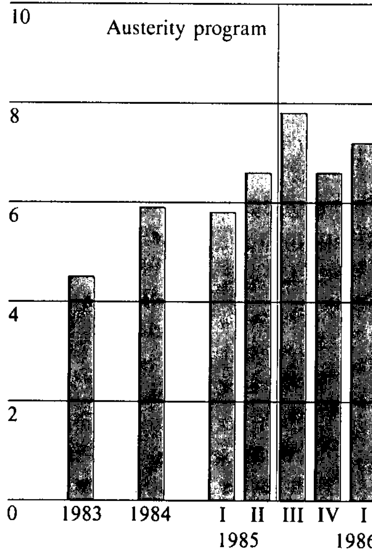
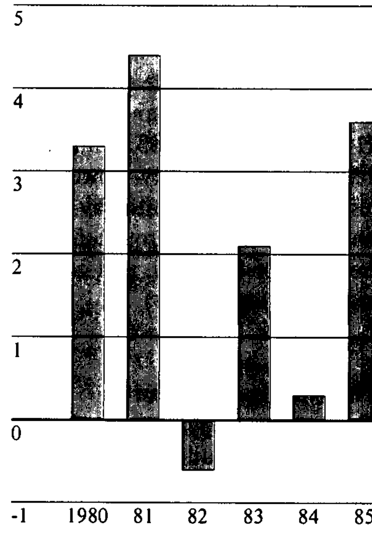
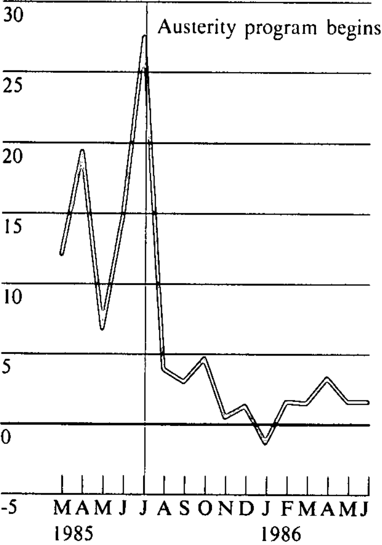
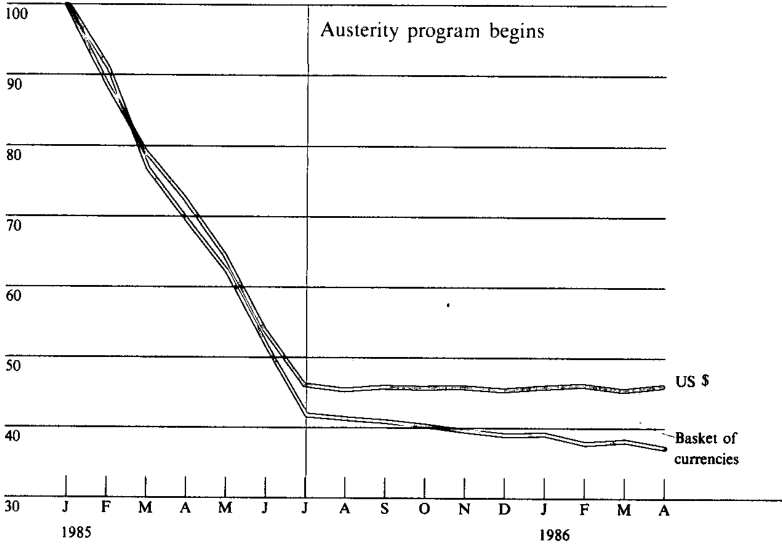
Israel: Selected Economic Indicators











[a] Percentage change from previous month.

[b] Data for the end of each month.

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to continue. Prices of about 20 to 25 percent of all goods—mostly traditionally controlled goods such as transportation, water, and electricity—will continue to be regulated. Even so, inflation in the last few months has been running at about 20 percent per year, well above the single-digit inflation experienced by most of Israel's trading partners and most of its trade competitors.

Even with the wage freeze and the gradual compensation for inflation, real wages are now back to where they were a year ago. If this trend continues or if the recently begun round of wage negotiations ends in excessive increases in wages, Israeli manufacturers will soon find their international competitiveness eroding further.

While government spending has been cut and the deficit reduced, the government has avoided the hard choices it must make to bring about real change. Most of the spending cuts were through reductions in subsidies rather than through cuts in government spending for goods and services. The deficit was also reduced by raising taxes of various kinds, increasing Israel's already burdensome taxation. Total tax revenues equaled 50 percent of Israel's GNP last fiscal year.

The stabilization program also helped Israel enjoy a $1.1 billion current account surplus last year compared with a $1.4 billion deficit in 1984. This surplus included the massive infusion of US aid, however, and there was a disturbing deterioration in the trade balance at the end of the year. Imports this year have continued to be robust, but there has been no corresponding increase in demand for Israeli exports. Unless the drop in oil prices greatly invigorates nonoil world trade, Israel may experience a considerable deterioration of its current account this year. A deficit of more than $2 billion is possible despite the US supplemental aid.

Fundamentals Remain Unchanged

Despite some gains, the country remains burdened with tremendous defense needs that are unlikely to lessen in the near future. Approximately 25 percent of its budget goes to the military, and the Defense Ministry's chief economist believes that there is no more room for further cuts.

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Israel also remains highly dependent on outside, primarily US, aid. Total US aid to Israel in 1985 amounted to about $3.9 billion. With the end of the US special supplement, the government will have to increase taxes or cut expenditures next year by at least $750 million, equal to about 4 percent of the total budget. Excluding defense and debt service, which together equal two-thirds of the budget, the $750 million amounts to more than 11 percent of Israel's ordinary and development budgets.

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The economy, moreover, remains highly indexed at a time when most countries have abandoned indexation. Not only are salaries and savings included, but rents and the government budget are also indexed. This pervasive system of indexation has taken away the economic, and thus political, sting associated with high inflation and probably postponed needed reform.

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Taxes remain unhealthily high, with the government acting in large part as a huge transfer agent controlling the flow of funds throughout the economy. Israel's maximum marginal tax rate is 60 percent, and this rises to 70 to 75 percent when national insurance contributions are taken into account. The government also dominates and regulates the capital market to the virtual exclusion of private enterprise.

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Government Plans

Israeli Government officials are pleased with the results of the stabilization program, particularly that unemployment has not increased appreciably. They recognize, however, that the gains are fragile. The Finance Ministry is preparing a new 45-point program for the second year of austerity that will emphasize further reductions in inflation, but this plan does not include major initiatives.

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The government budget will have to be pared further, and government employee salaries are likely to be held steady in real terms. Cutting government employment, while probably needed, will most likely prove difficult politically, although the number of government workers may be allowed to decline through attrition.

The government also plans to do what it can to hold down real wage increases in the private sector. The manufacturers' association and Histadrut—Israel's powerful labor organization—recently began a new round of wage negotiations. The government will try to influence the outcome of these talks by telling the manufacturers not to expect to be bailed out if they give in to excessive wage demands not compensated for by increased productivity. For this reason, the government probably will postpone a devaluation of the shekel—even though it might be justified—until after the wage negotiations end. A devaluation now might be perceived by the manufacturers as a sign that their trade competitiveness will be maintained even if they give in to excessive wage demands.

According to the Director General of the Finance Ministry, no major tax reform is planned in the near future—even though extensive reform was suggested by a government commission. Only minor changes in the tax laws will occur until the gains from austerity prove to be durable.

In the capital market sphere, the government plans to loosen its control gradually, allowing more private issues to be placed. The government also plans to allow more tradable securities to be issued to foster a truer market environment.

Due to recent changes in its bylaws, the Central Bank will—over the next few years—become increasingly independent of government control on interest rate and monetary policy. By 1988, the bank will no longer be legally required to finance the government's deficits. This change, along with the recent appointment of Michael Bruno—a relatively independent and highly respected international economist—as the new Central Bank governor, will help consolidate the gains of the stabilization program.

No government official has mentioned deindexation of the economy as an issue to be tackled soon, even though such a move would go far in breaking the wage-price spiral that has plagued the Israeli economy. Likewise, privatization of the economy is not a primary concern, although many government officials recognize the potential benefits of such an effort.

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Outlook

While the stabilization program will be maintained in the coming year, the government will be tempted to ease up on austerity—without having made any basic changes in Israel's economic structure. The special US aid supplement is ending, and outside factors, such as the oil price decline, cannot be counted on to again help out.

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Internal dynamics in Israel are also working against continued progress. The recently initiated wage negotiations will most likely be lengthy and may lead to wildcat strikes and excessively large wage hikes. In addition, the scheduled rotation of the prime-ministry from Labor to Likud will bring in a less economically attuned prime minister and may dampen the willingness of labor unions to continue to support austerity.

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The government also faces growing political pressures to undertake a growth strategy at a time when further budget cuts would improve prospects for continued economic success. Unemployment, while relatively low by world standards at about 7 percent, is historically high for Israel. Many businesses and agricultural units are also facing hard times—an unusually high number have recently declared bankruptcy—and are demanding government help. Lastly, the difficulty of attracting and retaining Jewish immigrants is made even worse under austerity. These factors will prompt the government to continue to try to balance the need for austerity against the requirements to maintain a relatively high standard of living and to preserve the current state of Israel's defenses.

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Algerian Gas: Tough Negotiations Ahead

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With the decline of Algeria's oil reserves, which could well be exhausted by the end of the century, the country's vast natural gas resources are assuming a more prominent role in the economy. Natural gas almost certainly will become Algeria's primary source of hard currency beginning in the 1990s; proven reserves are estimated at 3,030 billion cubic meters (bcm)—sixth largest in the world—with an additional 3,000 bcm in estimated potential reserves. Ongoing negotiations with Algiers' West European customers, particularly France, will establish the price and volume of Algerian gas exports for at least the next two to three years, and, perhaps more important, could go a long way toward determining Algeria's ability to be a major international exporter of natural gas.

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The Issues

Traditionally, Algeria has pushed a hard line on prices with its natural gas customers. During the oil boom years, for example, Algiers insisted upon parity between its oil and gas prices by linking its gas prices to market baskets of officially priced OPEC crudes. Algerian-delivered gas prices, as a result, were as much as 40 percent higher than the industry average. Algeria was able to secure these generous terms because its West European customers—France, Italy, Belgium, and Spain—had few easy alternatives. The Soviet Union, for example, only stepped up its efforts to aggressively court—and win—new and expanded West European sales in the early 1980s. Another aspect of Algeria's gas policy was the "100 percent take-or-pay" supply provision, which stipulated that customers must pay for the entire contracted amount—most other gas exporters used an 80 percent formula—whether that amount was actually purchased. As a sweetener, Algiers promised significantly increased trade and investment opportunities.

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In its negotiations with West European gas customers this summer, however, Algeria is no longer in the driver's seat. The shrinking world oil market and West European disgruntlement over unfulfilled promises of increased economic ties are severely constraining Algeria's maneuvering room. Stiff competition from other gas suppliers such as the Soviet Union and the Netherlands has also weakened Algeria's bargaining position. Most harmful, however, in our opinion, is the preliminary contract between Norway and several continental buyers, which virtually closes Algeria out of the rest of the West European market for the foreseeable future. As a result, Algiers has been forced to make some price reductions in an attempt to maintain its current market share:

- In March, Algiers and Gaz de France agreed to temporarily link purchase prices to market prices rather than to artificially high official OPEC oil prices—dropping the base gas price by nearly 40 percent to $3.18 per million British thermal units (MMBtu)—until full contract renegotiations set revised terms this summer.

- In May, press reports indicate Italy, frustrated over its attempts to get Algiers to agree to reduce its second-quarter prices below the French quote, unilaterally decided to pay $2.00 per MMBtu for its gas pending a mutually agreeable base price.

- In June, Embassy reports indicate that Belgium won a temporary cut in the base price to $3.18 per MMBtu until April 1987 in exchange for taking 3 bcm of gas per year rather than the 2.4 bcm it has been importing. Ongoing renegotiations will determine a long-term price and volume.

Even Spanish negotiators, whose contract is not due for renegotiation for another two years, won a 16-percent price reduction to $3.18 per MMBtu for second-quarter sales based on a contract provision that allows Spain to demand a price cut whenever world gas prices fall sharply.

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Algerian Natural Gas Contracts

Importer	Annual Peak Volume Contracted (*billion cubic meters*)	Contract Term (*years*)	1985 Deliveries (*billion cubic meters*)	Adjusted Price [a] (*US $ per million British thermal units*)
France—Gaz de France	9.3	1965-2002	7.5	2.36 as of July 1986
Italy—SNAM (Trans-Mediterranean Pipeline)	12.3	1983-2007	8.5	2.00 as of July 1986
Belgium—Distrigas	5.0 (3.0 [b])	1982-2002	2.4	2.30 as of June 1986
Spain—Enagas	3.8	1979-2004	1.7	2.30 as of June 1986

[a] On an FOB basis.
[b] Temporary.

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Talks With Paris

These concessions are setting the tone for ongoing contract talks with the French. As in the past, whatever agreement is worked out with the French probably will determine the parameters for succeeding discussions with other West European customers. Paris will most likely demand a revised formula, which pegs natural gas rates to competing fuels prices, to determine the new base price.[1] We believe such a formula is likely to set a price at least as low as France's second-quarter adjusted price of $2.36 per MMBtu. In our view, Algiers has little choice—Paris has already threatened to scrap the entire deal and take its business elsewhere should Algeria not agree to an "acceptable" price.

Although the other West European clients will most likely use the new French accord as a springboard for their own agreements, they also have their own agendas:

- Italy, for example, will be insisting on removing the take-or-pay clause in its contract and will seek the right to renegotiate prices on demand similar to what is guaranteed under Spain's contract.
- Belgium will not only push to get the lowest price possible, but will also insist on retaining current volume cuts in a longer term agreement.

Algiers' more accommodating policy this spring suggests concessions are likely on most of these points, including competing-fuels-based prices and at least a softening of the take-or-pay provisions. These changes could cost Algeria $1 billion this year alone.

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Political Fallout

President Bendjedid almost certainly sees these contract negotiations as an important element in his ongoing efforts to reform his country's economy. The President is in the midst of trying to move from what he sees as a cumbersome and inefficient Soviet-style economy toward a Western-oriented system that relies heavily on private enterprise. Some liberalization has already taken place, particularly in agriculture, and is generating complaints from influential socialist ideologues within the government. Bendjedid will have to convince his detractors that his more accommodating negotiating position allowed Algeria to maintain its market share. Otherwise, his opponents may cite the projected lower gas revenues from new contract terms as evidence of Western collusion against Algeria and an indication that he is not working to further Algeria's best interests.

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[1] Although base prices are stipulated in all of Algeria's contracts with its customers, the actual prices charged are those determined quarterly based on changing market conditions.

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The President may already be in the position of bargaining with the hardliners to preserve his economic agenda. For example, Algeria has engaged in a variety of foreign policy activities in recent weeks that are inconsistent with its professed refusal to condone international terrorism and its willingness to act as a bridge between radical and moderate Arab governments. Examples are rapprochement with Libya, closer ties to radical Palestinians, and renewed activity within the "Steadfastness Front" involving Iran, Syria, Libya, and South Yemen. This apparent contradiction suggests that Bendjedid agreed to allow hardliners a greater say in foreign policy matters in exchange for their muting any criticism of his economic policies. 25X1

Bendjedid may also try to use his more accommodating gas policy with the West Europeans to uncork additional bilateral economic aid and new bank loans from the West. France, for example, one of Algiers' principal benefactors, has been dragging its feet because of Algeria's rapidly deteriorating finances. Bendjedid may also see a more moderate negotiating position as a necessary criteria in any efforts to obtain aid from Washington or other multilateral donors. He may also try to point out to US officials that Algerian gas prices are considerably more attractive than before in the event US firms want to reenter the gas market. 25X1

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Malaysia: Persisting Economic Slump

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Malaysia's current economic slump, ending more than a decade of dynamic growth, is likely to continue at least through mid-1987. Malaysia's export earnings are likely to remain depressed well beyond the next year, forestalling a return to robust economic growth and possibly straining ties to the United States. In spite of the weak economy, the government of Prime Minister Mahathir will retain power in the 3 August general election. The scattered opposition has not come together on the economic issue, and recurrent allegations of high-level corruption have not proved significant wrongdoing by Mahathir or any of his chief lieutenants.

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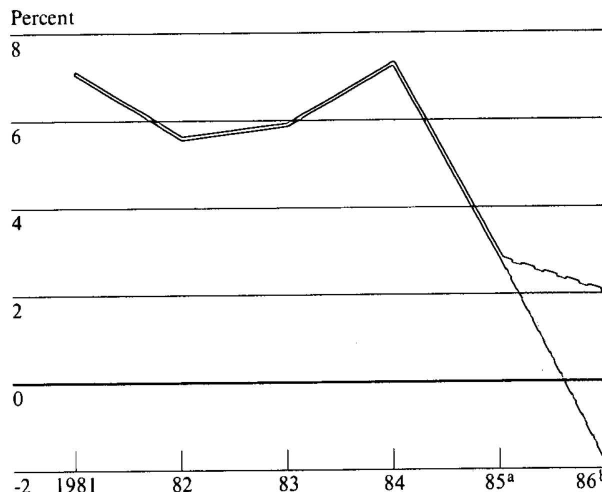
Malaysia: Real GDP Growth Rates, 1981-86



a Estimated.
b Projected.

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The Deepening Slump

Plummeting prices for crude oil, tin, and palm oil and slack demand for manufactured exports (especially semiconductors) have put Malaysia into an economic slump for over a year. Real economic growth fell from more than 7 percent in 1984 to less than 3 percent last year. Declining export earnings have pushed unemployment to 8 percent from its historical level of about 5 percent, and the government acknowledges that it may hit 10 percent by 1990. The Central Bank reports that only one out of every two new labor force entrants is able to find a job. The semiconductor industry has been among the hardest hit, with a 22-percent job loss in the past two years, according to the US Embassy, and employment in mining dropped almost 10 percent in 1985.

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Investment plummeted with the downturn, and prospects are poor for an early resurgence. Total private fixed investment fell by 8 percent in real terms in 1985 after a 10-percent increase in 1984, and the Central Bank projects a further modest decline this year. Most foreign investment to date has been in the now-depressed petroleum and semiconductor industries, and rising local wage rates and foreign protectionism militate against significant new investment in palm oil estates or textile manufacturing. In the wake of the economic contraction, the financial squeeze on overextended businessmen threatens highly leveraged investments in real estate and construction, adding to fears of a financial panic.

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Government Response

The external causes of the slump limit the tools available to the government to deal with it. The government's tight financial situation precludes stimulating the economy with heavy deficit spending as in the early 1980s. Even though Malaysia's debt service ratio of about 18 percent is small by LDC standards,

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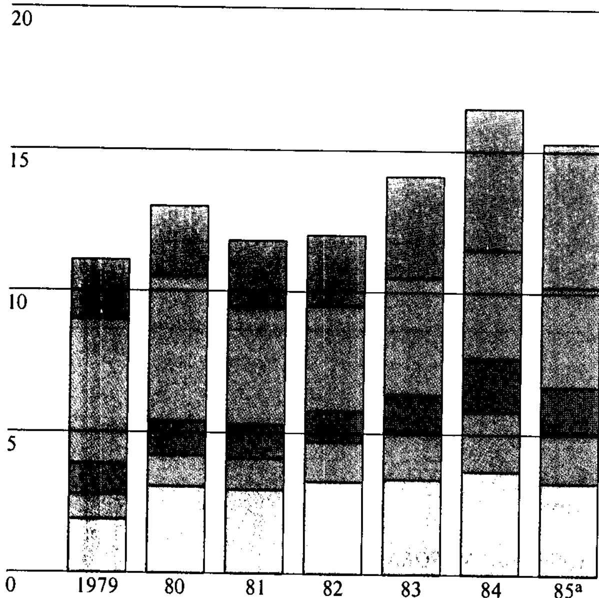
Malaysia: Exports, by Commodity, 1979-85



[a] Estimated.

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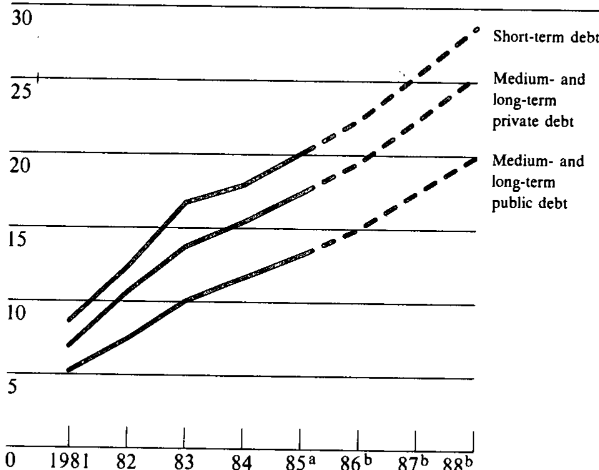
Malaysia: Outstanding External Debt, 1981-88



[a] Estimated.
[b] Projected.

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it has doubled since 1981 and has made conservative Malaysian policymakers reluctant to pump-prime on borrowed money. Moreover, Western banks are reluctant to raise their exposure in Malaysia, where heavy public-sector demands have helped to nearly quadruple foreign borrowing since 1979.

In the *short term*, Kuala Lumpur has sharply cut development spending for commerce and industry, communications, and public utilities. This retrenchment reduced the overall federal deficit to 4 percent of GNP in 1985, down from 17 percent in 1982, according to the Central Bank. Moreover, the spending cuts have freed some funds for public works programs to absorb some of the 100,000 workers who have lost their jobs in the past year.

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In the *longer term*, Kuala Lumpur is reorienting its development strategy away from government-led programs and toward greater private-sector involvement in the economy. The recently announced Fifth Malaysia Plan scales back costly and inefficient public investment in industries such as autos, steel, and cement, most of which require tariff protection because the small domestic market precludes high-volume production. Moreover, a new foreign investment code seeks to shift development finance from foreign borrowing to private equity investment by permitting majority foreign ownership in firms that earn foreign exchange.

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Political Fallout

The weak economy is undermining political support for Mahathir's administration from both the ethnic Malay (bumiputra) and Chinese communities:

- *Ethnic Malays.* Since 1971, Malaysian economic policy has been governed by the New Economic Policy (NEP), an ambitious social restructuring program aimed at creating economic balance between the Chinese, who dominate the economy, and the Malays. The economic slump, however, has forced the government to retrench on the NEP. The Prime Minister has confirmed, for example, that cutbacks in public spending have hit bumiputras hard because their preferential access to government contracts was a key feature of the NEP. In particular, the cutback of heavy industrial projects will most likely throw disproportionate numbers of bumiputras out of work.

- *Chinese.* The commercially dominant Chinese community, besides being affected directly by the downturn, is unhappy over its "second-class status." One result of this concern, according to the US Embassy, is that a substantial number of Malaysian Chinese are responding positively to the racial equality message of the rightwing opposition Partai Islam Se-Malaysia, which, though espousing Muslim fundamentalism, opposes Malay "special rights." Moreover, the Chinese are increasingly concerned about corruption within the ruling coalition. The US Embassy reports that the Malaysian Chinese Association (MCA), Mahathir's major coalition partner, is still troubled by the financial problems of MCA President Tan Koon Swan, who was arrested last year for his role in the collapse of the Singapore conglomerate, Pan Electric.

The slowing economy is also bringing to light alleged financial scandals involving high-level officials and important Malaysian institutions. For example, recent press reports charge Tan Koon Swan with further corruption and charge that Finance Minister Daim may have used his position to obtain government approval of his family's acquisition of controlling interest in Malaysia's third-largest bank. The US Embassy reports that Daim's apparent proclivity for mixing private and public interests has made him a major political liability to Mahathir. Moreover, charges may still emerge from the Bank Bumiputra scandal, in which top Malaysian officials knowingly approved loans to a financially troubled Hong Kong corporation that later collapsed with $1.2 billion in debts.

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Outlook

We believe that continued weakness in primary commodity markets will plague the Malaysian economy through mid-1987. Tightly constrained public spending will add to the effects of reduced export earnings. Despite the Prime Minister's prediction of up to 2-percent real growth this year, it is likely to reach only half that level and might even become negative.

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Although Mahathir's personal popularity is declining as a result of dissatisfaction with the economy and uneasiness over corruption, his Barisan Nasional ruling coalition will retain power in the general election. Mahathir recently brightened the coalition's electoral prospects by admitting Sabah's ruling Partai Bersatu Sabah to membership in the Barisan Nasional, virtually guaranteeing the coalition the traditional two-thirds parliamentary majority. This increasingly disparate coalition, however, might not last long beyond the general election unless the economy rebounds.

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Whatever the election outcome, the weak economy will discourage foreign investment in Malaysia, while encouraging capital flight. Resulting unemployment may also lead to social unrest, perhaps targeted against US-owned manufacturing facilities. Moreover, local perception of US protectionism against Malaysian products may strain bilateral relations with Washington.

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Tin Market Collapse: Continuing Fallout

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With prices at least 50 percent below last October's levels, the world tin industry is plodding through a period of retrenchment. Although Indonesia plans to increase output, Malaysia, Bolivia, and Thailand could face serious political problems as mine closures and production cutbacks worsen domestic unemployment. Even China and Brazil, relatively unscathed by last year's tin market collapse, are probably not planning to expand production. We expect weak market conditions for tin to persist for the next few years. Although most major tin-producing countries will probably emerge with smaller, more efficient industries, some, such as high-cost-producer Bolivia, may see their tin sectors dramatically reduced.

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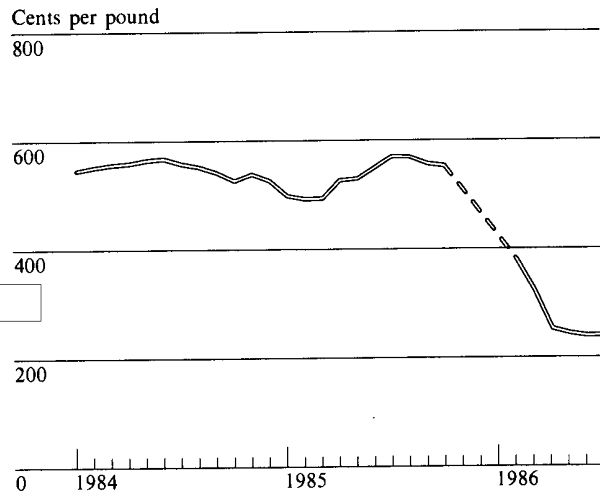
World Tin Prices, 1984-86[a]



[a] Data through October 1985 are LME cash prices. The broken line denotes the tin market collapse when no prices were quoted. Data from February 1986 are Penang prices.

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Aftermath of the Crisis

Following the collapse of the International Tin Council's (ITC) negotiations last March, the price of tin has plummeted to about $2.45 per pound from its precrisis level of about $5.40. While consumer countries are reaping windfalls after years of artificially high prices, producing countries are smarting from the market's downturn and even relatively efficient mines are discontinuing operations:

- Western tin production of 160,000 metric tons in 1985 was at its lowest point in 20 years, and we expect 1986 output to be even lower.
- Mine closures and production cutbacks are occurring in Malaysia, Thailand, and Bolivia—three of the world's four largest producers.
- More than 25 percent of Malaysia and Thailand's tin miners have been laid off, and roughly one-third of Bolivian tin miners may be let go, according to press reports.

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Producer Strategies

Responding to the market doldrums, governments of several tin-producing countries are trying to minimize mine shutdowns while restructuring their industries. The more efficient producers, meanwhile, are either planning to expand or sit tight.

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Malaysia. Although it is the largest and one of the lower-cost producers, more than one-half of Malaysia's 480 mines have closed since the start of the crisis last year. 25X1 The closures have forced 6,000 Malaysians out of work—most frequently, the ethnic Chinese who operate the smaller mines. If weak market conditions continue, officials expect only 20 mines to survive. Output could fall below 36,000 tons this year, exacerbating unemployment and thereby creating additional problems for the Mahathir government.

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In response, the government has adopted a soft loan program to keep efficient producers in business until the prices rebound to cover production costs, currently

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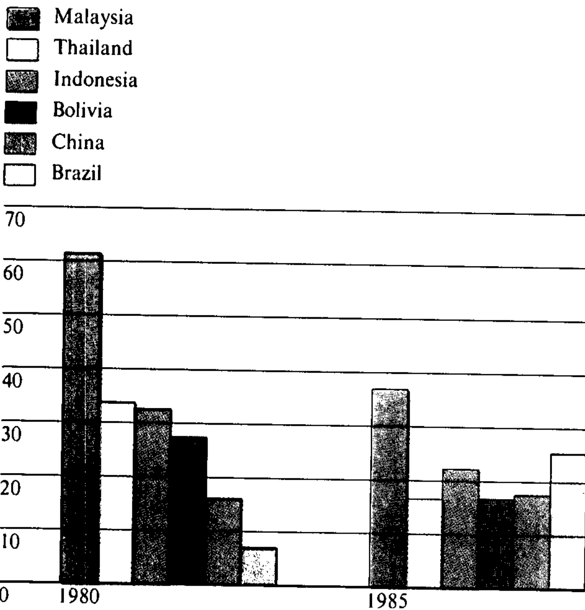
World Tin Production[a]



[a] Major producers.

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averaging about $3.30 per pound. Even with these soft loans, however, the number of mines will probably dwindle further. Moreover, if prices do not rebound, budgetary constraints may force suspension of the loan program.

The Tin Crisis at a Glance

The London Metals Exchange (LME) suspended tin trading last October, when the International Tin Council's (ITC) bufferstock manager informed the Exchange that he could no longer support the price because of a lack of funds. This announcement resulted in a five-month market crisis characterized by falling prices, minimal trade in gray markets, a loss of trader confidence in the LME, and continuously stalled negotiations. The Council's attempt to resolve the crisis failed when Indonesia and Thailand vetoed a plan to set up a new company administered by creditor banks to assume the liabilities of the ITC and to dispose of the 85,000-ton bufferstock over a three-year period. In March of this year, the LME decided to close out all tin contracts at a fixed price. Tin trading on the Exchange has been suspended indefinitely, and ITC members have been hit with lawsuits by some of their creditors.

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Bolivia. As a high-cost producer, the tin industry, which traditionally has provided one-third of the country's foreign exchange earnings, faces severe cutbacks. Thus far, a few private mines have shut down, and Comibol, the state mining organization, is expected to close its second-largest mining complex in 1986 While Comibol will most likely limp on, industry analysts believe that one-fourth of medium-sized mines will be forced to close, with another one-third cutting production by 50 percent. Only 15 percent of the country's medium-sized mines, according to analysts, will continue to produce at current levels.

A shrinking tin industry threatens a large share of the mining labor force, and Bolivia's militant labor unions could create political problems for La Paz. On the basis of Embassy reporting, we believe a majority of the remaining Comibol tin miners are likely to lose their jobs. In response, the government has sought to divert miners toward more productive sectors such as agriculture. President Paz Estenssoro is also encouraging diversification into gold, silver, and lead, and many medium-sized mining companies are already moving in that direction. The government has also announced plans to decentralize Comibol, which is ill prepared to diversify.

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Indonesia. In Indonesia—another fairly efficient producer—one mine has shut down, another has laid off almost half its employees, and a third has been sold to a West German firm. If low prices persist, the state mining company—PT Tambang Timah, producer of 80 percent of the country's output—eventually will also feel financial pressure, according to industry analysts.

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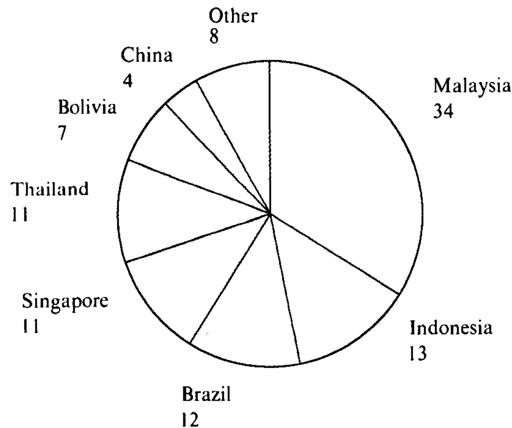
Share of World Tin Export Market, 1985

Percent



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Faced with a faltering economy also hit hard by low oil prices, Jakarta nonetheless plans to increase tin production by 5,000 tons in 1986. Most of the increase will be produced by the state mining enterprise. To prevent massive layoffs, Tambang Timah has been pressed to absorb tin miners laid off elsewhere, a policy expected to continue through the general elections due in 1987. However, the company has already been forced to lower its operating budget by 17 percent, and industry experts believe that job cuts are inevitable.

Thailand. The Thai tin industry is retrenching dramatically. According to a recent government survey, 46 percent of the mines have closed, and many have curtailed production to as low as 10 percent of capacity. As a result, business and government officials expect production ultimately to fall 30 percent below 1985 levels.

Because of the mine closures, about 30 percent of the tin work force is out of work. Bangkok does not expect the rise in unemployment to have a serious political impact because some laid-off workers found job opportunities elsewhere, such as in tourism. Recent elections did not evoke widespread discontent over the issue.

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Several problems still concern the Thai industry—taxes, export controls, and smuggling. Even though the government already has enacted one tax reduction package, recommended implementation of additional aid measures:

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- Lowering taxes on tin exports from 2.2 percent to 1.1 percent.
- Lifting the law controlling the export of tin.
- Promoting foreign sales of tin, particularly in Eastern Europe.

Meanwhile, the government expects tin smuggling to decline because of lower taxes and the absence of export quotas previously imposed on tin-producing countries by the now ineffective International Tin Council.

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Other Countries. Even at current low prices, the Brazilian tin industry, which has more than tripled its production since 1980 to become the world's second-largest and perhaps most efficient tin producer, can break even, according to Embassy reporting. As a result, we expect the industry to continue its present level of production. The dramatic world price decline has had little effect on Chinese tin production, which is still focused primarily on meeting a substantial domestic demand. Moreover, China is aiming at boosting foreign sales of manufactured tin products rather than ore.

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Outlook

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We expect weak market conditions for tin to persist for the next few years. In light of the large stock overhang worldwide, industry analysts predict that tin prices will hover between $2.50 and $2.70 per pound. Prices above $2.70 would bring out additional tin from inventories held by banks, brokers, and producers, placing new downward pressures on the price. Moreover, demand for tin is unlikely to rise because consumers are substituting other materials.

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As the tin market languishes, we expect a pared down, more efficient industry to emerge. Brazil and Indonesia should weather the aftermath of the price collapse fairly well, while the Malaysian and Thai industries will also survive but with significantly fewer mines. China, through its increased emphasis on expanding tin manufactures and relying on its large domestic tin demand, should continue on course. Bolivia, feeling the price collapse the strongest, will probably experience a dramatic reduction of its industry.

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Romania: Economic Adjustment Strategy Falters

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President Ceausescu's obsession with paying off foreign debt continues to burden the economy but has left Bucharest still dependent on foreign creditors. In July, Western creditors agreed to reschedule some 1986-87 payments on debt rescheduled in 1982-83 after determining that Romania faces large financing gaps this year and next. Debt repayment obligations for 1989-90 have already increased as a result of some new borrowing and rescheduling. Consequently, Romania will have to endure austerity considerably beyond 1988—Ceausescu's original goal.

Short-Lived Financial Respite

Romania's current economic dilemma is rooted in Ceausescu's reaction to the debt reschedulings of 1982-83. Humiliated by having to accept Western creditors' terms in return for debt relief, Ceausescu opted for rapid debt repayment and banned new borrowing to eliminate foreign interference. As efforts to expand export earnings failed, however, the regime resorted to ever-deeper cuts in imports and consumer welfare to generate the required trade surpluses and to protect the country's industrialization drive. Bucharest's adjustment strategy has differed markedly from that of other financially strapped East European regimes, which—to placate popular discontent—have given greater priority to protecting the consumer.

The financial recovery that Ceausescu had hoped to achieve with this austere approach has been brief. Although the regime cut its debt by 35 percent in 1982-85, trade performance slipped badly in 1985, producing a hard currency surplus of only $1.4 billion—down from $2.2 billion in 1984. After getting through only one year—1984—without debt relief or new medium/long-term borrowing, Bucharest had to borrow $150 million in 1985. Export performance has remained lackluster in the first five months of 1986, in part because of decreased price spreads between imported crude oil and exported refined products, leading Bucharest to request temporary rollovers of several debt payments while skipping others. In late May, Bucharest requested a multiyear rescheduling of nearly $1 billion on 1982 and 1983 rescheduled debt due in 1986-88. In July, Romanian financial officials reached tentative agreement with creditors to postpone about $350 million owed in 1986 on debt rescheduled in 1982 and $460 million due in 1987 on debt rescheduled in 1982 and 1983. Repayments are scheduled for 1989-92. Creditor banks withdrew their previous demands for an IMF program, and Bucharest dropped its demand for a rescheduling of 1988 debt.

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The Economy: Spiraling Downward

The decline in export earnings in 1985 resulted mostly from the failure of the regime's adjustment program. Since the debt crisis struck in 1981, Ceausescu has contended that rapid industrialization would quickly boost productivity and economic growth to offset import cuts and still produce more export goods. The regime's investment strategy, however, has yielded disappointing results:

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- The regime has directed substantial investment to energy production and agriculture, but largely for costly, long-term projects that will not produce much return before the end of the decade. Despite 51-percent growth in investment in 1981-84, domestic energy output grew only 9 percent, and the key goal of reduced dependence on foreign energy has only been partially achieved.

- Expenditures to repair and maintain existing capital stock and infrastructure were slashed. Substitution of domestically produced investment goods for imports of Western machinery and spare parts has caused a deterioration in Romania's capital stock, preventing the expected gains in efficiency, particularly in the use of energy.

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Romania: Financing Requirements and Sources, 1982-90

Million US $

	1982	1983	1984	1985	1986 [a]	1987 [b]	1988 [b]	1989 [b]	1990 [b]
Financing requirements	**4,160**	**2,094**	**452**	**968**	**406**	**501**	**−717**	**778**	**829**
Current account	655	922	1,536	915	1,574	1,619	1,500	1,345	1,240
Trade balance	1,525	1,688	2,186	1,445	2,090	2,060	1,870	1,650	1,500
Exports	6,235	6,246	6,892	6,280	7,380	8,270	8,650	8,900	9,200
Imports	4,710	4,558	4,706	4,835	5,290	6,210	6,780	7,250	7,700
Net interest	917	737	706	649	565	478	385	300	245
Other services	47	−29	56	119	49	37	15	−5	−15
Debt repayments	3,170	2,152	1,578	1,659	1,761	1,818	1,912	1,658	1,519
Medium and long term	2,081	1,211	1,045	1,269	1,258	1,361	1,402	1,153	969
Short term	1,089	941	533	390	503	457	510	505	550
Net credits extended	−502	−476	−410	−224	−219	−302	−305	−465	−550
Arrears from previous year	1,143	388	0	0	0	0	0	0	0
Financing sources	**4,065**	**1,791**	**418**	**988**	**410**	**835**	**580**	**853**	**848**
Credits	1,372	903	602	478	686	662	838	853	848
Medium and long term	657	503	274	292	300	400	500	450	450
Short term	414	268	272	361	462	510	505	550	505
IMF, net	301	132	56	−175	−76	−248	−167	−147	−107
Debt relief	2,718	976	0	0	354	462	0	0	0
Change in reserves	−25	−88	−184	510	−630	−289	−258	NA	NA
Errors and omissions	95	303	34	20	4	75	137	250	14
Financing gap/arrears	388	0	0	0	0	0	0	0	0

[a] Estimated.
[b] Projected.

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The limited payoff from investment, cutbacks in imports, and chronic bottlenecks slowed economic growth to 1.5 percent annually in 1981-85, compared with 3.9 percent in 1976-80. A modest recovery in 1984 was choked off in 1985 by worsened energy shortages.

Economic Recovery Unlikely

The economy cannot grow and produce more exports without more imports, but neither can the regime afford more imports and still cover debt obligations. Romanian financial officials recently suggested that Bucharest is considering increasing imports from $4.8 billion in 1985 to $5.6 billion in 1986. This seems unlikely, however, given Ceausescu's frequent calls this year to restrain imports and the regime's financial constraints. Even if export earnings are sustained, Bucharest still has a financing gap of some $200 million and may have to make further cuts in imports. Debt relief for 1987 will be sufficient to enable Romania to balance its international payments only if Bucharest can hold the line on imports and prevent further declines in export earnings. Moreover, with Ceausescu's commitment to

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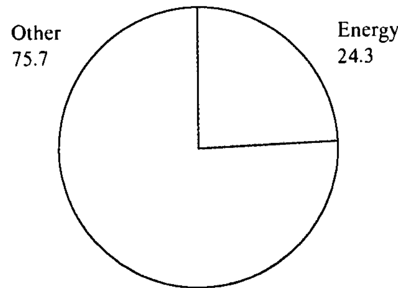
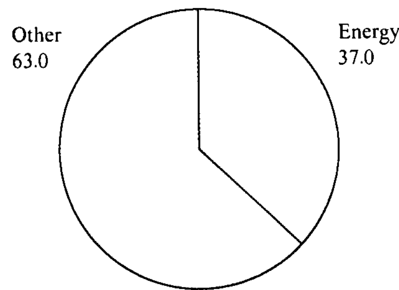
Romania: Share of Energy in Industrial Investment

Percent

1976-80



1981-84



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reduce the foreign debt, Bucharest's debt management strategy in the next two years is likely to be more of the same: requests for some debt relief as needed, while pushing for export gains from an economy that is choking on shortages.

Indeed, the 1986-90 Plan, with its demands for rapid growth in industrial and agricultural output, appears even more unrealistic than the previous five-year plan. The gap between energy supplies and overall growth targets is likely to worsen, resulting in more widespread bottlenecks. Continued high investment will soak up scarce raw materials and other resources but produce little payback in this period. For example, the country's largest current investment project, the Cernavoda nuclear reactor, is unlikely to come on line until after 1990. Prospects for a more pragmatic approach to economic management are poor as long as Ceausescu remains in control. Already this year he has imposed further restrictions on wages and enterprise financing that appear to be disrupting enterprise operations and sapping worker morale. These factors probably will limit average annual GNP growth to no more than 1 percent over the next several years.

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Implications

Ceausescu intended to march the country through a period of heavy austerity that would diminish after 1988. As originally planned, repayments in 1989-90 on medium- and long-term debt were to be less than one-half the 1984-88 level. However, debt repayment obligations for 1989-90 have already increased as a consequence of some new borrowing and reschedulings; repayments in 1989 and 1990 will be only slightly less onerous than at present. As a result, the country will have to endure a considerably longer period of grinding austerity.

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In the event that Ceausescu—who is rumored to be ill—passes from the scene, Romania's economic difficulties could become more ominous. A new leadership would have to decide whether to stay the course or adopt a new approach to financial and economic recovery. Prolonged austerity that has depressed already low living standards by some 20 percent since 1980 would raise the risk of serious unrest, particularly if the new leadership appeared weak and divided. The quickest way to bring about substantial improvements in popular welfare, however, would require increased imports of raw materials, energy, and consumer goods. This would necessitate major reschedulings of both commercial and government debt and negotiation of an IMF program that would undoubtedly call for some restructuring of the economy.

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Briefs

Energy

Tehran Petroleum Refinery Repairs Continue

[ ] repairs are continuing on the Tehran Petroleum Refinery, badly damaged by an Iraqi airstrike in early May. The refinery was shut down completely following the attack but had resumed operation at about half capacity by late May. It will probably take at least one or two more months to restore the refinery to its prestrike capacity. When seen in July, work was continuing on a damaged crude oil distillation unit—one of the critical elements—although reconstruction of a cooling tower for one of the refinery's two steam plants had not yet begun. Prior to the attack, the Tehran Refinery provided about one-third of Iran's petroleum products. Tehran may draw on long-established arrangements with South Yemen, Singapore, and other countries to refine more of its crude oil into petroleum products for reexport to Iran. These re-exports totaled about 100,000 b/d prior to the attack. [ ] 25X1

Libya Coping Without US Oil Companies

The cessation of US company marketing operations last month has had only a slight impact on Libyan oil exports primarily because Tripoli continues to heavily discount its oil prices. Moreover, Tripoli has had no major difficulties operating its oilfields and [ ] has been able to retain the expertise of select foreigners—including [ ] US oil workers. [ ] [ ] Tripoli has been able to secure new outlets for most of the 200,000 b/d of oil previously marketed by US firms by negotiating netback contracts with some customers at prices close to $9 per barrel. These contracts probably kept Libyan crude oil exports at 1 million b/d in July, only 100,000 b/d below the June level [ ] Most Libyan exports continue to be sold to West European firms [ ]. The largest customers are subsidiaries of major oil companies such as British Petroleum and Royal Dutch Shell, and refiners with local outlets such as those in Italy and West Germany. Tripoli probably will continue to aggressively market its oil to maximize revenues and to help blunt US efforts to make Libya a residual oil supplier. Meanwhile, the West European response to US initiatives to curtail the use of Libyan oil has been positive, but limited. Without an increase from the current price of $9 per barrel, however, Tripoli's oil revenues for this year will be cut in half to about $5 billion. [ ] 25X1

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US Firm Settles Algerian LNG Dispute

The US firm Panhandle Eastern has reached an agreement with the Algerian state-owned oil and gas company, Sonatrach, to settle claims from a suspended liquefied natural gas (LNG) import contract dating back to 1983. The agreement provides for Panhandle Eastern to pay Sonatrach $200 million along with 6 million shares of Panhandle stock currently worth about $265 million—Sonatrach would own nearly 12 percent of Panhandle. If the Algerian Government approves, this would settle the legal battles that followed Panhandle's suspension of imports in late 1983 when the higher prices renegotiated by Sonatrach in 1982 made the LNG uncompetitive in US markets.

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Security Concerns Threaten Guatemalan Oil Exploration

Amoco announced a temporary halt in its petroleum exploration in the northwest, becoming the second US oil company to suspend operations because of security concerns. In June, Esso officials announced a temporary stop to their exploration activities after guerrillas destroyed two helicopters and other equipment in raids on oil camps. The suspensions increase pressure on President Cerezo to improve security in the remote areas where the rebels continue to demonstrate their ability to hit isolated economic targets. The actions also are likely to increase security concerns of other potential foreign investors.

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International Finance

Creditors React to Venezuelan Debt Rescheduling

The angry reaction of foreign bank creditors to Venezuela's unilateral rescheduling of its external private debt has shocked the Lusinchi administration, according to the US Embassy

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Meanwhile, the government has exempted Paris Club debt and debts of less than $500,000 from the plan. After taking a hard line with banks with this hastily conceived scheme, the administration and the political opposition are now weighing its costs, according to the Embassy. Although concessions will be politically difficult, bankers' threats to cut credit lines will probably produce a political consensus to make the plan palatable to creditors.

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New Moroccan Austerity Measures Likely

Morocco is preparing for negotiations with the IMF on a new standby loan that probably will require additional budget cuts—especially reductions in food subsidies and education spending. Rabat lost access to badly needed IMF funding earlier this year when it failed to meet Fund performance targets. Agreement appears to have been reached on the basic elements of a new 18-month standby loan that could be in place by early this fall. The government probably will cut food subsidies soon to pave the way for a new Fund program, according to the US Embassy. These cuts could be the largest since those that precipitated the January 1984 food price riots, which claimed up to 100 lives. Obtaining a new IMF loan is

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crucial to cash-short Morocco, which now has sufficient foreign exchange reserves to cover less than two weeks of imports. Moreover, Rabat still faces an onerous debt service burden—about 40 percent of export receipts this year—and new debt rescheduling talks with commercial lenders are stalled until an IMF package is in place. [ ] 25X1

International Trade

Taiwan, Hong Kong Agree to US Textile Limit

As the expiration of the current Multi-Fiber Arrangement (MFA) draws nearer, two major LDC exporters—Hong Kong and Taiwan—have agreed to hold annual average growth of overall textile exports to the United States to 1 and 0.5 percent, respectively, per year, on the basis of 1985 export levels, through the end of 1988. These agreements extend coverage to items such as silk blends, ramie, linen, and other fibers not previously regulated by the MFA. South Korea, concerned that any concessions will only invite further demands, has yet to reach a bilateral agreement, while Brazil, China, India, and Pakistan continue to hold out for further liberalization of the old MFA. Smaller LDCs fear that trade concessions such as those accepted by Taiwan and Hong Kong will undermine the LDC negotiating position at the MFA renewal talks. Meanwhile, press reports of the recent US agreement with South Africa increasing that country's export quota by 4 percent—effective 1 September 1986—will most likely prompt a negative reaction from LDC textile exporters in bilaterals and at the MFA negotiations. [ ] 25X1

Ecuador and Colombia Sign Record Trade Accord

Ecuador and Colombia signed an agreement on 21 July they hope will generate $190 million in bilateral trade by the end of 1986. The agreement is intended to aid Ecuador's faltering petroleum-based economy by encouraging trade in goods previously banned by Colombia on the grounds that importation would hurt domestic producers. The US Embassy estimates Ecuadorean nonoil exports—primarily chocolate, large kitchen appliances, fish meal, and wooden goods—to Colombia may reach $110 million, surpassing a 1980 high of $93 million. Colombian exports will probably consist largely of petrochemical and metallurgical products. The agreement is based on a new Andean Pact created in May to liberalize trade between members. [ ] 25X1

Global and Regional Developments

New Soviet Payment Arrangements for Japanese Steel Pipe

Moscow has won an apparent financial concession from Japanese companies supplying large-diameter steel pipe for the Siberian natural gas pipeline. According to press reports, the Soviet Steel Trade organization last month signed an agreement with four major Japanese steel producers that would allow payment for 50 percent of the pipe imports in dollars, rather than yen. Moscow, whose exports are largely denominated in dollars, had originally requested to convert all payments into dollars to ease the foreign exchange costs stemming from the

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rapidly appreciating yen. Further strengthening of the yen relative to the dollar—which we believe likely—may cause Moscow to renew its request for a larger share of dollar-based payments. Although the Japanese companies extending suppliers' credits in dollars will attempt to adjust other contract terms to offset their increased foreign exchange risk, the depressed market for steel exports will probably not allow them to do so fully.

25X1

Japanese Push for New TV System

Nine Japanese firms have formed a consortium, the Space Telecom Development Company, to develop a high-definition-television (HDTV) system for the 1990s. At the same time, several West European companies are pursuing an alternative HDTV system. An unofficial Eureka project list, for example, shows some $180 million budgeted for HDTV with France, West Germany, the Netherlands, and the United Kingdom participating. Uniform HDTV received a setback earlier this year when the International Telecommunication Union, at its May meeting, failed to agree on an international production standard. According to State Department officials, the EC Commission along with France played an instrumental role in organizing opposition to the Japan-US backed standard, probably to keep Japanese technology out of Western Europe.

25X1

India Reaches Economic Cooperation Agreement With Libya

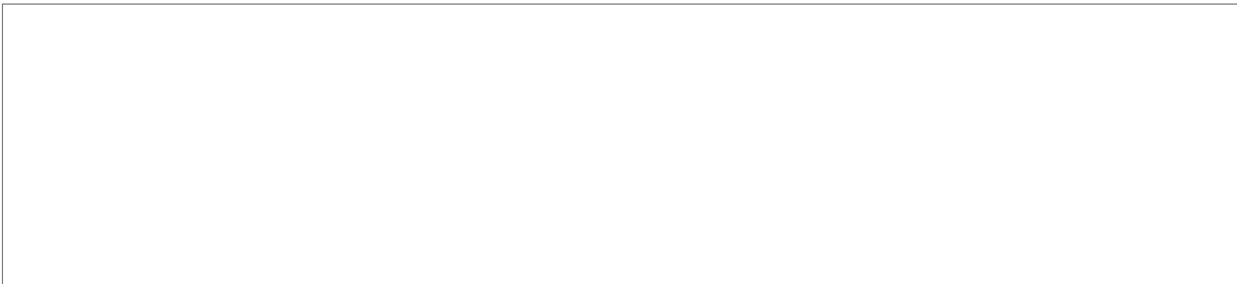
India has agreed to cooperate with Libya in new areas of industry, trade, and commerce. India will assist Libya in the management and construction of infrastructure, power, and telecommunications facilities, but the recent agreement did not identify specific projects. We believe New Delhi's participation is prompted, for the most part, by India's interest in maintaining an inflow of foreign exchange from Libya. There are currently about 40,000 Indian workers in Libya, whose remittances account for some $200 million in hard currency annually. In addition, several companies are engaged in lucrative construction activities in Libya. Although recent attempts by Libya to recruit Indian Muslims for terrorist activities and its failure to pay Indian workers on time have caused minor tensions between New Delhi and Tripoli, the agreement signals both countries' desire to maintain friendly economic relations.

25X1

National Developments

Developed Countries

25X1



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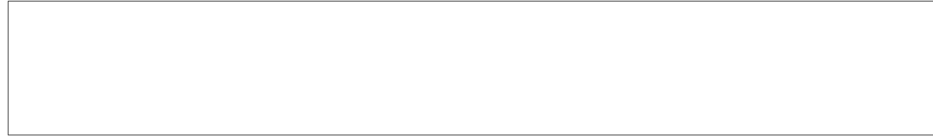

25X1

Tokyo To Study Deregulating Capital Outflows

Political concern in Japan over the appreciation of the yen will probably allow Tokyo's economic policy makers to press ahead with financial deregulation. According to press reports, Finance Minister Miyazawa believes that, at 155 yen to the dollar, the appreciation has become too economically painful and must be halted. The US Embassy believes that the Finance Ministry staff is being directed to find creative ideas that might weaken the yen, and, thus far, deregulating financial outflows appears to be the leading candidate. A senior Finance Ministry official told the US Embassy that one immediate step would probably be the relaxation of exchange controls on trust activities. Although a gradual deregulation of capital outflows will probably not have much of an impact on the exchange rate—the regulations under discussion affect the composition of the flows rather than the total—Finance Ministry officials view the current political concern as an opportunity to pursue financial reform in general, including both liberalizing capital outflows and inflows. Political necessity suggests, however, that such moves are likely to be presented domestically as liberalization of capital outflows.

25X1

Japan Debates Tax Exempt Savings Accounts

The new Minister for Post and Telecommunications (MPT), appointed by Prime Minister Nakasone last month, has publicly opposed the Finance Ministry's efforts to eliminate the tax exemption for interest earned on small-denomination savings accounts. Last April, the Maekawa Commission called for the abolition of the current system in which accounts are divided among a number of financial institutions and the postal savings system. The government's tax system council is currently debating the interest exemption and may recommend a small tax on such interest in its final report this October, according to press reports. Such a recommendation would face strong opposition not only from the MPT but also from influential politicians. In last month's election campaign, for example, Nakasone pledged to keep the interest exemption. A key indicator of the eventual decision will be the recommendations of the ruling party's tax study group, also due this October.

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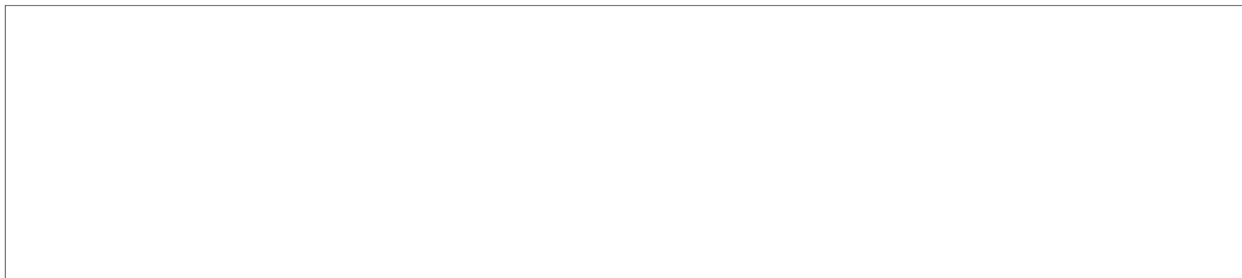

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Less Developed Countries

Mounting Economic Woes in El Salvador

Deteriorating economic conditions have hurt President Duarte politically and are likely to intensify his requests for additional US aid. The US Embassy reports that the economic measures adopted last January have been poorly implemented and have neither solved budget problems nor stimulated growth. The austerity measures also have adversely affected workers and peasants—Duarte's traditional constituents—without restoring private-sector confidence. Inflation—fueled by wage increases and an expanding money supply—has reached an annual rate of 35 percent. Meanwhile, lower-than-anticipated coffee prices and slack regional trade may reduce export earnings by as much as $65 million from earlier estimates, according to the US Embassy. Public pressure—particularly from the unions—will limit the President's willingness to seek additional reforms such as a new devaluation and hikes in utility rates. Duarte probably realizes that failure to act will delay economic recovery, but he may calculate that increased US aid would shore up his domestic support, at least in the short run.

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Libyan Project Freeze

Increasing financial constraints have caused Tripoli to make additional sharp cuts in key development projects and postpone or delay new projects. 25X1 25X1 the Zwara aluminum smelter project has been put on hold for at least four years and may be canceled. Moreover, the steel mill under construction at Misratah is in serious trouble and also may be shelved if a foreign partner cannot be found. 25X1 Libya for the next several years will only be interested in maintaining existing industrial infrastructure. If oil prices remain below $10 per barrel, even this goal may be impossible. At this price, Libya will earn less than $5 billion from oil exports this year, down by more than half from 1985. The regime, however, probably will continue to give priority to maintaining the oil industry—the ultimate source of Qadhafi's domestic and international influence. These project delays probably will have little direct impact on the general population, but may free some resources to relieve shortages of food and consumer goods. 25X1

Libyan Water Scheme Problems

Progress on Libya's Great Man-Made River project has slowed considerably as a result of Tripoli's cash crunch. 25X1 construction of the two large-diameter pipe plants is nearly complete, but production probably will not begin before December. Work also has slowed on construction of the road parallel to the ditch in which the large pipe segments will rest. Qadhafi, however, continues to give top priority to the project, and, despite growing payment delays, the South Korean contractor, Dong Ah, currently has 23,000 workers in Libya. In addition to cash payments, Dong Ah probably is accepting as much as 60,000 b/d of Libyan crude oil. US trade sanctions have so far had only a limited impact on the US-designed project. The sharp drop in Libyan crude oil revenues this year probably will push back the scheduled 1990 completion date of the project by at least several years, further aggravating Libya's water shortage. 25X1

Pakistan Announces Employment Scheme

In an interview, the Minister of Planning provided details about Prime Minister Junejo's $120 million "National Employment Fund" that he announced earlier this year. Designed to reduce the jobless rate—official statistics put unemployment at 3 percent and underemployment at 43 percent—the fund will be financed by windfall savings from a declining oil import bill; the government has not lowered domestic prices to match the fall in world oil prices. The scheme calls for the construction of highways and housing for federal employees, doubling the capacity of polytechnic schools, and creation of provincial centers to advise professionals on how to establish viable businesses. Junejo is trying to mute public criticism of his

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refusal to significantly reduce prices for petroleum products. In addition, opposition leader Bhutto has been calling for the reinstatement of workers dismissed from government enterprises, removing hiring and firing authority from the managers of state enterprises, and establishing new training centers in each of the four provinces, according to US Embassy reporting. [ ] 25X1

Philippine Government and Businessmen at Odds

President Aquino's strong criticism of domestic businessmen and defense of her populist economic policies are deepening the frustrations of business leaders, alienating one of her principal political constituencies, and delaying an economic recovery. Aquino—who questioned the patriotism of the country's leading businessmen at a meeting with the Philippine Chamber of Commerce last week—is increasingly impatient with the wait-and-see attitude of local investors. Investments during the first quarter of this year—half the level during the same period in 1985—have not picked up since the business-supported revolution in February that swept Aquino into power. [ ] moreover, overseas businessmen also are postponing investment, in part because of the low level of confidence exhibited by the local business community. According to the US Embassy, labor militancy is largely responsible for the poor investment outlook. In particular, businessmen are concerned with Labor Minister Sanchez's sympathy for leftist unions—the number of strikes since March has increased 75 percent from the same period last year. Aquino, however, defended Sanchez in her speech and argued that strikes are centered in "sweatshop" industries—a comment that jangled businessmen's nerves, according to Embassy reporting. [ ] [ ] businessmen believe that the new government is no closer to policies that will solve the country's trade, investment, and labor problems than when it assumed office. The business community also opposes Manila's plans to free the exchange rate, reduce tariffs, and boost sales taxes, because these measures would hurt industries selling to the domestic market. In addition, the Philippine Chamber of Commerce has concluded that the investment sections of the government's draft five-year economic plan are "anti-big-business." [ ] 25X1 25X1 25X1 25X1

Hong Kong's Independent Economic Status Strengthened

China and Britain agreed to establish a separate shipping register operated by Hong Kong last week at the fourth meeting of their Joint Liaison Group. Hong Kong ships are now listed in a special section of the British registry. During the London meeting, the two sides also agreed to allow Hong Kong to maintain its own separate postal administration after China regains sovereignty in 1997. In response to Beijing's complaints that it was kept in the dark about a recent civil aviation agreement between Hong Kong and the Netherlands, London agreed to keep China informed about future civil aviation negotiations, although it does not want Beijing to have a veto power. The British also used the meeting to explain how it will handle civil service pensions and to describe its plans to replace expatriate officials with local hires. The relatively smooth progress being made toward Hong Kong's transition during these sessions should help sustain investor confidence in the territory. [ ] 25X1

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Communist

China's Capital Construction Exceeding Planned Targets

China's capital construction expenditures in the first half of 1986 increased 7.9 percent above first-half 1985 levels, according to official statistics, but a mainland newspaper reported that "technical renovation" expenses jumped dramatically in the same period, pushing total investment in state-owned fixed assets over 17 percent above 1985 levels. The newspaper report indicated that many units are using "technical renovation" spending as a loophole to continue construction projects, undermining Beijing's efforts to regain control over the economy following last year's overheating. Beijing's target for 1986 called for overall investment at roughly 1985 levels. The People's Bank has been instructed to charge 30-percent interest on new loans for out-of-plan investment projects, and Beijing is looking for other ways to tighten control over construction projects. The pressure for increased capital construction traditionally grows during the year, with one-fourth of yearly expenditures often chalked up in December alone.

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Directorate of
Intelligence

Economic & Energy Indicators

1 August 1986

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Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Apr	May	Jun
United States	2.6	−7.2	5.9	11.6	2.3	0.5	8.0	−4.7	−5.6
Japan	1.0	0.4	3.5	11.1	4.6	0.7	0	4.0	6.1
West Germany	−2.3	−3.2	0.3	2.4	4.8	−0.6	72.6		
France	−2.6	−1.5	1.1	2.5	0.5	−5.8	55.7	−46.5	
United Kingdom	−3.9	2.1	3.9	1.3	4.7	3.4	6.8	−15.2	
Italy	−1.6	−3.1	−3.2	3.3	1.2	11.7	16.4	−55.3	
Canada	0.5	−10.0	5.3	8.8	4.3	−0.9	4.6	−21.9	

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985				1986
					Year	2nd Qtr	3d Qtr	4th Qtr	1st Qtr
United States	2.5	−2.1	3.6	6.4	2.7	2.3	4.1	2.1	3.8
Japan	4.1	3.1	3.3	5.0	4.5	5.7	2.7	5.8	−2.1
West Germany	−0.2	−1.0	1.5	3.0	2.4	6.8	6.8	−0.2	−6.5
France	0.2	1.8	0.7	1.5	1.3	3.1	3.7	2.1	
United Kingdom	−1.4	1.9	3.4	2.6	3.3	6.4	−1.1	1.8	2.9
Italy	0.2	−0.5	−0.2	2.8	2.3	5.8	1.0	2.3	5.3
Canada	3.3	−4.4	3.3	5.0	4.5	3.2	7.0	5.4	

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2nd Qtr	May	Jun
United States	10.3	6.2	3.2	4.3	3.5	1.4	−1.7	2.2	5.7
Japan	4.9	2.6	1.8	2.3	2.0	0	−0.8	1.5	0.6
West Germany	6.0	5.3	3.3	2.4	2.2	−0.9	−1.1	0.2	0.4
France	13.3	12.0	9.5	7.7	5.8	0.8	1.6	2.6	5.0
United Kingdom	11.9	8.6	4.6	5.0	6.1	4.5	0.3	1.0	1.1
Italy	19.3	16.4	14.9	10.6	8.6	6.2	5.0	5.8	6.4
Canada	12.5	10.8	5.8	4.3	4.0	4.8	2.9	5.0	0.1

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Money Supply, M-1 [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Apr	May	Jun
United States [b]	7.1	6.6	11.2	7.0	9.1	7.9	15.5	25.9	15.6
Japan	3.7	7.1	3.7	2.8	5.0	7.7	9.2	9.1	
West Germany	1.1	3.6	10.2	3.3	4.4	9.8	1.9	-5.8	25.4
France	12.2	13.9			8.7	17.0	-17.0	-3.1	
United Kingdom	NA	NA	13.0	14.7	16.7	9.1	31.6	4.7	14.7
Italy	11.2	11.6	15.1	12.3	13.7	8.9	11.9		
Canada	3.8	0.7	10.2	3.2	4.1	-13.3	-14.0	9.9	28.7

[a] Based on amounts in national currency units.
[b] Including M1-A and M1-B.

Unemployment Rate [a]

Percent seasonally adjusted

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	1st Qtr	2nd Qtr	May	Jun
United States	7.5	9.6	9.4	7.4	7.1	6.9	7.0	7.1	7.2	7.0
Japan	2.2	2.4	2.7	2.7	2.6	2.8	2.6		2.7	
West Germany	5.6	7.7	9.2	9.1	9.3	9.0	10.2	8.6	8.5	8.4
France	7.6	8.4	8.6	9.6	10.0	9.7	9.9	10.0	10.0	10.1
United Kingdom	10.0	11.6	12.4	12.4	12.9	11.3	11.5	11.6	11.6	11.7
Italy	8.4	9.1	9.9	10.4	10.7	11.0	11.5			
Canada	7.5	11.1	11.9	11.3	10.5	10.2	9.7	9.6	9.6	9.5

[a] Unemployment rates for France are estimated.

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Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985	1986				
						1st Qtr	Mar	Apr	May	Jun
United States [b]										
Exports	233.5	212.3	200.7	217.6	213.3					
Imports	261.0	244.0	258.0	325.7	345.3	92.9	32.0	28.8	30.3	
Balance	−27.5	−31.6	−57.4	−108.1	−132.0					
Japan										
Exports	149.6	138.2	145.4	168.1	173.9	47.8	15.8	16.7	17.6	
Imports	129.5	119.6	114.0	124.1	118.0	30.0	9.4	9.7	9.1	
Balance	20.1	18.6	31.4	44.0	55.9	17.8	6.4	7.0	8.5	
West Germany										
Exports	175.4	176.4	169.5	171.9	184.3	55.0	17.4	21.8	17.6	
Imports [c]	163.4	155.3	152.9	153.1	158.9	45.0	14.2	17.2	14.4	
Balance	11.9	21.1	16.6	18.8	25.3	10.1	3.2	4.6	3.2	
France										
Exports	106.3	96.4	95.1	97.5	101.9	30.4	9.9	9.9	9.7	10.1
Imports	115.6	110.5	101.0	100.3	104.5	30.3	10.2	10.6	10.0	10.3
Balance	−9.3	−14.0	−5.9	−2.8	−2.6	0.1	−0.4	−0.7	−0.3	−0.2
United Kingdom										
Exports	102.5	97.1	92.1	93.6	100.9	26.2	8.4	9.1	8.9	8.8
Imports	94.6	93.1	93.7	99.3	103.5	28.3	10.2	9.5	9.9	9.7
Balance	7.9	4.0	−1.6	−5.7	−2.5	−2.0	−1.8	−0.4	−1.0	−0.9
Italy										
Exports	75.4	73.9	72.8	73.4	78.8	23.3	7.6	8.2	8.1	8.2
Imports	91.2	86.7	80.6	84.4	90.8	25.7	8.4	8.2	7.9	7.9
Balance	−15.9	−12.8	−7.9	−10.9	−11.9	−2.4	−0.8	0	0.2	0.3
Canada										
Exports	70.5	68.5	73.7	86.5	88.0	21.6	6.7	7.4	7.0	
Imports	64.4	54.1	59.3	70.6	75.7	19.8	5.8	6.6	6.4	
Balance	6.1	14.4	14.4	15.9	12.3	1.8	1.0	0.8	0.6	

[a] Seasonally adjusted.
[b] Imports are customs values.
[c] Imports are c.i.f.

Current Account Balance [a]

Billion US $

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	1st Qtr	Mar	Apr	May
United States	6.3	−8.1	−46.6	−106.5	−117.7	−33.7	−33.7			
Japan	4.8	6.9	20.8	35.0	49.2	16.0	12.7	6.8	7.9	7.7
West Germany	−6.8	3.3	4.3	6.7	13.8	7.3	6.9	2.1	3.6	2.7
France	−4.7	−12.1	−4.9	−0.8	0.9	1.0	1.0			
United Kingdom	15.3	8.5	4.7	1.9	5.0	1.1	0.7	−1.0	0.7	0.1
Italy	−8.6	−5.7	0.6	−2.9						
Canada	−5.0	2.1	2.4	2.6	−0.4	−0.7	−2.1			

[a] Seasonally adjusted; converted to US dollars at current market rates of exchange.

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Export Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						Feb	Mar	Apr	May
United States	9.2	1.5	1.0	1.4	−0.7	−12.0	7.7	−2.4	2.1
Japan	5.5	−6.4	−2.4	0.2	−0.6	111.0	−5.7	48.1	12.9
West Germany	−14.9	−2.8	−3.2	−7.1	0	60.6	32.8	0.2	20.4
France	−12.0	−5.5	−4.8	−2.9	2.5	34.7	28.0		
United Kingdom	NA	NA	−6.2	−5.1	2.3	−16.0	26.4	6.0	9.1
Italy	−7.8	−3.0	−4.4	−5.2	−0.3				
Canada	3.9	−2.0	0.2	−0.4	−3.5	17.2	−10.1	19.1	−2.5

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						Feb	Mar	Apr	May
United States	5.3	−2.0	−3.7	1.7	−2.4	−9.2	−29.6	−6.8	−2.4
Japan	3.6	−7.4	−5.0	−2.8	−4.3	46.8	−66.7	−59.0	−54.3
West Germany	−8.6	−4.7	−5.2	−4.8	−1.5	12.9	−2.2	−22.9	−7.9
France	−7.8	−7.2	−7.0	−3.8	−0.3	19.7	16.9		
United Kingdom	NA	NA	−5.7	−4.5	0.5	−2.0	26.2	−3.6	3.9
Italy	1.0	−5.3	−6.6	−3.7	−1.0	0	−38.4	−19.8	
Canada	8.7	−1.1	0.6	1.0	−2.1	6.5	0	21.1	−2.6

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Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986				
						1st Qtr	Mar	Apr	May	Jun
Trade-Weighted										
United States	10.5	10.6	5.8	9.1	6.3	−17.8	−20.3	−4.5	−13.7	
Japan	9.3	−5.7	10.4	6.2	6.8	26.8	26.2	22.1	81.8	
West Germany	−2.1	7.0	5.8	1.0	1.7	8.5	4.0	2.7	11.3	
France	−5.1	−6.1	−4.7	−2.1	2.7	5.8	2.0	−31.1	−3.1	
United Kingdom	2.5	−2.1	−5.0	−2.5	2.0	−26.0	2.5	38.0	11.8	
Italy	−9.2	−5.1	−1.6	−3.1	−3.8	5.5	4.2	−0.1	9.3	
Canada	0.3	0.2	2.3	−2.3	−3.6	−13.1	−5.6	11.2	6.2	
Dollar Cost of Foreign Currency										
Japan	2.7	−12.9	4.6	0	−0.3	32.2	33.4	22.8	42.8	−2.2
West Germany	−24.6	−7.2	−5.2	−11.5	−3.3	31.3	26.1	3.7	19.5	−1.0
France	−28.7	−20.8	−15.9	−14.7	−2.7	29.7	23.7	−39.1	15.7	−2.8
United Kingdom	−13.2	−13.4	−13.3	−11.9	−3.0	1.7	40.3	28.7	19.3	−7.7
Italy	−32.8	−18.8	−12.3	−15.6	−8.6	30.1	26.2	−4.7	18.8	−2.0
Canada	−2.5	−2.9	0.1	−5.1	−5.4	−6.9	4.1	13.1	6.4	−13.1

Money Market Rates

Percent

	1981	1982	1983	1984	1985	1986				
						1st Qtr	2nd Qtr	Apr	May	Jun
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	7.68	6.77	6.67	6.75	6.88
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66	6.52	6.38	NA	6.12	5.98	NA
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	4.51	4.52	4.47	4.55	4.55
France interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	8.96	7.41	7.55	7.27	7.41
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	12.26	10.09	10.41	10.14	9.72
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	16.00	12.71	13.66	12.50	11.97
Canada finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	11.08	9.03	9.52	8.78	8.80
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	8.41	7.91	7.00	6.95	6.99	7.07

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Agricultural Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2nd Qtr	May	Jun
Bananas Fresh imported, (Total world, $ per metric ton)	214.0	217.0	232.0	243.0	110.3	109.8	NA	109.2	NA
Beef (¢ per pound)									
Australia (Boneless beef, f.o.b. US Ports)	112.4	107.4	111.1	101.0	96.6	97.6	91.3	91.2	89.3
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	87.8	84.4	85.8	83.9
Cocoa (¢ per pound)	89.8	74.3	92.1	106.2	98.7	95.7	82.6	81.4	81.4
Coffee ($ per pound)	1.28	1.40	1.32	1.44	1.43	2.01	1.73	1.77	1.51
Corn (US #3 yellow, c.i.f. Rotterdam, $ per metric ton)	150	123	148	150	125	116	116	117	118
Cotton (World Cotton Prices, "A" index, c.i.f. Osaka, US ¢/lb.)	72.69	74.48	85.71	63.91	57.87	53.60	45.51	46.58	40.67
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	571	445	502	730	501	289	241	237	243
Rice ($ per metric ton)									
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	453	352	323	293
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	236	224	221	226
Soybeans (US #2 yellow, c.i.f. Rotterdam, $ per metric ton)	288	244	282	283	225	218	213	215	210
Soybean Oil (Dutch, f.o.b. ex-mill, $ per metric ton)	507	447	527	727	571	407	348	345	351
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	252	219	238	197	157	188	184	184	181
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢ per pound)	16.93	8.42	8.49	5.18	4.04	5.83	7.45	7.64	6.36
Tea Average Auction (London) (¢ per pound)	91.0	89.9	105.2	156.6	90.0	86.4	85.6	85.9	79.7
Wheat (US #2. DNS c.i.f. Rotterdam, $ per metric ton)	210	187	183	182	169	172	158	163	140
Food Index [a] (1980=100)	88	78	86	92	81	95	94	95	88

[a] The food index is compiled by *The Economist* for 14 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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Industrial Materials Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	2nd Qtr	May	Jun
Aluminum (¢ per pound)									
Major US producer	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0	81.0
LME cash	57.4	44.9	65.1	56.8	47.2	51.4	53.1	52.8	53.7
Chrome Ore (South Africa chemical grade, $ per metric ton)	53.0	50.9	50.0	50.0	43.9	40.0	40.0	40.0	40.0
Copper [a] (bar, ¢ per pound)	79.0	67.1	72.0	62.4	64.5	64.5	64.5	64.4	64.1
Gold ($ per troy ounce)	460.0	375.5	424.4	360.0	317.2	342.6	341.6	342.6	342.5
Lead [a] (¢ per pound)	32.9	24.7	19.3	20.0	17.7	16.7	17.6	17.0	19.0
Manganese Ore (48% Mn, $ per long ton)	82.1	79.9	73.3	69.8	68.4	67.2	64.8	64.8	64.8
Nickel ($ per pound)									
Cathode major producer	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	2.7	2.2	2.1	2.2	2.2	1.8	1.8	1.8	1.9
Platinum ($ per troy ounce)									
Major producer	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	446.0	326.7	422.6	358.2	291.0	383.1	420.1	412.0	432.3
Rubber (¢ per pound)									
Synthetic [b]	47.5	45.7	44.0	44.4	44.1	42.8	NA	39.7	NA
Natural [c]	56.8	45.4	56.2	49.6	42.0	41.7	40.1	40.1	41.0
Silver ($ per troy ounce)	10.5	7.9	11.4	8.1	6.1	5.9	5.2	5.1	5.2
Steel Scrap [d] ($ per long ton)	92.0	63.1	73.2	86.4	74.4	74.0	NA	71.5	NA
Tin [a] (¢ per pound)	641.4	581.6	590.9	556.6	543.2	357.4	250.5	249.3	244.2
Tungsten Ore (contained metal, $ per metric ton)	18,097	13,426	10,177	10,243	10,656	8,673	7,567	7,474	7,474
US Steel (finished steel, composite, $ per long ton)	543.5	567.3	590.2	611.6	617.8	551.2	NA	554.8	NA
Zinc [a] (¢ per pound)	38.4	33.7	34.7	41.5	35.4	28.5	32.7	31.9	36.5
Lumber Index [e] (1980=100)	95	84	114	105	103	100	121	121	112
Industrial Materials Index [f] (1980=100)	85	71	82	76	69	68	70	70	70

[a] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME. As of February 1986 tin prices from the Penang market.
[b] S-type styrene, US export price.
[c] Quoted on New York market.
[d] Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.
[e] This index is compiled by using the average of 10 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
[f] The industrial materials index is compiled by *The Economist* for 18 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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World Crude Oil Production
Excluding Natural Gas Liquids

Thousand b/d

	1981	1982	1983	1984	1985 [a]	1986 [a]			
						1st Qtr	Feb	Mar	Apr
World	**55,837**	**53,092**	**52,625**	**53,674**	**52,931**	**54,029**	**54,684**	**53,683**	**53,520**
Non-Communist countries	**41,602**	**38,810**	**38,228**	**39,257**	**38,692**	**39,758**	**40,423**	**39,417**	**39,181**
Developed countries	12,886	13,276	13,864	14,302	14,730	15,022	15,070	14,872	13,949
United States	8,572	8,658	8,680	8,735	8,933	8,898	8,934	8,821	8,791
Canada	1,285	1,270	1,356	1,411	1,457	1,480	1,480	1,480	1,300
United Kingdom	1,811	2,094	2,299	2,535	2,533	2,711	2,699	2,699	2,554
Norway	501	518	614	700	785	856	870	860	319
Other	717	736	915	921	1,022	1,077	1,087	1,012	985
Non-OPEC LDCs	6,036	6,633	6,823	7,515	7,845	7,556	7,393	7,605	7,712
Mexico	2,321	2,746	2,666	2,746	2,733	2,376	2,400	2,219	2,358
Egypt	598	665	689	827	874	758	600	800	760
Other	3,117	3,222	3,468	3,942	4,238	4,422	4,393	4,586	4,594
OPEC	22,680	18,901	17,541	17,440	16,117	17,180	17,960	16,940	17,520
Algeria	803	701	699	638	645	602	550	600	600
Ecuador	211	211	236	253	280	275	220	300	300
Gabon	151	154	157	152	153	160	160	160	160
Indonesia	1,604	1,324	1,385	1,466	1,235	1,223	1,300	1,175	1,215
Iran	1,381	2,282	2,492	2,187	2,258	1,890	2,200	1,800	2,000
Iraq	993	972	922	1,203	1,437	1,732	1,880	1,650	1,500
Kuwait [b]	947	663	881	912	862	1,169	1,100	1,400	1,400
Libya	1,137	1,183	1,076	1,073	1,069	1,000	1,000	900	900
Neutral Zone [c]	370	317	390	410	355	276	300	230	240
Nigeria	1,445	1,298	1,241	1,393	1,464	1,417	1,400	1,550	1,650
Qatar	405	328	295	399	302	352	300	350	180
Saudi Arabia [b]	9,625	6,327	4,867	4,444	3,290	4,256	4,600	4,000	4,600
UAE	1,500	1,248	1,119	1,097	1,146	1,287	1,400	1,305	1,255
Venezuela	2,108	1,893	1,781	1,813	1,621	1,541	1,550	1,520	1,520
Communist countries	**14,235**	**14,282**	**14,397**	**14,417**	**14,239**	**14,271**	**14,261**	**14,266**	**14,339**
USSR	11,800	11,830	11,864	11,728	11,350	11,350	11,350	11,350	11,390
China	2,024	2,042	2,121	2,280	2,496	2,496	2,496	2,496	2,496
Other	411	410	412	409	393	425	415	420	453

[a] Preliminary.
[b] Excluding Neutral Zone production, which is shown separately.
[c] Production is shared equally between Saudi Arabia and Kuwait.

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Big Seven: Inland Oil Consumption

Thousand b/d

	1981	1982	1983	1984	1985	1986					
						Jan	Feb	Mar	Apr	May	June
United States [a]	16,058	15,296	15,184	15,708	15,697	15,923	16,056	16,188	15,833	15,843	16,150
Japan	4,444	4,204	4,193	4,349	4,121	4,661	5,005	4,532	3,949		
West Germany	2,120	2,024	2,009	2,012	2,060	2,096	2,406	2,141	2,640		
France	1,744	1,632	1,594	1,531	1,493	1,626	2,009	1,525	1,679	1,222	
United Kingdom	1,325	1,345	1,290	1,624	1,402	1,286	1,483	1,447	1,416		
Italy [b]	1,705	1,618	1,594	1,513	1,516	1,718	1,855	1,535	1,495		
Canada	1,617	1,454	1,354	1,348	1,344	1,346	1,374	1,183	1,239		

[a] Including bunkers, refinery fuel, and losses.
[b] Principal products only prior to 1981.

Big Seven: Crude Oil Imports

Thousand b/d

	1981	1982	1983	1984	1985	1986					
						Jan	Feb	Mar	Apr	May	June
United States	4,406	3,488	3,329	3,402	3,216	3,329	2,993	3,000	3,701	4,085	4,508
Japan	3,919	3,657	3,567	3,664	3,377	3,126	4,273	3,673			
West Germany	1,591	1,451	1,307	1,335	1,284	1,321	1,225	1,429	1,285	1,404	
France	1,804	1,596	1,429	1,395	1,476	1,430	1,420	1,380	1,608		
United Kingdom	736	565	456	482	523	493	445	494			
Italy	1,816	1,710	1,532	1,507	1,462						
Canada	521	334	247	244	283	353	423				

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Crude Oil Prices

US $ per barrel

	1980	1981	1982	1983	1984	1985	1986			
							1st Qtr	2nd Qtr	May	Jun
OPEC Average [a] (Official Sales Price)	30.87	34.50	33.63	29.31	28.70	28.14	28.09	28.08	28.07	28.11
World Average Price	NA	NA	NA	NA	NA	27.16	20.67	NA	14.06	NA

[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil. Weighted by the volume of production.

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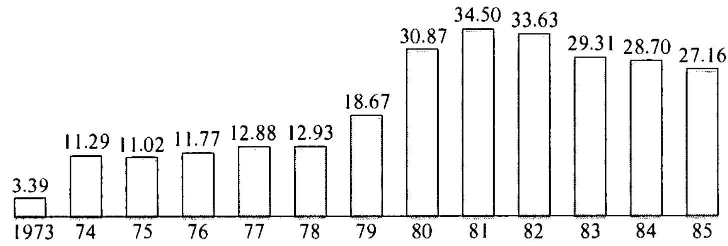
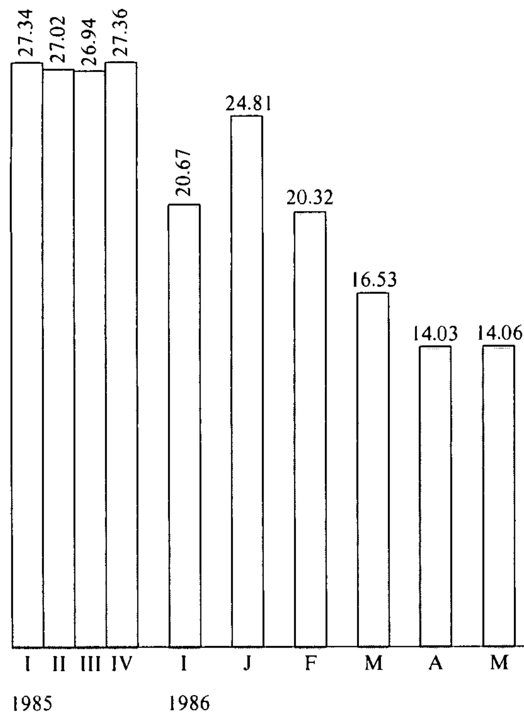
Average Crude Oil Sales Price[a]

US $ per barrel





[a] The 1973 price is derived from posted prices, 1974-84 prices are derived from OPEC official sales prices, and beginning in 1985, prices are a measure of average world sales prices.

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