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Economic Intelligence Weekly

On file Department of Commerce release instructions apply.

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Note: Comments and queries on the contents of this publication are welcomed.

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ECONOMIC INTELLIGENCE WEEKLY

Notes

Venezuela Assures Oil for the United States

Venezuela has assured the United States that it will continue to be a secure source of oil. Any attempt to take royalties in the form of petroleum instead of cash would not be at the expense of exports to the United States. In exchange, Venezuela expects technical assistance in the development of the Orinoco Tar Belt and a secure source of reasonably priced agricultural products. 25X1

Portugal Embargoed by Arab Producers

The Arab states reportedly have embargoed oil shipments to Portugal. This move had been expected because of Lisbon's cooperation with the United States in the resupply of Israel. It will not cause Portugal any problems even though the country normally receives about 85% of its oil supply from Arab sources. Although the Fuel Board's claim that Portugal had a 90-day stock on 1 October may be exaggerated, its stocks and the 15 days' supply en route should give Lisbon ample time to divert Angolan oil to the home country. Angola produces about 145,000 b/d, compared with Portuguese needs of only about 90,000 b/d. The diversion of Angolan oil now exported to Japan, the United States, Brazil, Spain, and other countries will not seriously affect their supplies. 25X1

Latin American Energy Organization

Representatives of 22 Latin American and Caribbean countries, including Cuba, voted last week to create a Latin American Energy Organization. The agreement, which becomes effective when ratified by 12 of the signatory nations, is aimed at developing and conserving the area's energy resources. Latin American oil exporters probably were under considerable pressure at the meeting to assure supplies to the importers, possibly at preferential prices. Venezuela opposes preferential prices but has offered other help such as cooperation in developing energy resources. 25X1

EC CAP Revisions

Yielding to French pressure, the EC Commission has proposed revisions in the Common Agricultural Policy (CAP) that include subsidies for soybean production. The proposal also calls for increased support prices for feed grains and lower ones for wheat. US sales could benefit from reduced competition from EC wheat growers but will be hurt by the feed grain and soybean proposals. The subsidies could eventually result in EC soybean plantings of 500,000 to one million acres, according to the French Ministry of Agriculture. Such plantings would cut US soybean sales to the EC by an estimated $75 million to $150 million.

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New EC Offer on Article XXIV:6 Expected

The EC's foreign ministers agreed Tuesday on the major part of proposed tariff concessions to compensate non-EC countries for trade losses resulting from Community enlargement. The formal offer, which may be made by the end of the month, will include concessions on trucks and plywood and probably on kraft paper and citrus as well – all items of interest to the United States. It nevertheless probably will fall considerably short of US demands. Quantitative tariff reductions are likely to be less than desired by Washington, and no concessions on cereals are being offered. The EC apparently intends to present the offer as its final position.

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Major Arab oil cutbacks as of 7 November 1973 -----

Thousand Barrels per Day

	Saudi Arabia	Ku-wait	Libya	Iraq	Abu Dhabi	Al-geria	Qatar	Oman	Dubai	Total
September production (actual)	8,600	3,500	2,300	2,000	1,400	1,050	600	300	300	20,050
October production (estimated)[1]	8,000	3,000	2,200	1,700[2]	1,400	1,050	580	300	200[3]	18,430
Decrease from September										
Volume	600	500	100	300	....	....	20	....	100	1,620
Percent	7	14	4	15	....	....	3	....	33	8
New OAPEC production plan for November[4]	6,450	2,625	1,725	1,500	1,050	790	450	225	225	15,040
Decrease from September										
Volume	2,150	875	575	500	350	260	150	75	75	5,010
Percent	25	25	25	25	25	25	25	25	25	25
New OAPEC production plan for December[5]	6,125	2,500	1,650	1,425	1,000	750	425	210	210	14,295
Decrease from September										
Volume	2,475	1,000	650	575	400	300	175	90	90	5,755
Percent	29	29	29	29	29	29	29	29	29	29

Measured against the production that previously had been expected for December, the cutbacks are still larger -----

	Saudi Arabia	Ku-wait	Libya	Iraq	Abu Dhabi	Al-geria	Qatar	Oman	Dubai	Total
Pre-cutback planned December production[6]	9,800	3,800	2,300	2,200	1,500	1,100	650	300	300	21,950
Production shortfall due to cutbacks										
Volume	3,675	1,300	650	775	500	350	225	90	90	7,655
Percent	38	34	28	35	33	32	35	30	30	35

1. October production based on normal growth during first 17 days of the month and uneven application of OAPEC resolution for remainder of the month; the members of the Organization of Arab Petroleum Exporting Countries (OAPEC) are Abu Dhabi, Algeria, Bahrain, Dubai, Egypt, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, and Syria.
2. Production reduced as a result of war damage to export facilities.
3. Dubai production reduced by offshore well fire.
4. On 4 November, OAPEC agreed to a 25% production cutback in November based on September production.
5. OAPEC plan to reduce an additional 5% in December, based on November production.
6. Company forecasts where available; otherwise, OER estimate.

Articles

Arab Oil Cutbacks

The decision to cut production taken at the meeting of Arab oil ministers in Kuwait on 4 November means that Arab oil exports by the end of December will be some 5.3 million b/d, or 29%, below the September level, if the plan is adhered to by all participants. Before the war started, average December production was expected to be 1.9 million b/d above the September level. Taking into account expected increases in Arab oil production that will not now occur, average production in December will be 7.7 million b/d below the level previously expected.

The new formulation strengthens King Faysal's leadership role by committing the other producers to match his cutback. Saudi Arabia and Kuwait, which account for 60% of Arab oil exports, had already cut production by about 25%. Libya had made only a symbolic cutback, and Algeria, Iraq, and Abu Dhabi had not cut production. Iraq, however, refused to sign the Kuwait agreement. Libya and Algeria, who argued in the meeting for moderation, probably will not implement the agreement, but Abu Dhabi has.

Under the new agreement, Turkey, Brazil, and the 18 African states that have broken relations with Israel were added to the list of friendly countries that will receive oil equal to their average imports during the first nine months of this year. France, the United Kingdom, Spain, and a number of Muslim states were already on this list. Portugal and South Africa were added to the United States and the Netherlands on the embargoed list.

In addition to their losses resulting from the production cutbacks, all countries will lose any expected increases in imports. Although the United States is not affected by these new cuts, having been totally embargoed earlier, it will lose something on the order of 500,000 b/d of expected growth during the winter months. Thus, the US import shortfall will increase to some 2.5 million b/d. 25X1

Japanese Imports

	Jan-Aug 1973 (Million US $)		Percent Increase above Jan-Aug 1972	
	United States	Total	United States	Total
Total	**5,783**	**23,415**	**52**	**59**
Foodstuffs	1,603	4,105	101	61
Raw materials	2,029	13,275	61	59
Chemicals	416	1,062	62	47
Machinery and equipment	1,169	2,130	14	23
Other	566	2,843	25	107

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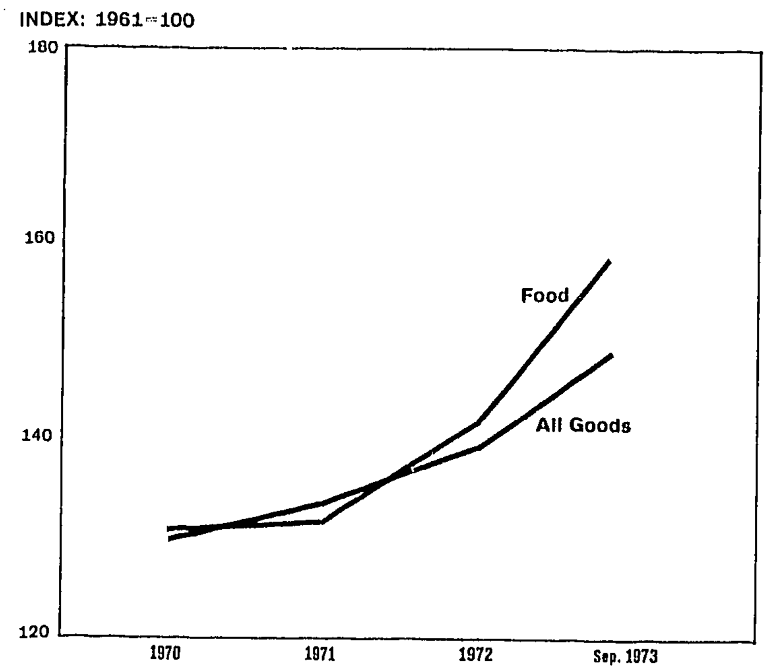
Indexes of Consumer Prices



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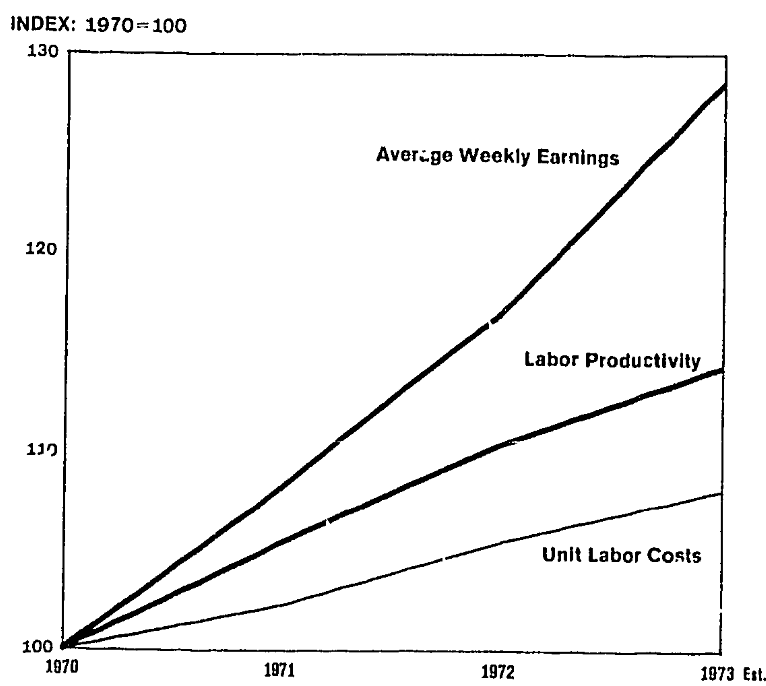
Indexes of Labor Earnings, Productivity, and Unit Labor Costs in Manufacturing



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Worldwide Grain Developments

Egypt

Egypt's wheat position is much stronger now than before the war, when a purchase of 1.5 million tons was being sought from the United States and when renewal of the annual 1 million ton wheat agreement with Australia appeared likely to founder over credit terms. Arab aid now permits Egypt to meet Australia's payment demands. This wheat, the 450,000 tons purchased from Romania, the 100,000 ton gift from China, and stocks equal to five months of consumption will carry Egypt until the harvest next May. [redacted] 25X1

[redacted] 25X6

Argentina

Argentina's December wheat harvest will be much smaller than last year. Export availability of wheat in 1974 will be as low as 700,000 tons, compared with about 3.2 million tons this year. As a result, corn exports will be emphasized to avoid balance-of-payments problems. [redacted] 25X1

Chile

European donations of wheat to Chile continue to lag. West Germany is close to shipping 15,000 tons, but the EC and France are delaying shipments of 20,000 tons and 10,000 tons, respectively, because of the junta's political repression. The United States has thus far provided $24 million in CCC credits for about 120,000 tons of wheat exports to Chile and is considering financing 250,000 tons of corn. [redacted] 25X1

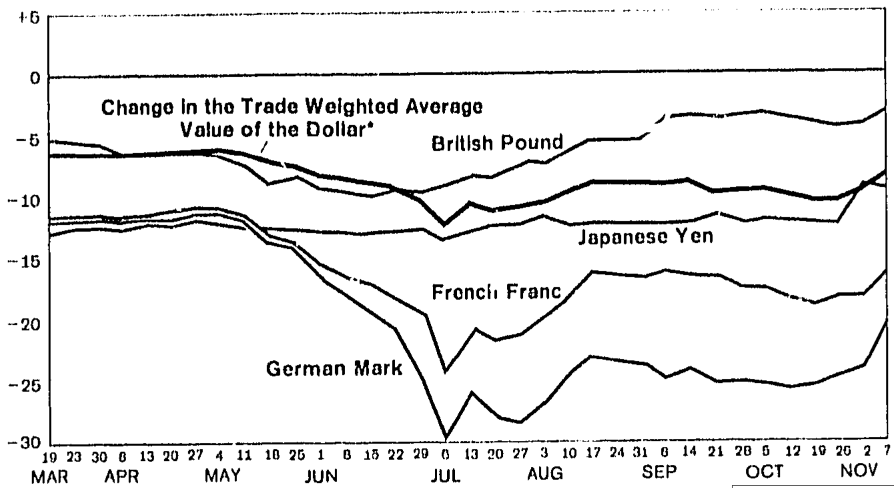
Argentina: Pressure on US Firms

US subsidiaries in Argentina may be forced to trade with Cuba. In August, Buenos Aires granted Cuba a $200 million a year line of credit to finance exports. Among the items covered by the agreement are transportation and agricultural equipment produced by subsidiaries of Ford, General Motors, Chrysler, Goodyear, Clark Equipment, and John Deere. Legislation is being drafted to set progressively larger export quotas for passenger cars during a four-year period, and penalties in the form of restrictions on domestic sales would be levied for failure to meet these quotas.

US firms generally have stalled on response to Cuban enquiries because they have been unable to get definitive guidance on current US trade control policies toward Cuba. [redacted] pressure from labor 25X1
and the bureaucracy indicates that Buenos Aires is prepared to force the issue. Each US automobile subsidiary recently received formal written requests for quotations from a Cuban purchasing mission in Argentina. Failure to respond satisfactorily to such requests may be used by the Argentine government and press as evidence of the companies' violation of Argentine laws prohibiting sales discrimination.

In addition to legal restraints, the government could withhold import licenses, construction permits, and local credit; engage in tax persecution; and sponsor labor unrest. If the Cuban sales issue is not resolved shortly, US investments in Argentina in excess of $300 million could be seriously jeopardized. [redacted] 25X1

**PERCENT CHANGE SINCE 2 JANUARY 1973
IN THE VALUE OF THE US DOLLAR
RELATIVE TO SELECTED FOREIGN CURRENCIES**



*Relative to 16 major currencies.

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The Dollar Strengthens on Currency Markets

The dollar made exceptional advances in international money markets this week, despite heavy central bank intervention to slow its rise. Since 1 November, it has appreciated by an average of 4% relative to the European currencies and 3% relative to the yen. The Bank of Japan sold around $800 million to support the yen, while other central banks sold about $200 million to support their currencies. The dollar has now recovered nearly two-thirds of the value lost earlier this year.

The immediate cause of the rush into dollars in Western Europe is fear over the future impact of the Arab oil cutbacks. A growing apprehension that the Arab moves will cause greater hardship for Europe than for the United States apparently sparked widespread liquidation of foreign currency holdings, particularly of marks acquired months ago as a hedge against dollar depreciation. In Japan, continuing heavy commercial dollar demand for imports and foreign investment was largely responsible for the dollar's appreciation. The value of the dollar has been climbing since its low point in early July. The most important factor in the dollar's longer term strength is the rising confidence produced by the improving US trade balance. Another factor has been the narrowing of interest rate differentials between the United States and foreign countries.

Confidence in the dollar has also been evidenced by developments in the forward and two-tier markets. Forward exchange rate differentials, which had widened sharply during the currency instability of June and July, have gradually narrowed. In those countries that have two-tier markets – France, Belgium, and Italy – the financial rate, the rate not supported by the government, has been falling more quickly relative to the dollar than the commercial rate because foreign intervention to support the commercial rate has been masking the dollar's strength. 25X1

Soviet Oil Problems

Soviet oilmen recently told US officials in Moscow that the USSR cannot now produce and refine enough crude oil to satisfy both domestic demand and contractual agreements with Eastern Europe. Inference of a crisis at this time is exaggerated. The Soviet Union's net oil exports amount to 2 million b/d, almost one-fourth of total output. Nevertheless, Moscow does not have uncommitted oil. During the recent Arab-Israeli fighting the USSR temporarily reduced deliveries to Italy so that it could compensate Eastern Europe for a reduction in supplies of Iraqi oil. Although the USSR values its reputation as a reliable oil exporter to the West, in this instance the needs of Bulgaria, which depends on Iraqi oil for about half of its supply, apparently took priority.

During the next three to five years the USSR should produce enough oil to meet domestic requirements and to provide sizable exports to Eastern and Western Europe. At the same time, unless the Soviet petroleum industry solves some major problems, the USSR may have to depend on foreign oil to meet the steadily growing domestic demand by the mid-1980s. Soviet oil production is running below plan. Large, older fields near consumption centers are being depleted more rapidly than expected, so the USSR must accelerate the development of oil fields in West Siberia. Exploitation of these fields has been delayed by difficult operating conditions for which domestic equipment and technology are inadequate. 25X1

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DOMESTIC ECONOMIC INDICATORS

GNP*
Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	73 III	0.9	5.0	5.7	3.7
Japan	73 II	1.4	9.1	13.0	5.9
West Germany	73 II	-2.3	3.8	6.2	-8.8
France	73 II	0.7	6.2	8.7	2.9
United Kingdom	73 II	0.7	4.6	9.5	2.7
Italy	73 I	0.8	3.1	5.2	3.4
Canada	73 II	0.9	6.1	6.8	3.7

WHOLESALE PRICES
Industrial

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Sep 73	0.5	4.9	7.9	3.8
Japan	Sep 73	1.8	5.7	18.7	26.0
West Germany	Sep 73	-0.1	4.7	6.6	1.0
France	Aug 73	1.0	7.1	16.2	20.5
United Kingdom	Sep 73	1.1	7.3	7.6	13.5
Italy	Aug 73	1.2	8.4	19.4	27.2
Canada	Sep 73	-0.7	10.0	24.6	45.0

INDUSTRIAL PRODUCTION*

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	0.6	6.0	10.2	11.4
Japan	Aug 73	1.4	9.0	17.5	8.9
West Germany	Aug 73	5.9	4.0	8.5	-5.9
France	Aug 73	0	7.7	10.4	9.9
United Kingdom	Aug 73	0.7	3.7	8.2	0
Italy	Aug 73	2.0	3.6	13.5	25.3
Canada	Aug 73	-3.1	5.6	8.0	1.6

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Sep 73	0.3	4.9	7.4	9.7
Japan	Sep 73	2.9	8.2	14.6	19.5
West Germany	Aug 73	-0.1	5.8	7.2	2.5
France	Sep 73	0.9	6.4	7.9	9.7
United Kingdom	Sep 73	0.9	8.4	9.3	6.6
Italy	Aug 73	0.6	7.2	11.7	8.5
Canada	Sep 73	0.6	5.5	8.5	11.7

RETAIL SALES*
Current Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier**
United States	Sep 73	-0.9	10.5	10.7	9.5
Japan	Jun 73	2.1	12.5	22.6	14.3
West Germany	Aug 73	4.2	9.0	4.2	1.2
France	Jun 73	3.4	6.4	7.2	5.5
United Kingdom	Aug 73	0.7	11.1	12.1	14.8
Italy	May 73	2.3	11.3	20.4	22.3
Canada	Sep 73	-0.3	10.6	13.6	5.8

MONEY SUPPLY*

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier **
United States	Sep 73	-0.3	7.2	5.3	5.5
Japan	Jul 73	-0.6	17.9	32.4	12.7
West Germany	Aug 73	-2.4	8.5	1.7	-12.7
France	Apr 73	2.6	13.3	14.1	2.6
United Kingdom	Sep 73	-2.1	10.6	8.5	9.9
Italy	Apr 73	2.8	20.4	19.1	13.7
Canada	Sep 73	0	13.5	14.4	13.0

MONEY-MARKET RATES

	Representative Rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Prime finance paper	2 Nov	7.50	5.13	8.25	8.25
Japan	Call money	26 Oct	8.75	4.38	7.50	9.00
West Germany	Interbank loans (3 Months)	2 Nov	14.25	7.25	14.25	14.38
France	Call money	2 Nov	11.25	6.75	8.75	11.13
United Kingdom	Local authority deposits	2 Nov	12.63	4.74	11.63	13.13
Canada	Finance paper	2 Nov	9.25	5.13	7.50	8.75
Euro-Dollars	Three-month deposits	2 Nov	9.38	5.88	11.44	10.69

*Seasonally adjusted.
**Average for latest 3 months compared with average for previous 3 months.

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EXTERNAL ECONOMIC INDICATORS

EXPORTS*
f.o.b.

	Latest Month		Cumulative		
		Million US $	Million US $ 1973	1972	Percent Change
United States	Sep 73	6,448	50,610	35,889	41.1
Japan	Sep 73	3,126	25,758	20,185	27.6
West Germany	Sep 73	6,268	48,869	34,034	43.6
France	Sep 73	3,241	26,742	19,205	39.2
United Kingdom	Sep 73	2,584	21,226	16,738	26.8
Italy	Aug 73	1,890	13,489	11,899	13.4
Canada	Aug 73	1,902	15,855	12,917	22.8

IMPORTS*
f.o.b.

	Latest Month		Cumulative		
		Million US $	Million US $ 1973	1972	Percent Change
United States	Sep 73	5,575	50,456	40,679	24.0
Japan	Sep 73	2,725	22,154	13,523	63.8
West Germany	Sep 73	4,436	37,245	27,805	33.9
France	Sep 73	3,001	25,690	18,436	39.3
United Kingdom	Sep 73	3,018	24,429	17,941	39.2
Italy	Aug 73	2,317	15,074	10,996	37.1
Canada	Aug 73	1,914	14,882	12,203	22.0

TRADE BALANCE*
f.o.b./f.o.b.

	Latest Month		Cumulative (Million US $)		
		Million US $	1973	1972	Change
United States	Sep 73	873	154	-4,810	4,964
Japan	Sep 73	402	3,604	6,661	-3,057
West Germany	Sep 73	1,832	11,624	6,228	5,396
France	Sep 73	240	1,052	769	284
United Kingdom	Sep 73	-434	-3,204	-1,203	-2.001
Italy	Aug 73	-427	-1,584	903	-2,488
Canada	Aug 73	-12	974	714	260

BASIC BALANCE**
Current and Long-Term-Capital Transactions

	Latest Period		Cumulative (Million US $)		
		Million US $	1973	1972	Change
United States*	73 II	-800	-1,700	-5,700	4,000
Japan	Aug 73	-770	-5,926	1,257	-7,183
West Germany	Jul 73	136	1,605	3,593	-1,988
France	73 I	-576	-576	-524	-52
United Kingdom	73 I	-995	-995	-446	-549
Italy	72 IV	800	N.A.	2,983	N.A.
Canada	73 I	-272	-272	-117	-155

OFFICIAL RESERVES

	Latest Month		Billion US $		
	End of	Billion US $	Jun 1970	1 Year Earlier	3 Months Earlier
United States	Sep 73	14.0	16.3	13.2	14.0
Japan	Oct 73	14.0	4.1	17.8	15.2
West Germany	Aug 73	37.9	8.8	24.6	32.2
France	Sep 73	9.9	4.4	10.0	10.2
United Kingdom	Oct 73	6.8	2.8	5.9	6.6
Italy	Sep 73	6.5	4.7	6.4	6.0
Canada	Oct 73	5.8	4.3	6.2	5.8

*Seasonally adjusted.
**Converted into US dollars at current market rates of exchange.

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 73	3.9	8.4	22.5	35.7
Japan	Jul 73	4.3	12.8	23.6	40.0
West Germany	Aug 73	-2.7	15.6	32.3	70.2
France	Jun 73	9.2	15.5	33.7	51.5
United Kingdom	Aug 73	0.6	10.5	12.3	11.5
Italy	Jun 73	2.9	9.2	12.9	22.1
Canada	Jul 73	2.7	6.2	13.1	12.0

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 73	3.9	8.4	22.5	35.7
Japan	Jul 73	4.2	2.2	8.5	38.1
West Germany	Aug 73	-1.9	0.9	-0.8	-4.4
France	Jun 73	3.8	5.6	13.1	14.6
United Kingdom	Aug 73	2.0	9.2	10.8	18.6
Italy	Jun 73	2.5	6.8	13.1	26.9
Canada	Jul 73	2.8	5.1	14.8	11.8

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 73	2.1	10.6	20.6	19.2
Japan	Jul 73	1.9	0.6	8.0	12.3
West Germany	Aug 73	1.1	-0.2	2.6	-9.1
France	Jun 73	0.6	3.1	5.6	7.3
United Kingdom	Aug 73	4.0	13.3	34.1	42.6
Italy	Jun 73	4.6	10.8	24.8	54.4
Canada	Jun 73	1.1	4.8	10.6	13.4

EXCHANGE RATES Spot Rate
As of 2 Nov 73

	US $ Per Unit	Percent Change from Dec 66	18 Dec 1971	19 Mar 1973	26 Oct 1973
Japan (Yen)	0.0036	31.82	12.01	-4.36	-3.40
West Germany (Deutsche Mark)	0.4087	62.57	31.71	15.42	-0.63
France (Franc)	0.2350	16.39	19.35	6.62	-0.80
United Kingdom (Pound Sterling)	2.4340	-12.78	-6.59	-1.10	-0.12
Italy (Lira)	0.0018	9.37	1.80	-1.07	-0.62
Canada (Dollar)	1.0044	8.89	0.66	0.67	-0.05

TRADE-WEIGHTED EXCHANGE RATES***
As of 2 Nov 73

	Percent Change from Dec 66	18 Dec 1971	19 Mar 1973	26 Oct 1973
United States	-18.59	-9.09	-2.35	0.99
Japan	19.21	5.36	-6.61	-3.24
West Germany	31.17	14.15	9.12	0.38
France	-11.35	1.87	-0.57	0.03
United Kingdom	-34.93	-20.71	-6.29	0.62
Italy	-16.98	-15.78	-8.94	0.19
Canada	5.07	-1.48	0.16	0.23

***Weighting is based on each listed country's trade with 10 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.

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