



Directorate of  
Intelligence

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# International Economic & Energy Weekly



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12 April 1985

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12 April 1985

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**International  
Economic & Energy  
Weekly** [Redacted]

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1 Perspective—Iran: The Economy and Near-Term Instability [Redacted]  
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3 Iran's Economic Slide [Redacted]  
[Redacted] *OEA*

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7 Summit Issues: Big Six Unemployment Continues To Rise [Redacted]  
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*Comments and queries regarding this publication are welcome. They may be directed to [Redacted] Directorate of Intelligence, [Redacted]*

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**International  
Economic & Energy  
Weekly** [Redacted]

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**Synopsis**

1 **Perspective—Iran: The Economy and Near-Term Instability** [Redacted]

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Dwindling oil income, increased domestic unrest, and the protracted war, combined with Khomeini's failing health, are confronting the regime with its greatest challenges. Possible radical changes in oil policies, war strategy, relations with the USSR, or terrorism could have major implications for the West. [Redacted]

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3 **Iran's Economic Slide** [Redacted]

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Economic pressures are unlikely by themselves to bring down the Khomeini regime or force an end to the war with Iraq. Combined with recent battlefield defeats and the ongoing succession struggles, however, they pose the most serious threat to the regime since it consolidated power in 1981. [Redacted]

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7 **Summit Issues: Big Six Unemployment Continues To Rise** [Redacted]

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Economic recovery in the Big Six countries was considerably stronger in 1984 than in 1983 but remained too weak to keep the overall unemployment rate from increasing further. [Redacted]

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[Redacted]

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15 **Persian Gulf Pipelines: Energy Security in an Era of Austerity** [Redacted]

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Continued instability in the Persian Gulf has led to renewed momentum for construction of alternative oil export outlets. The prospective pipeline capacity, in combination with the surplus productive capacity outside the region, will substantially reduce the vulnerability of major importers to a disruption of Persian Gulf oil exports into the 1990s. [Redacted]

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**International  
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**Perspective**

***Iran: The Economy and Near-Term Instability*** [Redacted]

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Dwindling oil income, increasing domestic unrest, and the protracted war, combined with Ayatollah Khomeini's failing health, are confronting the regime with its greatest challenges. As a result, Tehran is losing its margin of error—both economic and political—in meeting popular expectations, and serious instability could occur before Khomeini dies. If the clerics believe their control is seriously threatened, they would likely attempt radical changes—in oil policies, war strategy, relations with the USSR, or terrorism—that would have major implications for the West. [Redacted]

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The regime's economic troubles stem largely from sharply reduced oil income caused by the soft oil market and by Iraqi attacks against oil tankers. Readily accessible foreign currency reserves are down to roughly half the level a year ago, the lowest level since the revolution. Long-term foreign credits are not available. Consequently, Tehran can no longer rely on oil-financed imports to maintain consumption levels or provide materials for domestic industry and has reimposed strict foreign currency and import controls. [Redacted]

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[Redacted] economic austerity is adding to domestic unrest.

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Regime spokesmen are now warning publicly that the populace must lower its expectations—a sharp contrast to past promises of a better future. Air attacks have shaken the regime, lowered morale, and further disrupted the economy. Even the lower class—the base of the clerics' support—has begun to show open dissatisfaction. Tehran probably is particularly concerned about labor unrest in Esfahan, the second-largest city and an industrial center, where there is longstanding leftist strength. [Redacted]

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Infighting among factions within the regime is increasing, partly because leading Iranians realize that Khomeini may not live much longer. Radicals are trying to win Khomeini's endorsement of their views, but he generally has supported the moderates by allowing more foreign contacts and an increased role for the private sector. Moreover, moderates are trying to expand their mid-1984 gains in the Consultative Assembly where they have both deputy speaker positions. [Redacted]

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Although the Khomeini regime has lost its margin for error in meeting popular expectations and in dealing with further economic and military reversals, it does retain important assets. The regime's most significant strength may be the recognition by Iran's leaders that unbridled competition among themselves

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could be disastrous. Moreover, the Iranian people are unlikely to shift their allegiance until another strong individual emerges who is an alternative to Khomeini. Finally, Tehran controls the means of repression and does not hesitate to use them against opponents. [redacted]

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If the clerical regime concludes that its control is seriously threatened, it would look for ways of regaining support that would have major implications for the West. To ease its economic crunch, Tehran could sharply increase oil production and discount prices to try to generate greater revenues. [redacted]

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[redacted] there is increased dissatisfaction within the regime over the inability of Iranian oil officials to maintain revenue. Iran has been one of the few OPEC countries to remain within its production quota since last summer because its professional oil industry managers fear a disastrous collapse of prices. Iran—the second-largest OPEC oil producer—could cause a strong downward pressure on prices if it tries to undersell its competitors. Given the soft oil market, however, such a move would risk competitive discounts by other OPEC members that would more than offset any revenue gain. [redacted]

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Outside the economic realm, Tehran's options include:

- *Attempting another "final offensive."* In the unlikely event that Tehran achieved its political aim—the removal of President Saddam Husayn—on the battlefield, the influence of Iranians advocating radical foreign and domestic policies would be greatly increased. Other regional regimes' confidence in the United States would be seriously eroded.
- *Ending the war by negotiating.* This probably would provide only a brief respite because popular morale is likely to fall again unless the regime reverses the economic decline. Some economic resources could be reallocated, but peace would not improve the soft world oil market.
- *Approaching Moscow.* Significant moves in this direction would increase Soviet chances of penetrating the government and revolutionary organizations and of building popular networks that could eventually be used to try to install a regime sympathetic to the USSR.
- *Staging a terrorist spectacular.* A broad program of strikes against US and other Western interests in the region and in Western Europe might be staged to rally the populace. [redacted]

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Iran's Economic Slide

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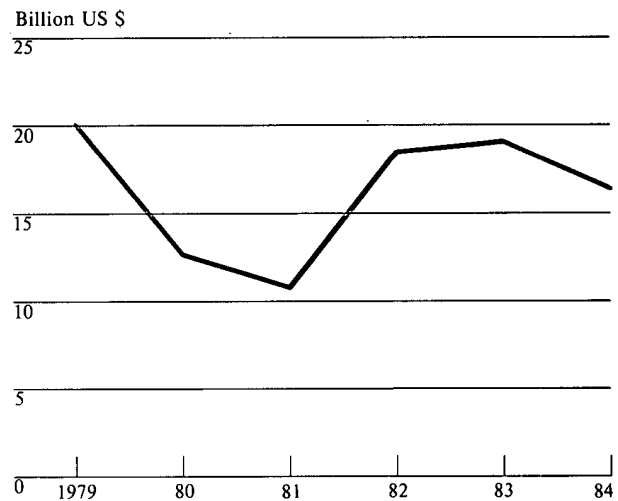
Iran's economy is sputtering. War-related disruptions, ideological rigidities, massive corruption, and mismanagement have stifled production since the revolution. These problems worsened in 1984 as the soft world oil market and Iraqi attacks on shipping depressed export earnings. This, in turn, has led to a sharp drawdown of foreign exchange reserves. Domestic economic problems are adding to popular unrest, and the regime is warning the populace to lower its expectations. Economic pressures are unlikely by themselves to bring down the Khomeini regime or force an end to the war with Iraq. Combined with recent battlefield defeats and the ongoing succession struggles, however, they pose the most serious threat to the regime since it consolidated power in 1981.

Lower Oil Revenues

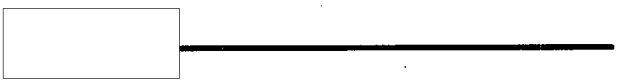
Monthly oil revenues from August 1984 through March 1985 averaged about 30 percent less than they did during the previous year and a half. Despite efforts to diversify the economy, Iran still depends on oil for 98 percent of its foreign earnings and 30 percent of GDP. Iraqi attacks on shipping have contributed substantially to lower Iranian oil exports and revenues. On top of market-related discounts, Iran has had to cut prices up to \$3 per barrel to offset the increased costs of transporting and insuring its crude.

Iran continues to have difficulty forming an oil policy to balance its need to finance the war with its fear of putting downward pressure on oil prices. As the second-largest OPEC producer, Iran recognizes that, if it increased production substantially and offered large price discounts, it probably would end up losing revenue in a resulting oil price war. Moreover, according to public statements by senior

Iran: Oil Revenues, 1979-84



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officials, Tehran believes that low oil prices help its Western enemies and that the current soft oil market is a Western plot to break OPEC.

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Desperate financial conditions, however, appear to be moving Tehran toward a strategy of price cutting to keep exports high. Recently, the Oil Ministry has come under intense criticism within the government for its inability to maintain revenues. In addition, Tehran is unlikely to sit by idly as Iraq opens additional export capacity in the next year. We estimate Iran is capable of producing up

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**Iran: Current Account**

Billion US \$

	1978	1979	1980	1981	1982	1983	1984	1985 <sup>a</sup>
<b>Exports</b>	21.9	20.6	13.6	11.7	18.9	19.8	16.9	14.9
Oil	21.2	20.2	12.8	10.9	18.6	19.5	16.5	14.5
Nonoil	0.7	0.4	0.8	0.8	0.4	0.3	0.4	0.4
<b>Imports</b>	17.8	7.8	10.7	10.8	9.7	15.3	15.0	12.5
Services	-3.4	-1.0	-2.4	-3.3	-3.0	-5.3	-5.8	-5.1
<b>Balance</b>	0.7	11.8	0.5	-2.4	6.2	-0.8	3.9	-2.7

<sup>a</sup> Projected, assuming oil exports for the year average about 1.55 million b/d, 10 percent higher than in the period August 1984–February 1985. This projection also assumes oil prices remain at current levels and Iraq continues attacks on shipping at the same level as the first two months of 1985.

[Redacted]

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to 3.2 million b/d; current production is about 2.2 million b/d including 700,000 b/d for domestic consumption. [Redacted]

1984 and again in January 1985, Iran's central bank temporarily discontinued issuing letters of credit, according to press reports. Iran's failure to make timely payments to foreign firms has caused some of them to discontinue or scale back business in Iran. [Redacted]

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**Foreign Payments in the Red**

Low oil revenues and an unwillingness to slash imports left Iran with a current account deficit last year of \$3.9 billion—nearly five times the 1983 deficit and the largest since the revolution. Lacking access to long-term credit, Tehran drew down liquid reserves to an estimated \$2.5 billion—only two months' import coverage. (Total foreign exchange assets at yearend 1984 are estimated at \$5 billion, but about half is in escrow to meet US claims to be settled by the International Court or in accounts receivable from Third World nations that are unlikely to be repaid soon, if at all.) The regime, wary of another credit crunch like the one that occurred in 1981, has repeatedly emphasized its desire to maintain reserves sufficient to cover at least six months of imports. [Redacted]

Despite efforts to hold down imports, Iran still must continue the war effort, feed the population, and maintain industrial production. We estimate Iran imported at least \$2.5 billion worth of food, about \$2.4 billion in raw materials, and \$1.4 billion of military supplies last year. Iranian officials have estimated that Iran needs at least \$6 billion worth of imported raw materials for industry to operate near capacity, according to press reports. In addition, the oil industry depends on foreign equipment and services to maintain long-term production capacity. [Redacted]

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Assistance to Syria and war-induced transportation problems are additional burdens. Maintaining Syria's commitment to keep Iraq's 1.2-million-b/d pipeline through Syria closed, costs Iran about \$700 million a year in oil aid and credits. The war has closed much of Iran's port capacity, resulting in

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Iran is finding it increasingly difficult to pay its bills. According to press reports, Iran has accumulated foreign obligations of up to \$6 billion, mostly in the form of short-term trade credits. In May

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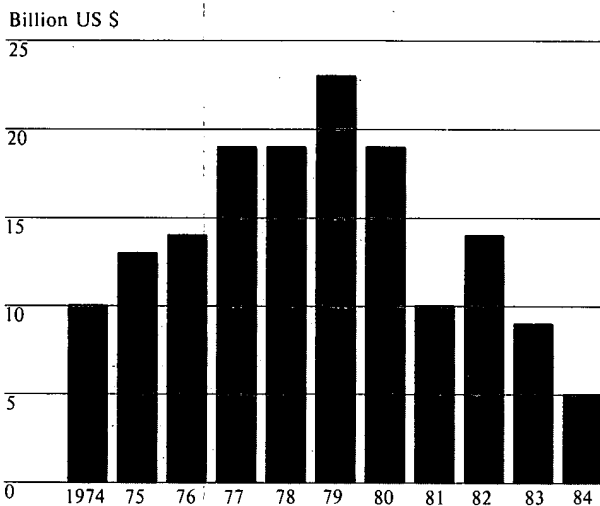
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**Iran: Official Foreign Exchange Assets, Yearend 1974-84**



[Redacted]

large demurrage charges at clogged entry points. Iran's merchant fleet losses have forced Iran to use scarce hard currency to hire ships, and war risks have raised insurance rates for ships calling on many Iranian ports. [Redacted]

Iran's diplomatic isolation has left it without benefactors willing to help finance its current account deficits. Potential lenders are reluctant to offer unsecured long-term credit because of the war and revolutionary turmoil inside the country. Iran has only been able to obtain small loans at high interest rates that are secured by its gold holdings. [Redacted]

**Effects of the Deteriorating Economy**

Financial problems and the war are aggravating already serious domestic economic problems. Ideological conflicts have paralyzed economic policy making. For example, political stalemate on land

reform has created uncertainty over land ownership, stifling agricultural investment and production. Rampant corruption has also caused inefficiencies and undermined public confidence in the regime. Rapid urbanization caused by rural migration and war refugees has overloaded public services, particularly in Tehran. Shortages of trained technicians are hindering production. [Redacted]

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The government depends on oil receipts for more than half of its revenues, and depressed earnings have led to cuts in spending and tax increases. The government accounts for 40 percent of GDP, and controls investment and foreign trade, so budget austerity is having a widespread depressing effect on economic activity. Planned spending for the fiscal 1986 budget is down 13 percent from an already scaled back 1985 budget; taxes are up 30 percent; and the prices of heating fuel and gasoline are likely to be increased. War spending accounts for at least one-third of the budget, so most cuts have come from development spending. [Redacted]

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Inflation and shortages are rampant in Iran. Although the official inflation rate was only 13 percent, according to press reports, actual inflation is running closer to 40 percent. Many consumer goods are unavailable except on the black market for four to eight times their official price. The quality of most goods, particularly those sold at official prices, continues to decline. Moreover, incomes have not kept pace with prices, especially among government and factory workers. With industry operating at less than full capacity and cuts in development programs, unemployment remains high despite war recruiting. [Redacted] the jobless rate is as high as 35 percent in some cities. [Redacted]

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**Popular Reaction**

[Redacted] a picture of growing war weariness and disenchantment over the government's handling of the economy. There

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are reports of labor unrest and protests over prices and shortages. The middle class, which never had much affinity for the revolution, is especially vocal in its grumblings. More important, demonstrations and strikes among the working class—the backbone of the 1979 revolution—are increasing. [redacted]

In the past several months, strikes have occurred in cities throughout Iran to protest rising prices, shortages, and working conditions. [redacted] strikers in several cities recently timed their actions to support each other. Iranian exile press reports claim that a secret labor organization—the Solidarity Committee of Iranian Workers—is responsible for the strikes. [redacted] the opposition press report several cases where strikes have been suppressed violently by the Revolutionary Guards. [redacted]

**Outlook**

Iran's economy will get worse in 1985. We estimate oil revenues will fall to about \$14.5 billion in 1985 if exports average 1.55 million b/d and prices remain at current levels. Imports will have to be cut by at least 15 percent and even this reduced level assumes that Tehran is willing to reduce foreign exchange holdings still further and can arrange at least some credits to fund a projected \$2.7 billion current account deficit. Lower imports will cause further declines in industrial production and more delays in development projects. Iran's economic circumstances would get much worse if it is unable to fund the deficit or if oil prices unravel. [redacted]

After years of hardship, we believe that further declines in living standards will lead to increased domestic unrest. The regime is now publicly warning the populace to become more self-reliant and lower its expectations. This contrasts with earlier advice to endure present sacrifices in expectation of better times. Higher taxes and fuel price increases are potential rallying points for popular dissent. In addition to low oil revenues, the poor health of Khomeini and the consequent struggle for power will continue to prevent decisive action on domestic economic problems. [redacted]

Iran's weak economy makes it vulnerable to attacks on economic targets. Destruction of Khark Island's oil terminal or other key oil facilities could seriously impair Iran's ability to export oil and wreak havoc with Iran's finances. Furthermore, Tehran is ill prepared to offset lost output or repair damage to factories, power generators, and other economic facilities. [redacted]

We expect Iran will try to climb out of its economic morass by raising exports and pricing its oil competitively, and this could put strong downward pressure on global oil prices. Furthermore, moderate factions within the regime are advocating stronger ties with Western Europe and Japan in an effort to strengthen the economy. Financial problems, however, also are encouraging the regime to strengthen trade relations with Eastern Europe, and the Khomeini regime could soften its strong anti-Soviet stance to help reduce external political pressures. [redacted]

[redacted]

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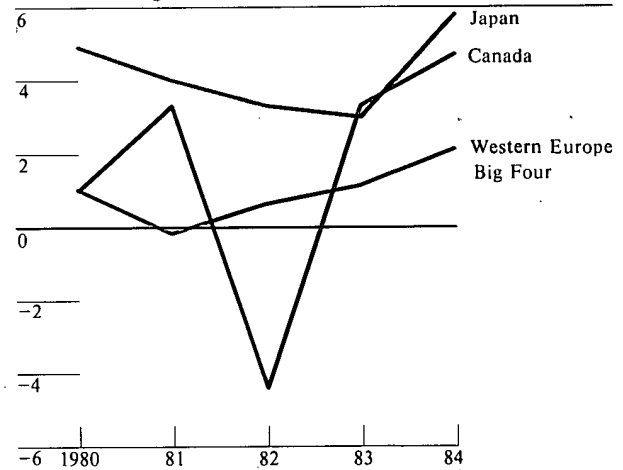
**Summit Issues:  
Big Six Unemployment  
Continues To Rise**

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Economic recovery in the Big Six countries was considerably stronger in 1984 than in 1983 but remained too weak to keep the overall unemployment rate from increasing further. Among the Six, only Canadian and West German unemployment declined. Japanese unemployment remained stable, but the overall rate for the Big Four West European countries rose to a record 10.3 percent. Big Six economic growth in 1985 is expected to slow slightly from last year's rate, and we expect unemployment to increase again. Efforts by West European governments to make labor markets more flexible in the long run may be tempered over the next couple of years as leaders in all the Big Four countries face national elections during 1986-88.

**Big Six: GNP Growth in Percent, 1980-84**

*Growth was higher in 1984 than 1983*



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**Factors Influencing Unemployment**

Western Europe's relatively poor GNP growth performance last year continued to hurt progress in reducing unemployment, but strong growth in Japan and Canada improved the unemployment picture for both countries. Japan's GNP growth—the highest among the Big Six—kept unemployment at the already low 1983 level. The Canadian economy grew nearly 5 percent during the year and posted a 0.6-percentage-point decline in unemployment.

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losses in many sectors.

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West European businessmen have reacted cautiously to the mediocre economic recovery and, despite larger back orders, continue to shed labor in an effort to reduce costs and restructure operations to improve efficiency. Italy lost over 250,000 manufacturing jobs in 1984. Manufacturing employment dropped by 214,000 in France last year, and the French Government has projected an additional 100,000 drop by the Summit. The United Kingdom, where restructuring has been in full swing for several years, is likely to continue experiencing job

Demographic factors in Western Europe will work to continue to boost the supply of labor and raise unemployment until nearly the end of the decade. Increased female participation rates in all age groups have strongly outweighed the significant

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**Big Six: GNP Growth, 1980-85**

Percent

	1980	1981	1982	1983	1984	1985 <sup>a</sup>
Big Six	2.4	1.4	1.0	1.9	3.6	3.3
Big Four	1.0	-0.2	0.6	1.1	2.3	2.4
West Germany	1.8	-0.2	-1.1	1.3	2.6	2.7
France	1.1	0.2	2.0	0.7	1.6	1.3
United Kingdom <sup>b</sup>	-2.6	-0.9	1.4	3.4	2.3	3.0
Italy	3.9	0.2	-0.4	-1.2	2.8	2.6
Japan	4.9	4.1	3.3	3.1	5.7	5.0
Canada	1.0	3.3	-4.4	3.3	4.7	3.7

<sup>a</sup> OECD forecast.

<sup>b</sup> OECD data at market prices.



increase in the number of early male retirees in the 60 to 64 age group. Moreover, the number of young people seeking jobs continues to boost the labor supply.

Moderate wage gains over the past five years have been an important mitigating factor in stemming the increase in unemployment in 1984. For the Big Four, real wage increases have averaged only 1.7 percent per year since 1980 compared with 3.4 percent in the 1970s; the increase in unemployment last year was the lowest it had been since 1980. The one exception was the United Kingdom where real wages rose nearly 4 percent. Japan's better than 3-percent rise in real wages was offset by gains in productivity.

Nonwage labor costs—taxes paid by employers for social welfare benefits—continue to act as a disincentive to hiring new workers and add 80 percent to wage rates in West Germany and 60 percent in France—versus about 20 percent in Japan and 28 percent in the United States. The French have trimmed unemployment benefits, and most other governments have stopped adding to payroll taxes. Only in the United Kingdom, however, have these taxes actually come down, and there only by a token amount.

**Big Six: Unemployment Rates, 1980-84**

Percent

	1980	1981	1982	1983	1984
Big Six	4.7	5.8	6.9	7.5	7.8
Big Four	6.0	7.7	8.9	9.8	10.3
West Germany	3.8	5.6	7.5	9.2	9.1
France	6.3	7.6	8.0	8.5	9.6
United Kingdom	6.4	10.0	11.5	12.3	12.6
Italy	7.6	8.4	9.1	9.9	10.4
Japan	2.0	2.2	2.4	2.7	2.7
Canada	7.5	7.5	11.0	11.9	11.3



**Government and Labor Response**

Most Big Six governments agree that high unemployment remains their number-one problem. Moreover, in contrast to last year, most West European leaders are now pointing to labor market rigidity as a major cause. Besides success in moderating wage costs in most countries, however, attempts to introduce more labor market flexibility have been piecemeal:

- West Germany has narrowed labor law definitions of unfair dismissals and is subsidizing early retirement when new or laid-off workers are hired.
- The French Government is granting aid to companies who encourage part-time or temporary work and promote early retirement.
- Britain has passed laws to reduce the power of unions, including limits on strike activity and closed shops, and has empowered employers to sue unions that conduct illegal strikes.

Ottawa remains convinced that the private sector can create jobs without any change in government policy, and Tokyo has not found it necessary to address the question of market flexibility given the low number of unemployed.

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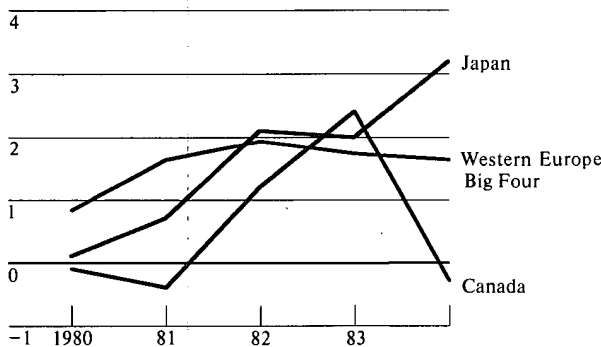
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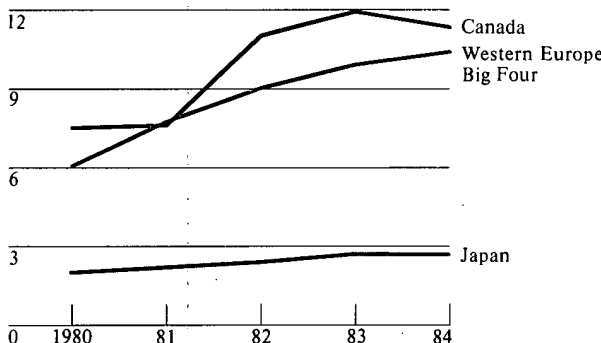
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**Big Six: Unemployment and Real Wages, 1980-84**

Percent Note scale change  
**Real Wage Growth**  
*Real wages were moderate*



**Unemployment Rate**  
*and unemployment remained high*



the 1984 labor agreement on increasing employment. Instead, companies got greater flexibility in arranging work schedules, which should help to increase productivity now but employment only in the long run.

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**Prospects**

We believe the Big Six unemployment rate will edge up even higher over the next 12 months. Although GNP growth will be slightly weaker in Canada and Japan this year, unemployment in both should remain stable. In West Germany and Italy, where GNP growth is expected to hover around 2.5 percent, the extent of real wage increases will be an important factor in containing the rise in unemployment. New entrants to the work force in West Germany may on balance push the unemployment rate slightly higher. In France and Italy, shedding of labor will probably continue through 1985.

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Union wage demands in the United Kingdom are likely to remain strident and will continue to have a negative impact on the employment outlook.

Continued efforts to encourage more labor market flexibility through the end of the decade should help the overall unemployment picture in Western Europe. Between now and 1988, however, Big Four leaders face national elections and may come under increasing pressure to slow or halt the restructuring process in favor of short-term measures aimed at helping affected segments of the work force. Stimulative programs to boost growth would provide only temporary improvement in the unemployment picture and would probably delay the restructuring effort.

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Organized labor in Western Europe and Canada has offered few of its own solutions and has thus far grudgingly accepted the necessity of restructuring traditional industries even as efforts result in job losses. Nowhere among West European workers, for example, did the British miners' strike find substantial support. The West German metalworkers union did not press very hard for a statement in

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## Summit Issues: Western Europe Coping With Adverse Trends in High-Tech Trade [redacted]

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Western Europe<sup>1</sup> is falling further behind the United States and Japan in producing and selling high-technology goods on international markets. This generally poor performance in high-tech trade indicates difficulties turning technological know-how into successful products. West European leaders acknowledge that structural impediments largely account for the problem. We believe efforts to improve technology—such as EC research programs, government subsidies to high-tech industries, development of a venture capital market, and commercial joint ventures—will not be enough to dramatically improve Western Europe's high-tech trade picture soon. As a result of this growing trade gap, protectionist pressure is likely to increase in some high-tech areas, and West European countries will probably take a go-slow approach to the idea of including high-technology goods in a new GATT round [redacted]

### West European Perception of the Problem

Government and business leaders are now more aware of and concerned about the possibility of a "technology gap" than they were in the 1960s when rapid economic growth, low unemployment, and a thriving welfare state overshadowed these fears. Since the oil price shock of 1973/74, however, Western Europe has fallen into an extended period of economic stagnation. Economic growth over the past decade has averaged only 1.7 percent, and employment in the European Community has fallen by 2 million; the unemployment rate, currently 11.2 percent, has risen in each of the past 12 years. Furthermore, Western Europe now faces growing high-tech competition from Japan as well as the United States. [redacted]

<sup>1</sup> Much of this article focuses on the Big Four West European countries—France, Italy, the United Kingdom, and West Germany [redacted]

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### What Is High Tech?

*There is no clear-cut way of defining and selecting high-tech trade categories. We selected 10 broad categories as high tech based on the share of direct and indirect research and development costs in total product cost. The dividing line between high-tech and other categories was drawn at the point where R&D costs accounted for roughly 5.5 percent of output costs; this is 30 percent higher than the next-lowest category [redacted]*

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*Although these categories include some items that are clearly not high tech—the semiconductors category, for example, includes both the latest microchips traded internationally as well as transistors—we believe technological advance is a significant factor in determining a country's performance in them. [redacted]*

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*Emerging technologies in which little trade is presently conducted are not fully captured in these statistics. Western Europe is technologically advanced in some of these areas, such as aerospace and advanced materials. [redacted]*

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### The High-Tech Trade Gap

Export/import (E/I) ratios show adverse trade trends in selected high-tech areas. E/I ratios indicate that the Big Four's total trade surplus in these areas has remained small and stagnant over the past 10 years. The US surplus has been declining recently, in part due to the strength of the dollar, but the Japanese, not the West Europeans, have been the main beneficiary of this decline. The trade

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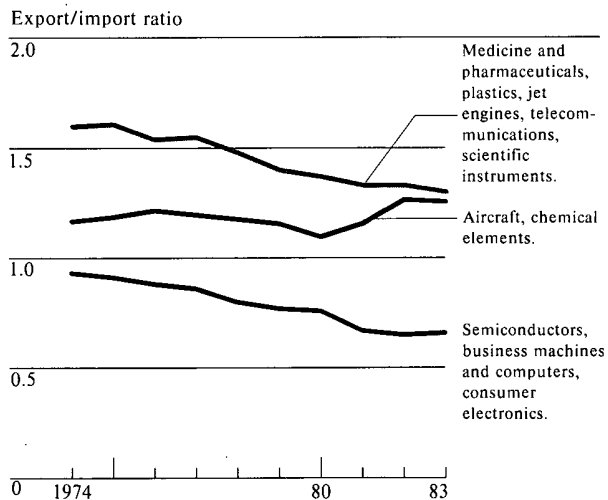
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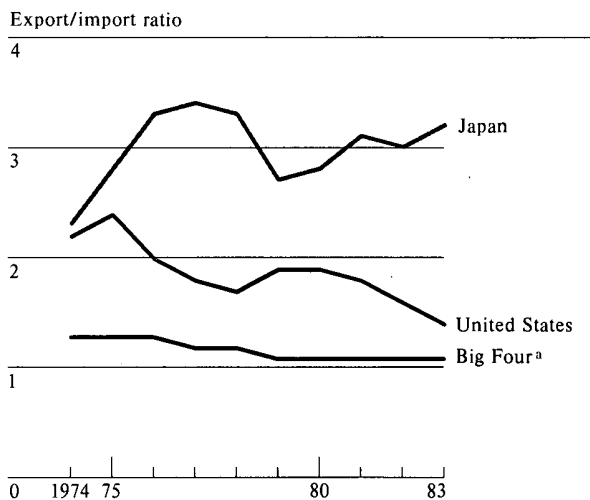
**Big Four<sup>a</sup>: Export/Import Ratio in High-Technology Products, 1974-83**



<sup>a</sup> West Germany, United Kingdom, France, and Italy.

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**Export/Import Ratio in High-Technology Products, 1974-83**



<sup>a</sup> West Germany, United Kingdom, France, and Italy.

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performance of the major West European countries is particularly poor in electronics categories—semiconductors, business machines and computers, and consumer electronics—a trend that began 10 years ago. Their trade performance has been improving in only two areas: chemical elements and aircraft. This success reflects the strength of the large West European chemical firms in world markets and the sales of Airbus. In five other categories, which are of growing concern to West Europeans, the Big Four's E/I ratio is positive but has fallen steadily since 1974 [redacted]

Trade statistics also indicate that the Big Four have become less specialized<sup>2</sup> in high-tech trade relative to the United States and Japan over the past 10 years. Within the high-tech sector, the Big Four appear to be losing their relative specialization in electronics as well as telecommunications and scientific instruments, but have increased their

<sup>2</sup> As measured by the share of high-tech products in total, Big Four country exports relative to the comparable shares for the United States and Japan. [redacted]

strength in aircraft and jet engines, and are holding steady in plastics and pharmaceuticals [redacted]

**Reasons for Trade Gap**

We believe the inability of Western Europe to market high-tech products internationally is largely because of structural and institutional problems rather than purely technological ones. Western Europe is still a collection of national markets, and no one West European country provides a home market as large as those available to US and Japanese firms. Differences in consumer tastes, trade documentation requirements, and varying product, legal, professional, and accounting standards raise the costs for West European firms seeking to expand beyond national boundaries—even if their product stays within the European

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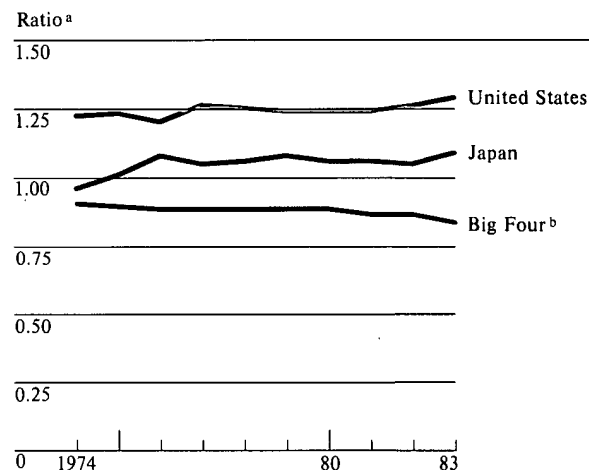
Community. Thus, high-tech firms, which are frequently small companies and whose products often have high-development costs and short lives, are less able to exploit other markets. In addition:

- Western Europe lacks a class of entrepreneurs, and businessmen are generally risk averse. Many West European executives view innovation as a way to cut costs rather than develop new products.
- Firms are financed mostly by debt because equity markets are relatively thin; despite the lower tax burden of debt finance, the need to constantly service debt reinforces conservative attitudes. Western Europe has a very small venture capital market, in contrast to the United States where it has been key to high-tech growth.
- West European universities produce relatively fewer research scientists and engineers than the United States and Japan, and the academic-business link is practically nonexistent.
- Strict labor and bankruptcy laws discourage new business formation, and subsidies to business in many cases—most notably in France and Italy—have gone to support employment rather than productive investment [redacted]

#### Actions To Bolster Technology

West European leaders generally believe that European-wide cooperation among governments and private firms is necessary to move ahead in high technology. The EC Commission is serving as the focal point for passing on recommendations to integrate Community national product and financial markets. The EC Commission president has also set the goal of eliminating all trade barriers within the European Community by 1992. In terms of direct support, the Community plans to spend \$1.35 billion on research over the next five years, including support to the major government-industry program in information technologies called ESPRIT [redacted]

#### Specialization in High-Technology Products, 1974-83



<sup>a</sup> The ratio of high-technology exports to total exports for each country divided by the ratio of high-technology exports to total exports for all six countries.

<sup>b</sup> West Germany, United Kingdom, France, and Italy.

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West European governments are also implementing their own programs to promote technological development and are working with private firms to conduct joint ventures outside the EC framework:

- West Germany and the Netherlands are contributing \$150 million to a joint plan between Siemens and Philips to develop advanced integrated circuits.
- The United Kingdom is contributing to a government-industry, five-year, \$430 million research program in computer science called Alvey that focuses on artificial intelligence.
- France began a five-year program to advance their electronics industry in 1982 that included grants to nationalized firms and an ambitious program to familiarize the French public with computers [redacted]

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West European companies, for their part, are further developing strategies of global manufacturing and marketing to cope with problems in the high-tech sector. Over the last two years, West European giants have been linking up with US and Japanese firms through joint ventures, acquisitions, and licensing arrangements. The aim is to expand their markets and acquire technology. Philips, for example, has agreed to a joint venture with AT&T that trades access to American technology for marketing skills in Western Europe. Also, AT&T bought a 25-percent share in Olivetti of Italy, allowing Olivetti to market more of its products in the United States. CII-Honeywell Bull of France has entered into a joint arrangement with NEC of Japan to manufacture and market NEC supercomputers and to cooperate in technology exchange, including cross-licensing of patents and copyrights

Almost all West European leaders will be cautious about including high tech in a new GATT round and defining the categories for negotiation. The French, in particular, have been reluctant to consider high tech a separate group in international trade discussions and have been expressing support for protectionism in key industries to build competitive strength. We do not expect Western Europe to carry protectionism too far, however, for fear of retaliation that would cut them off from the US market and the best sources of technology. Still, additional protectionism can be expected in areas where Western Europe is doing particularly poorly such as microelectronics and consumer electronics.

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### Outlook and Implications

Although the efforts by the West Europeans to improve technological development are a step in the right direction, we believe the bulk of the work is still ahead of them if they are to improve their relative trade position in high-tech markets. Joint programs among governments, firms, and foreign companies have thus far produced disappointing results. Western Europe must make its labor and capital markets more flexible to improve its technological development. Changes in attitudes toward risktaking, greater labor mobility, and a more homogeneous West European market, if they occur, will improve West European prospects to innovate and market new products over the medium term. Some of these changes may conflict with the philosophy of those who support a strong welfare state. The alternative strategy is greater centralization in industrial policy decision making. Although this approach often has worked well in Japan, it is probably a poor option for Western Europe given the large number and the diverse nature of its economies

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**Persian Gulf Pipelines:  
Energy Security in an  
Era of Austerity** [redacted]

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Continued instability in the Persian Gulf has led to renewed momentum for construction of alternative oil export outlets, despite spending cutbacks. In Saudi Arabia and Iraq, completion of projects by 1987 to further expand the Iraqi-Turkish pipeline and the Saudi East-West line will increase by two-thirds the current 2.8 million b/d capacity of pipelines bypassing the Strait of Hormuz. Other Gulf exporters, however, are likely to remain tied to shipments through the strait. The prospective pipeline capacity, in combination with the surplus productive capacity outside the region, will substantially reduce the vulnerability of major importers to a disruption of Persian Gulf oil exports into the 1990s. [redacted]

Saudis' 1.85 million b/d East-West Petroline, averaged about 840,000 b/d throughput in 1984, with a peak of 1.3 million b/d in June. Most of this crude, however, was delivered to Riyadh's west coast refineries and crude exports were about 400,000 b/d—about 10 percent of Saudi daily production. We believe a reopening of Tapline and the Iraqi-Syrian-Lebanese pipeline for exports is unlikely because of the military-political situations in Lebanon and Syria, deterioration of equipment, and the application of portions of these lines to other uses. [redacted]

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**Gulf Oil Exports and  
the Strait of Hormuz**

Persian Gulf countries produced about 25 percent of the non-Communist world's oil supply in 1984, accounting for a large share of total oil imports by Western Europe (32 percent), Japan (66 percent), and the United States (13 percent), roughly 85 percent of this oil is shipped through the Strait of Hormuz. Continued Iraqi tanker attacks and Iran's threats to disrupt Arab oil flows through the strait—heightened by the indefensibility of Gulf export facilities and shipping—spurred Persian Gulf governments' interest in developing alternative ways of exporting oil from the region. [redacted]

**Expansion Under Way**

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The prolonged Iran-Iraq war has focused the attention of Persian Gulf countries on strategic projects involving larger, more flexible oil export systems bypassing the Strait of Hormuz. Numerous proposals have been made, but we judge only a few have a realistic chance. The present soft world oil market—as well as export losses caused by the Gulf war—have cut revenues and forced Gulf producers to dip into reserves over the past several years. The recent austerity measures undertaken in many Gulf countries suggest that only strategically important lines will be built. [redacted]

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**Existing Export Alternatives**

Only two large-diameter pipelines with a capacity of about 2.8 million b/d currently provide an alternative to the Strait of Hormuz. The 40-inch Iraqi-Turkish line, Baghdad's only operating export pipeline, shipped an average of about 850,000 b/d in 1984—about 70 percent of daily production. The

***Iraqi-Turkish Pipeline.*** Iraq has initiated plans for construction of a pipeline parallel to the recently expanded Iraqi-Turkish line that would boost the system's capacity to 1.5 million b/d. [redacted] the line's capacity will be increased by 550,000 b/d. The prime contractor, the Italian firm Snamprogetti, will award construction contracts by May 1985, with the pipeline scheduled to be operational by mid-1987 at a cost of \$600 million. Iraq's portion of the project costs

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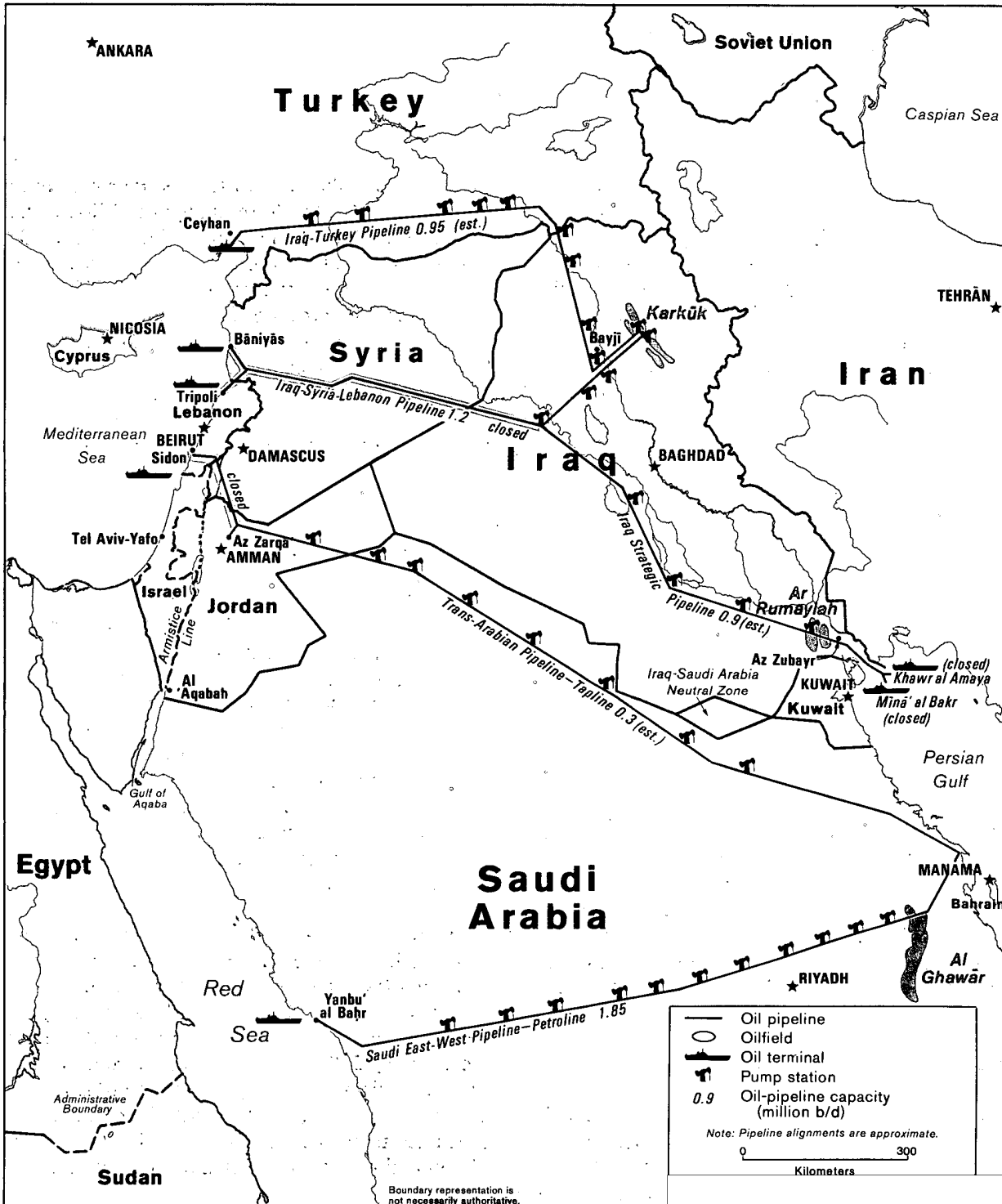
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### Major Oil Pipelines in the Middle East



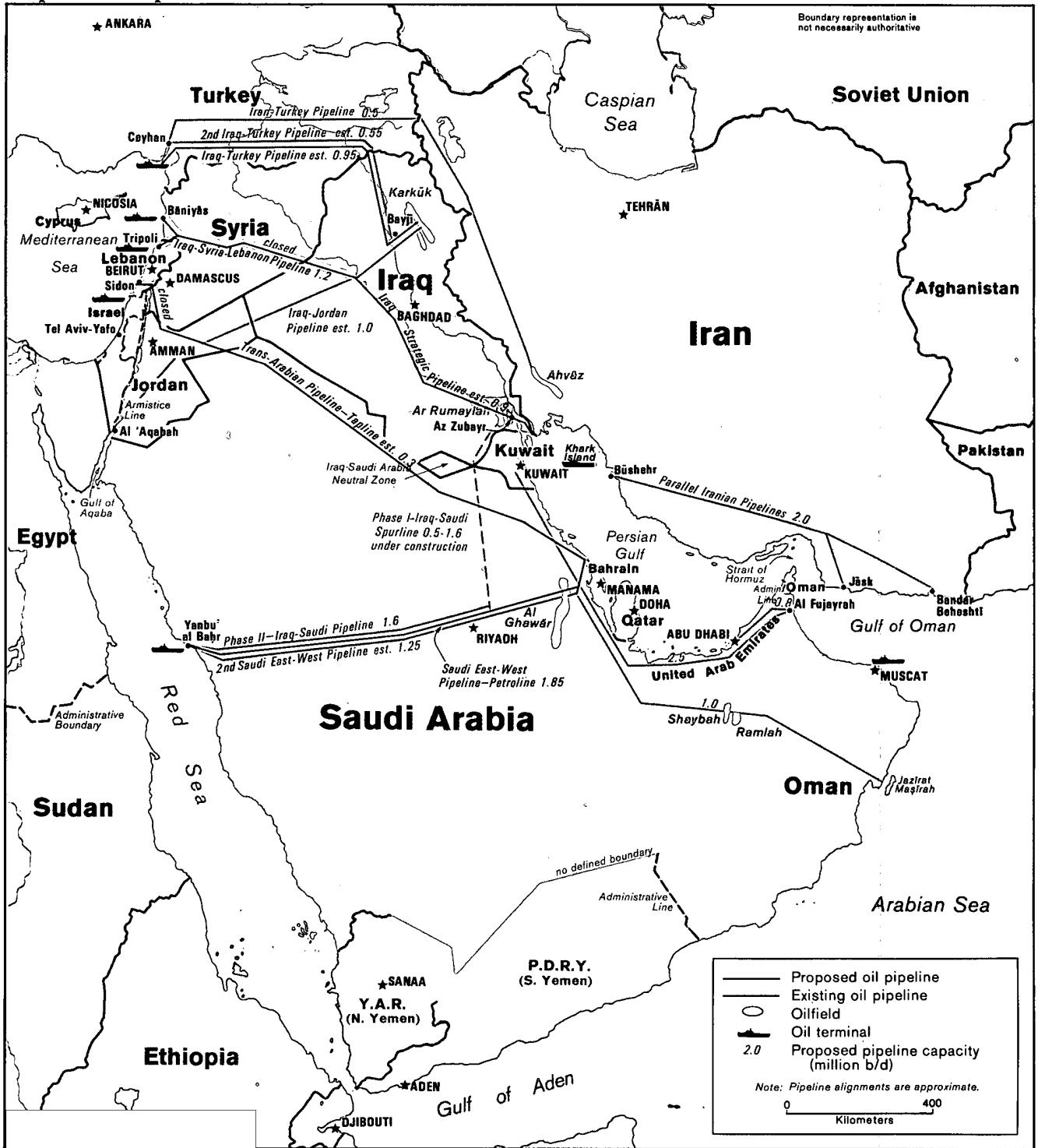
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### Proposed Oil Pipelines in the Middle East



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**Crude Oil Flows From the Persian Gulf in 1984** *Million b/d*

	Production	Exports	
		Via Strait of Hormuz	Pipeline
<b>Total</b>	<b>11.0</b>	<b>7.5</b>	<b>1.3</b>
Iran	2.4	1.7	0
Iraq <sup>a</sup>	1.2	0	0.9
Saudi Arabia	4.4	3.1	0.4
Qatar	0.4	0.4	0
UAE	1.2	1.1	0
Bahrain	NEGL	0	0
Kuwait	0.9	0.8	0
Neutral Zone	0.5	0.5	0

<sup>a</sup> Iraq also exports an estimated 50,000 to 75,000 b/d by truck.

will be about \$200 million. Although construction bidders have been asked to provide financing proposals, we do not foresee either Iraq or Turkey having difficulty funding their portions of the project [redacted]

**Iraqi-Saudi Pipeline.** Baghdad's highest priority oil export expansion project is the construction of a spurline linking Iraq's southern oilfields to the Saudi East-West Petroline. Construction of the 640-kilometer, 500,000-b/d line began in Iraq in October 1984. Initial throughput will be limited to 350,000 b/d until additional pumping capacity is installed at Az Zubayr—about four to six months after startup—[redacted] A source of the US Embassy in Baghdad reports a Japanese firm won a \$200 million contract to build storage facilities near Az Zubayr for about 4 million barrels of crude oil scheduled for shipment through the new line. Another 2 million barrels of storage is being constructed where the spurline connects with Petroline and is on schedule for completion no later than October 1985. [redacted]

Iraq views the link to Petroline as only the first phase of the expansion project; it envisions phase II to include construction of a separate Iraqi line

**Projected Persian Gulf Oil Pipeline Capacity** *Thousand b/d*

Pipeline	Current Capacity	1990 Capacity
<b>Total</b>	<b>2,800</b>	<b>4,600-5,600</b>
Iraq-Turkey	950	1,500
Iraq-Syria	0	0
Iraq-Jordan	0	0-1,000
East-West Petroline <sup>a</sup>	1,850	3,100

<sup>a</sup> Iraqi-Saudi spurline (phase I) 500,000-b/d capacity included.

running parallel to Petroline. This line, which reportedly will take 30 months to construct, would connect the spurline to Red Sea export facilities and triple Baghdad's export capability through this line to 1.6 million b/d of crude oil. Riyadh, however, has yet to authorize this part of the project. According to an Embassy source, Saudi Arabia is reluctant to approve the added export capacity, because it continues to regard Iraqi facilities in Saudi territory with concern and it sees the added capacity as unnecessary. [redacted]

**Saudi East-West Pipeline.** Riyadh's desire to reduce the vulnerability of its oil exports has led Saudi Arabia to expand Petroline. [redacted]

[redacted] Aramco has been instructed by the government to construct a parallel line that will use existing pumps. The maximum sustainable capacity of the system will be 3.1 million b/d. In addition, [redacted] under consideration are expanded terminal facilities at Yanbu' al Bahr costing about \$100 million.

[redacted] the expansion of Petroline will allow transport of Saudi heavy- and medium-grade crude oil to Yanbu' al Bahr as the export refinery increases production. These alternative feedstocks are now shipped around the peninsula. [redacted]

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**Other Proposals**

The resolve of the Gulf countries to diversify their export facilities will depend largely on their security expectations for the Gulf and the Strait of Hormuz but will also be influenced by world oil market conditions. Over the years, a number of other export pipeline proposals have been discussed, including:

- Construction—strongly supported by Jordan—of a 1-million-b/d export pipeline connecting Iraq's southern oilfields to the Jordanian coast on the Gulf of Aqaba.
- A 500,000 to 800,000 b/d pipeline, backed by the UAE, running from Abu Dhabi to Al Fujayrah.
- The often discussed Gulf Cooperation Council pipeline to Oman. Endorsed by the UAE as an extension of its proposed Al Fujayrah line, it would eliminate 2.5 million b/d in shipments through the Strait of Hormuz.
- A \$2 billion line from Saudi Arabia to Jazirat Masirah off the Omani coast.
- Iranian plans for two 1,000-kilometer pipelines with a combined capacity of 2 million b/d from southwestern Iran to the Gulf of Oman.
- Tehran's revival of a 1982 proposal for an oil line through Turkey from Iran's Ahvaz oilfield to either the Mediterranean or Black Sea.

Although construction of the Iraqi-Saudi spurline has been slowed by unexpected technical problems—defective pipe and difficult trenching conditions—as well as contractor manpower limitations imposed by Baghdad, Iraq's persistence and overriding economic needs make completion of the project by early 1986 highly likely, in our view. Similarly, strong support from the Turkish Government and accommodating construction contract arrangements make completion by mid-1987 of the parallel Iraqi-Turkish pipeline likely. Despite some delay by the Saudi Ministry of Finance in releasing funds for expanding Petroline—until it is certain costs are the lowest possible—we believe construction of the new pipeline could begin as early as the third quarter of 1985 with completion possible by early 1987.

In our judgment, slack oil market conditions, high project costs, and unsettled political issues make construction of the other proposed lines for bypassing the Strait unlikely over the next 10 years. The Iraqi-Jordanian line, however, remains a wild card. Despite Jordanian prodding, Iraqi officials are believed to have only a slight interest in the project. If talks with Riyadh on phase II of the spurline founder, however, and, if Baghdad can obtain ironclad guarantees against financial losses from Israeli attacks on the pipeline, Iraq may exercise this option.

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**Prospects**

Alternative Persian Gulf pipeline export capacity projected for 1990 is likely to amount to about 4.6 million b/d under normal operating conditions. This projection includes 2.8 million b/d of existing capacity plus 1.8 million b/d of new capacity from the Iraqi-Turkish and Petroline expansions. Construction of the Jordanian line could add 1 million b/d to this total. We do not now foresee any new capacity being added by 1995 or 2000 that is not well under way by 1990.

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**Briefs**

**Energy**

*Ottawa Announces  
Energy Accord  
With Provinces*

On 26 March, Ottawa announced a new energy agreement with Alberta, Saskatchewan, and British Columbia that will radically change the pricing and taxation provisions of the National Energy Program (NEP). The arrangement will end federal regulation of oil prices on 1 June; establish a new natural gas pricing regime by 1 November; phase out the Petroleum Incentive Program (PIP) next year; and eliminate several energy taxes by 1988—including the Petroleum and Gas Revenue Tax. In ending the PIP, exploration off the Atlantic and Arctic coasts probably will be curtailed. The energy sector will receive \$740 million in tax relief over the next two years that Ottawa hopes will promote investment in the industry, generating up to 300,000 new jobs by 1990. Nevertheless, Ottawa, facing a \$26.5 billion budget deficit, will have to find the means to recoup its lost energy revenue. [redacted]

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*Soviet Oil Exports  
to Finland  
Return to Normal*

Finland's state-owned oil company learned in mid-March that Soviet oil deliveries to Finland will increase sharply in the second quarter of this year, [redacted] Shipments during April-June are scheduled at over 200,000 b/d—first-quarter shipments averaged just over 50,000 b/d, with almost negligible deliveries during February. Finland imported about 250,000 b/d in 1983 and probably close to that last year. The tightness in Soviet energy supplies during the first quarter appears to have eased considerably, but the decline in domestic oil production in recent months will probably make it difficult to match last year's oil exports to the West.

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**International Finance**

*Mexican Debt  
Rescheduling Update*

Now that Mexico's \$48 billion public debt has been rescheduled, the government is reportedly trying to obtain a similar rescheduling for private-sector debtors. [redacted]

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[redacted] Mexico City has begun to pressure foreign commercial banks by threatening a takeover for nonpayment of taxes of some Mexican businesses owing money to these banks if a more generous debt rescheduling is not forthcoming. Mexico City's threat, which implicitly includes cancellation of corporate debts, is probably intended to intimidate the commercial creditors—the administration is likely to take over indebted businesses only as a last resort. In the near term, Mexico probably could stall bank repayments by refusing to provide foreign exchange to private businesses until taxes are paid. [redacted]

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*Hungary's Success  
in Credit Markets*

Hungary is continuing to have success in raising money on Western credit markets to help cover its estimated 1985 debt service payments of \$2.6 billion.

[redacted] by the end of March, Budapest had already lined up at least \$680 million in loans from US, Canadian, West European, and Japanese banks. Budapest is also completing negotiations for a \$650 million World Bank cofinancing development package. Lack of an IMF standby facility for this year apparently has not hurt—the new loans carry relatively favorable interest rates and maturities of at least six years.

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*Moroccan Bread  
Problems*

Morocco faces serious flour shortages, according to the US Embassy, and supply problems are expected to worsen through May because of the shortfall in US CCC grain credits. Cereal shipments under this program are unlikely to resume soon because Morocco probably cannot meet the \$32 million CCC loan payment due this month. Moreover, to help finance grain imports, Rabat may renege on the \$55 million first installment on its 1983-84 London Club commercial debt rescheduling. This will complicate urgent debt rescheduling talks with Paris Club members scheduled for next month, according to the US Embassy. These shortages, coupled with declining grain harvest prospects and pending food subsidy cuts, heighten prospects for unrest over the next several months. [redacted]

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*Thailand Deflates  
Financial Pyramid  
Schemes*

Bangkok appears to be succeeding in phasing out chit funds—financial pyramid schemes that peaked at an estimated \$750 million last year. Despite strong opposition from influential military and political figures—many of whom reportedly invested large amounts at interest rates exceeding 100 percent annually—the government declared the funds illegal last fall and is taking steps to shut them down. The largest fund last month failed to pay dividends for the first time in 10 years and smaller funds are also folding, according to the US Embassy. Nonetheless, there is a chance that news of these losses could lead to a run on the country's troubled finance companies—which are unprotected by deposit insurance—necessitating a government bailout. [redacted]

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**Global and Regional Developments***China and South  
Korea Expanding  
Economic Contacts*

According to the US Consulate in Hong Kong, the chairman of Daewoo, a major South Korean conglomerate, traveled to China late last month to check on the assembly of refrigerator kits in Fujian Province and to prepare for color television assembly. Other large South Korean firms reportedly plan to propose coal mining, construction, textile, and consumer electronics assembly ventures. Seoul is encouraging these activities to expand bilateral contacts. It remains sensitive to China's concerns about North Korean reactions and has tried to avoid excessive publicity. Although these ventures are being handled

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by provincial-level authorities, Beijing clearly has given its blessing. With inter-Korean contacts set to resume next month, it now may believe it can take a higher profile in economic relations with Seoul. [redacted]

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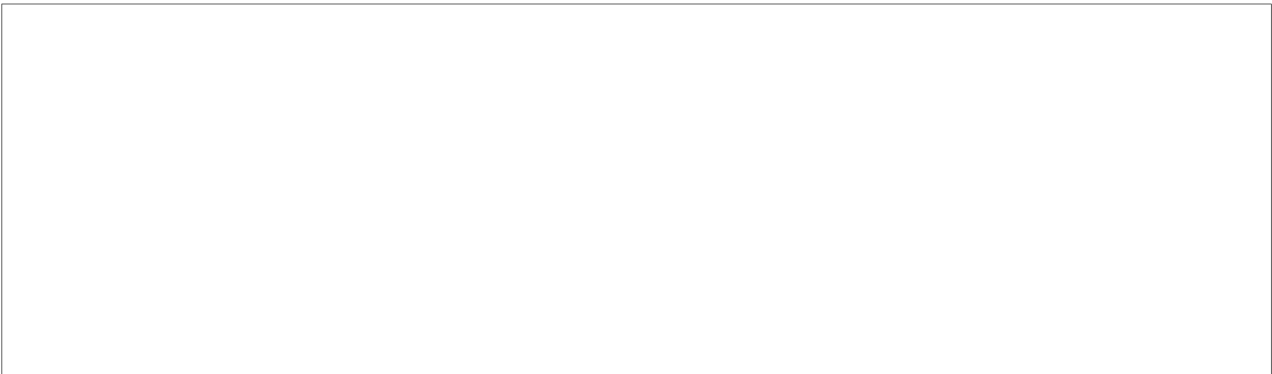
*Disputes Over Coffee Market*

Consumer country concerns over high prices, producers' failure to meet quota shipments, and sales to nonmembers are not likely to be resolved at next week's International Coffee Organization council meeting. Despite a good 1984/85 global coffee crop and prospects for an excellent 1985/86 coffee harvest in Brazil (April-August), prices remain at over \$1.40 per pound. Contributing to high prices is the producers' failure to fulfill quarterly quota shipments to ICO members. In contrast, the high volume of sales to nonmembers at less than a dollar per pound is sustaining a two-tier market. A producers' faction led by Brazil might propose stronger trade-reporting rules to help track sales to nonmembers. This would likely be opposed by Europeans whose trading would be more carefully scrutinized and by LDC exporters who depend on non-ICO sales. [redacted]

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**National Developments**

*Developed Countries*



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*Less Developed Countries*

*Venezuela's Cautious Economic Stimulus*

Caracas is easing its austerity program to prevent economic stagnation from spurring political discontent. According to the US Embassy, President Luisinchi recently approved increases in public spending to support private investment and to create public jobs. Unemployment is 15 percent, and excess plant capacity is growing. The administration also has imposed interest rate ceilings to stimulate construction and is trying to rescue troubled banks. Luisinchi's moves are likely to blunt growing discontent temporarily but are unlikely to end the two-year recession. Labor probably will intensify its demands for wage increases and price restraints. This modest stimulation, however, will not undercut Venezuela's strong payments position or damage negotiations on multiyear debt rescheduling. [redacted]

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*Brazil To Limit  
Tin Export Growth*

Brazil's recent decision to restrain 1985 tin export growth to 10 percent should temporarily aid International Tin Council (ITC) efforts to support tin prices. Weak demand, substitution, and huge stocks, however, will continue to plague the industry worldwide. Tin exports from Brazil, a non-ITC member, jumped by 50 percent last year and have more than tripled since 1982. Meanwhile, harsh ITC controls have forced members such as Malaysia, Indonesia, and Thailand to cut exports by more than one-third and to fund an expensive buffer stock program. [redacted] Brazil is losing confidence in the ability of the ITC to maintain tin prices and realizes that continued growth in its own exports will only accelerate a price collapse.

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*Libyan Water  
Project Update*

[redacted] Qadhafi's priority Great Manmade River project is falling behind schedule. The waterline serving the primary concrete pipe plant is only 70 percent complete—two months behind the May 1985 completion date. The pipe plant, scheduled for late 1985, will not begin operation until March 1986. Survey work on future pipeline routes has been halted by World War II minefields. Moreover, [redacted] Libyan officials have not begun planning critical secondary water storage and distribution systems. Delays in this extremely costly scheme probably will heighten disgruntlement over declining living standards and Qadhafi's grandiose development program. [redacted]

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*More Algerian  
Agricultural Reforms*

Algiers has stepped up its land distribution to private farmers in desert regions. The US Embassy says demand for state land in southern regions—over 3,000 farmers are on waiting lists—exceeds the government's ability to provide tractors and water pumps. The local press has extolled the sharp increases in production by these pioneer desert farmers. Although yields probably are overstated, they emphasize the regime's efforts to improve woeful agricultural production and reverse the rural exodus. The media blitz probably is designed to offset the weak response to the program in heavily collectivized farming regions. Should these private farmers realize better yields than socialist farms in Algeria's fertile northern tier, they would provide a strong case for further decentralization of agriculture and for Bendjedid's economic reform program.

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*Mauritania Mending  
Regional Relations*

Mauritania is rapidly restoring relations with neighboring states partly to halt its economic decline. The US Embassy in Nouakchott says that Algeria has rescheduled \$59 million of Mauritania's foreign debt and may help finance the upgrade of the nation's only oil refinery. [redacted]

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[redacted] Libya has offered about \$35 million in project aid in return for allowing Tripoli to reopen its People's Bureau and establish an Islamic association in Mauritania. Warming ties with Morocco probably will cause Rabat to drop claims to \$50 million in assets held in escrow since the 1981 coup attempt allegedly sponsored by King Hassan. Although the Taya regime is aware of the ulterior motives of its neighbors, it probably will accept all offers of aid because of its desperate economic straits. [redacted]

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*Tunisian Labor  
Strife Resumes*

The government's compromise offer on wages probably will fall on deaf ears. The proposed 7-percent hike in the minimum wage and indexation of future increases to productivity gains contrasts sharply with labor's demand for a 10-percent across-the-board raise and claims that the government is obliged to maintain purchasing power. Because most workers earn more than the minimum wage, the government offer will have little impact on wages or the budget. The national airline was struck on 4 April, and strikes are planned for the transport sector, public-sector offices, and banks later this month. The government's decision to stand firm on wages and internal labor divisions, however, limit prospects for a general strike as occurred in 1978. [redacted]

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*High Bride Price  
Concerns Muscat*

Omani officials are increasingly concerned that the rising payments demanded by brides' families—as much as \$18,000—are causing many men to put off marriage. Muscat is worried that the resulting slower population growth will inhibit its efforts to reduce reliance on foreign labor. Oman established special loan funds for husbands to cover marriage costs, but the rising prices have outpaced available resources. Bride prices rose steeply in the early 1970s when the government prohibited Omanis in high-level or sensitive positions from marrying foreigners. In 1981 the Sultan issued a royal decree limiting the bride price, but, without an enforcement mechanism, it has been ignored. With limited resources to add to the loan fund and little help from the Islamic clergy, Muscat is unlikely to resolve this problem. [redacted]

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*Wheat Shortages  
in Pakistan*

Pakistan's wheat production probably will be down for the second consecutive year because of heat and drought. Government officials are projecting this year's crop at 10.6 million metric tons, about 300,000 tons less than last year. If conditions do not improve, the government probably will have to import about 2 million tons of wheat at a cost—at current world prices—of \$300-400 million. Given Pakistan's tight foreign exchange position, US Embassy officials believe Islamabad will request emergency US food or financial assistance to meet part of the shortfall. [redacted]

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*Communist**Soviet Five-Year  
Plan Outlined*

The preliminary Soviet economic plan for 1986-90 apparently sets ambitious goals for growth that are unlikely to be achieved. [redacted] the preliminary draft of the next five-year plan calls for annual increases in both national income and industrial production of about 4 percent. Investment is planned to increase even more rapidly than the almost 3.5-percent annual rate achieved in 1981-84. A growing share will go to machine building, and new construction will be cut back. [redacted] problems will continue in the consumer sector. [redacted] The targets for economic growth are optimistic, perhaps reflecting a belief that the improved performance of the last two years can be sustained. A larger share of investment for machine

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building—agriculture and energy are to retain their already large share—will limit resources for other critical sectors and may cause new economic bottlenecks. [redacted]

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*Massive Soviet Wheat Production Experiment*

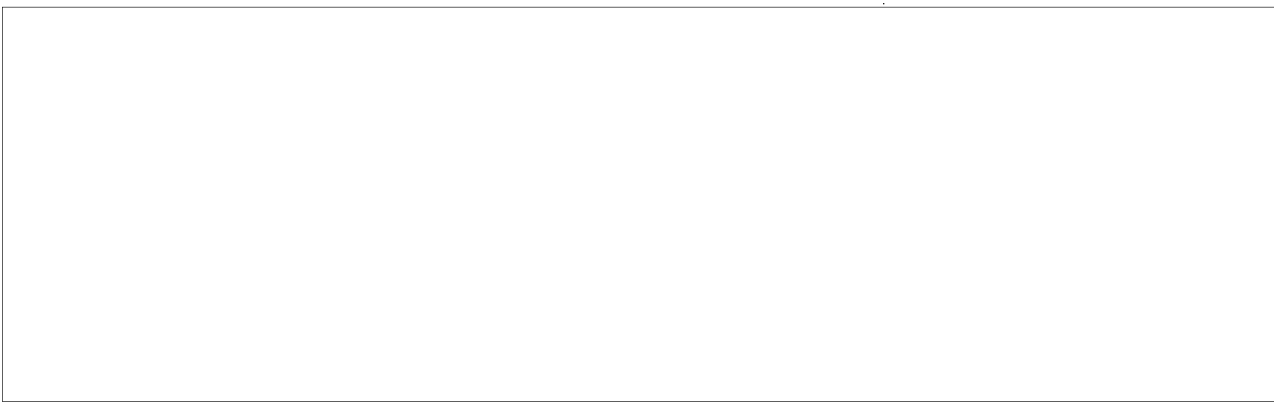
A large-scale program in intensive wheat cultivation sponsored by General Secretary Gorbachev is being undertaken this year on some 17 million hectares—nearly 15 percent of the area sown to grain. According to [redacted] Soviet press reports, Moscow has purchased large amounts of Western insecticides, herbicides, and fungicides to raise average yields by 1 ton per hectare in the Ukraine and the RSFSR. Fertilizer and irrigation funds are also being shifted from regions of marginal productivity. It is doubtful that the planned increase of 16-18 million tons will be fully achieved. Untimely and inadequate fertilizer deliveries already are jeopardizing the program. [redacted]

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*Decline in Chinese Foreign Exchange Reserves*

China's foreign exchange reserves probably fell to roughly \$12 billion at the end of March from the \$17 billion peak last September. Contrary to Western press rumors of a much greater decline caused by accounting errors or foreign exchange speculation, the drop results largely from increases in imports of capital goods and consumer durables. Imports from Japan, Hong Kong, and the United States—China's top three trade partners—are running at nearly twice last year's levels. Beijing probably will move to tighten controls over purchases of Western consumer goods by local enterprises and provincial governments. Although foreign exchange reserves are still healthy, covering more than four months of imports, Beijing wants to conserve hard currency for key projects under the Seventh Five-Year Plan (1986-90)—since November China has signed contracts worth more than \$10 billion with Western firms. [redacted]

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*Chinese Commercial Space Launch Service*

China has announced that it will enter the field of commercial space launch services. China probably will offer launch services to Western countries at prices below the US shuttle or the European Ariane. The commercial launch services market, however, amounts to only some 20 satellites per year, and

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both the US shuttle and the Ariane will be able to handle the market with ease. Some Third World countries may find the Chinese launcher a politically attractive alternative, but US technology transfer restrictions may prevent the carrying of US-built components. Moreover, the Chinese are inexperienced in international marketing and will need time to prove the reliability of their launch vehicles.

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*China To Build  
Aluminum Plant*

Work began last week in Qinghai Province on what is to be China's largest aluminum plant. The first phase, scheduled to be completed in 1987, will add 100,000 metric tons to China's present aluminum capacity of more than 400,000 tons. The plant's capacity will double when the final phase is concluded, possibly by 1990. Although these additions will help ease China's aluminum imports, which more than doubled between 1979 and 1983, China will remain dependent on foreign aluminum. Chinese aluminum consumption is expected to continue to expand through 1990 as China develops its canning industry. This is particularly good news for Canada, which has accounted for more than two-fifths of all Chinese aluminum imports in recent years.

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**Directorate of  
Intelligence**

# **Economic & Energy Indicators**

**12 April 1985**

*DI EEI 85-008  
12 April 1985*

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**Industrial Production***Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984				1985	
				Annual	4th Qtr	Nov	Dec	Jan	Feb
United States	2.6	-8.1	6.4	10.7	-2.2	3.0	1.5	3.7	-5.6
Japan	1.0	0.4	3.5	11.1	11.6	4.1	-7.7	-2.0	-8.3
West Germany	-2.3	-3.2	0.4	3.1	8.8	-22.1	-5.8		
France	-2.6	-1.5	1.1	2.6	-9.5	-16.5	-24.1	-17.1	
United Kingdom	-3.9	2.0	3.3	0.9	4.9	6.0	6.0	17.4	
Italy	-1.6	-3.1	-3.2	3.0	-7.0	-11.9	5.2		
Canada	0.5	-10.0	5.7	8.7	0.7	20.2	6.0		

**Gross National Product <sup>a</sup>***Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984				
				Annual	1st Qtr	2d Qtr	3d Qtr	4th Qtr
United States	2.5	-2.1	3.7	6.8	10.1	7.1	1.6	4.2
Japan	4.1	3.3	3.1	5.7	5.9	7.6	2.6	9.6
West Germany	-0.2	-1.1	1.3	2.6	5.0	-7.7	9.0	5.8
France	0.2	2.0	0.7		4.3	1.7	3.0	
United Kingdom	-0.9	1.4	3.4	1.6	3.3	-5.7	-1.3	12.2
Italy	0.2	-0.4	-1.2		3.1	2.7	4.6	
Canada	3.3	-4.4	3.3	4.7	2.9	3.2	6.6	2.3

<sup>a</sup> Constant market prices.**Consumer Prices***Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984			1985		
				Annual	3d Qtr	4th Qtr	Jan	Feb	Mar
United States	10.3	6.2	3.2	4.3	3.7	3.5	2.3	4.2	
Japan	4.9	2.6	1.8	2.3	1.3	3.3	4.4	-3.2	
West Germany	6.0	5.3	3.6	2.4	0.6	2.8	4.3	5.3	5.8
France	13.3	12.0	9.5	7.7	7.3	6.5	5.1	5.8	
United Kingdom	11.9	8.6	4.6	5.0	5.5	6.0	6.8	10.1	
Italy	19.3	16.4	14.9	10.6	8.0	6.0	10.0	10.7	14.4
Canada	12.5	10.8	5.8	4.3	3.3	3.3	6.1	5.6	

**Money Supply, M-1 <sup>a</sup>***Percent change from previous period  
seasonally adjusted at an annual rate*

	1981	1982	1983	1984			1985		
				Annual	3d Qtr	4th Qtr	Jan	Feb	Mar
United States <sup>b</sup>	7.1	6.6	11.0	6.9	4.6	3.3	9.4	15.0	
Japan	3.7	7.1	3.0	2.9	6.6	2.2	-8.6		
West Germany	1.1	3.6	10.3	3.3	2.3	8.4	-20.8	-3.7	
France	12.2	13.9	10.0		1.1				
United Kingdom	NA	NA	15.1	14.6	10.1	24.2	-22.6	-2.4	
Italy	11.2	11.6	15.3						
Canada	3.8	0.6	10.2	2.4	-0.2	3.1	-35.9	-29.2	19.7

<sup>a</sup> Based on amounts in national currency units.<sup>b</sup> Including M1-A and M1-B.**Unemployment Rate <sup>a</sup>***Percent seasonally adjusted*

	1981	1982	1983	1984			1985		
				Annual	4th Qtr	Dec	Jan	Feb	Mar
United States	7.5	9.6	9.4	7.4	7.1	7.1	7.2	7.2	7.2
Japan	2.2	2.4	2.7	2.7	2.7	2.7	2.6		
West Germany	5.6	7.7	9.2	9.1	8.9	8.9	10.5	10.5	10.0
France	7.6	8.6	8.5	9.6	9.9	9.9	9.9	9.9	10.0
United Kingdom	10.0	11.6	12.3	12.6	12.8	12.8	13.0	13.0	13.0
Italy	8.4	9.1	9.9						
Canada	7.5	11.1	11.9	11.3	11.1	11.1	11.0	11.0	11.2

<sup>a</sup> Unemployment rates for France are estimated.

**Foreign Trade <sup>a</sup>***Billion US \$, f.o.b.*

	1981	1982	1983	1984				1985	
				Annual	2d Qtr	3d Qtr	4th Qtr	Jan	Feb
<b>United States <sup>b</sup></b>									
Exports	233.5	212.3	200.7	217.6	53.1	55.5	55.9	19.4	17.9
Imports	261.0	244.0	258.2	325.6	79.3	86.6	80.0	28.3	28.0
Balance	-27.5	-31.6	-57.5	-107.9	-26.2	-31.1	-24.1	-8.9	-10.1
<b>Japan</b>									
Exports	149.6	138.3	145.5	168.2	42.5	42.2	43.2	14.2	13.2
Imports	129.5	119.7	114.1	124.0	31.7	32.1	29.8	9.6	9.7
Balance	20.1	18.6	31.5	44.2	10.0	10.0	13.4	4.6	3.6
<b>West Germany</b>									
Exports	175.4	176.4	169.4	172.0	42.4	43.3	42.3	14.2	13.6
Imports <sup>c</sup>	163.4	155.3	152.9	153.1	39.2	38.3	36.4	12.8	12.0
Balance	11.9	21.1	16.6	18.8	3.2	5.0	5.9	1.5	1.6
<b>France</b>									
Exports	106.3	96.4	95.1	97.5	25.0	24.5	23.9	7.1	7.6
Imports	115.6	110.5	101.0	100.3	26.1	24.1	24.4	7.5	8.2
Balance	-9.3	-14.0	-5.9	-2.8	-1.2	0.4	-0.5	-0.4	-0.6
<b>United Kingdom</b>									
Exports	102.5	97.1	91.8	93.8	23.6	22.6	23.5	7.4	7.6
Imports	94.6	93.0	92.7	99.5	25.3	24.7	25.1	7.5	7.9
Balance	7.9	4.1	-0.8	-5.7	-1.7	-2.1	-1.6	-0.1	-0.3
<b>Italy</b>									
Exports	75.4	74.0	72.7	73.6	17.1	19.2	18.1	5.7	
Imports	91.2	86.8	80.7	84.4	20.3	20.9	21.9	6.9	
Balance	-15.9	-12.8	-7.9	-10.7	-3.2	-1.7	-3.7	-1.2	
<b>Canada</b>									
Exports	70.5	68.5	73.7	86.8	21.7	22.5	21.8	7.3	
Imports	64.4	54.1	59.3	70.8	17.5	18.4	17.4	6.2	
Balance	6.1	14.4	14.4	16.1	4.1	4.1	4.4	1.1	

<sup>a</sup> Seasonally adjusted.<sup>b</sup> Imports are customs values.<sup>c</sup> Imports are c.i.f.**Current Account Balance <sup>a</sup>***Billion US \$*

	1981	1982	1983	1984					1985	
				Annual	4th Qtr	Oct	Nov	Dec	Jan	Feb
<b>United States</b>	6.3	-9.2	-41.6	-101.7	-23.7					
<b>Japan</b>	4.8	6.9	20.8	35.0	11.6	3.9	2.9	4.8	0.8	2.5
<b>West Germany</b>	-6.8	3.5	4.1	5.9	6.0	2.0	2.0	2.1	-0.2	0.6
<b>France</b>	-4.7	-12.1	-4.6	-0.5	0.1					
<b>United Kingdom</b>	15.3	9.8	4.3	0	0.8	0.2	0.4	0.2	0.4	0.1
<b>Italy</b>	-8.6	-5.7	0.6							
<b>Canada</b>	-5.0	2.1	1.4	1.5	0.6					

<sup>a</sup> Seasonally adjusted; converted to US dollars at current market rates of exchange.

**Export Prices in US \$***Percent change from previous period  
at an annual rate*

	1981	1982	1983	1984					1985	
				Annual	3d Qtr	4th Qtr	Nov	Dec	Jan	Feb
United States	9.2	1.5	1.0	1.4	-2.2	-3.7	-8.4	-2.5	-2.6	
Japan	5.5	6.4	-2.4	0.2	-14.9	-4.7	-0.2	-17.0	-14.8	
West Germany	-14.9	2.8	-3.2	-7.1	-23.0	-12.8	35.8	-33.4	-17.8	-34.0
France	-12.0	5.5	5.0		-21.6		43.8			
United Kingdom	NA	7.3	-5.9	-4.8	-17.2	-16.0	33.8	-39.2	-34.0	-11.2
Italy	-7.8	3.2	-5.8		-17.8					
Canada	3.9	-2.0	-1.2	-3.7	-5.2	-6.3	0	6.5	14.0	

**Import Prices in US \$***Percent change from previous period  
at an annual rate*

	1981	1982	1983	1984				1985	
				Annual	3d Qtr	4th Qtr	Dec	Jan	Feb
United States	5.3	-2.0	-3.7	-1.7	3.6	-2.9	-11.9	-22.1	
Japan	3.6	-7.3	-5.1	-2.8	-5.2	-8.4	-6.5	-71.3	
West Germany	-8.6	-4.7	-5.2	-4.8	-22.5	-11.1	-32.6	-13.2	-23.8
France	-7.8	-7.2	-7.0		-22.9				
United Kingdom	NA	-6.1	-5.2	-3.9	-17.0	-13.2	-38.4	-36.4	-0.6
Italy	1.0	-7.3	-7.6		-20.8				
Canada	8.7	1.1	-3.4	0.2	4.9	-3.8	-4.1	19.7	

**Exchange Rate Trends***Percent change from previous period  
at an annual rate*

	1981	1982	1983	1984			1985		
				Total	3d Qtr	4th Qtr	Jan	Feb	Mar
<b>Trade-Weighted</b>									
United States	10.5	10.6	5.8	9.1	26.2	13.7	34.3		
Japan	9.3	-5.7	10.4	6.2	-5.3	5.4	-3.1		
West Germany	-2.1	7.0	5.8	1.0	-2.0	-0.3	5.2		
France	-5.1	-6.1	-4.7	-2.1	-1.4	0.1	4.2		
United Kingdom	2.5	-2.1	-5.0	-2.5	-3.0	-9.6	-27.2		
Italy	-9.2	-5.1	-1.6	-3.1	-0.3	-2.3	9.5		
Canada	0.3	0.2	2.3	-2.3	1.3	3.6	8.5		
<b>Dollar Cost of Foreign Currency</b>									
Japan	2.7	-12.8	4.5	-26.1	-4.4	-33.5	-32.5	9.0	
West Germany	-24.6	-7.2	-5.2	-11.5	-33.8	-20.4	-26.3	-58.7	-2.5
France	-28.7	-20.8	-15.9	-14.7	-33.2	-19.9	-26.1	-54.7	-2.8
United Kingdom	-13.2	-13.4	-13.3	-11.9	-25.2	-23.3	-28.9	-28.9	37.1
Italy	-32.8	-18.8	-12.3	-15.6	-32.5	-22.1	-25.0	-66.8	-31.1
Canada	-2.5	-2.9	0.1	-5.1	-6.6	-1.7	-1.8	-28.2	-31.9

**Money Market Rates***Percent*

	1981	1982	1983	1984			1985	
				Annual	3d Qtr	4th Qtr	Jan	Feb
<b>United States</b> 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	11.66	9.52	8.41	
<b>Japan</b> loans and discounts (2 months)	7.79	7.23	NA	6.66	6.64	6.60	6.56	6.55
<b>West Germany</b> interbank loans (3 months)	12.19	8.82	5.78	5.96	5.95	5.93		
<b>France</b> interbank money market (3 months)	15.47	14.68	12.51	11.74	11.37	10.83		
<b>United Kingdom</b> sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	11.10	10.00		
<b>Italy</b> Milan interbank loans (3 months)	20.13	20.15	18.16	15.92	15.18	15.22		
<b>Canada</b> finance paper (3 months)	18.46	14.48	9.53	11.30	12.56	11.19		
<b>Eurodollars</b> 3-month deposits	16.87	13.25	9.69	10.86	11.93	9.89	8.58	



**Agricultural Prices**

	1980	1981	1982	1983	1984	1985			
						1st Qtr	Jan	Feb	Mar
<b>Beef</b> (¢ per pound)									
<b>Australia</b> (Boneless beef, f.o.b., US Ports)	125.2	112.1	108.4	110.7	101.1	100.7	98.4	102.4	101.3
<b>United States</b> (Wholesale steer beef, midwest markets)	104.3	100.0	101.4	97.6	100.9	97.2	100.0	97.4	94.2
<b>Cocoa</b> (¢ per pound)	113.5	89.8	74.3	92.1	106.2	99.2	98.8	100	98.9
<b>Coffee</b> (\$ per pound)	1.54	1.28	1.40	1.32	1.44	1.44	1.45	1.45	1.41
<b>Corn</b> (US #3 yellow, c.i.f. Rotterdam \$ per metric ton)	150	150	123	148	150	133	133	133	133
<b>Cotton</b> (Memphis middling 1 1/16 inch, \$ per pound)	0.8219	0.7243	0.6073	0.6873	0.6849	0.6062	0.6075	0.5959	0.6154
<b>Palm Oil</b> (United Kingdom 5% bulk, c.i.f., \$ per metric ton)	583	571	445	502	730	605	583	595	637
<b>Rice</b> (\$ per metric ton)									
<b>US</b> (No. 2, milled, 4% c.i.f. Rotterdam)	598	632	481	514	514	496	496	496	496
<b>Thai SWR</b> (100% grade B c.i.f. Rotterdam)	522	573	362	339	310	254	256	256	250
<b>Soybeans</b> (US #2 yellow, c.i.f. Rotterdam \$ per metric ton)	296	288	244	282	283	240	244	238	240
<b>Soybean Oil</b> (Dutch, f.o.b. ex-mil. \$ per metric ton)	598	507	447	527	727	651	630	664	660
<b>Soybean Meal</b> (US, c.i.f. Rotterdam \$ per metric ton)	257	252	219	238	197	157	167	152	152
<b>Sugar</b> (World raw cane; f.o.b. Caribbean Ports, spot prices ¢/lb.)	29.03	16.93	8.42	8.49	5.18	3.67	3.59	3.66	3.78
<b>Tea</b> Average Auction (London) (US ¢ per pound)	101.4	91.0	89.9	105.2	156.6	126.9	143.1	127.3	110.4
<b>Wheat</b> (US #2. DNS Rotterdam c.i.f. \$ per metric ton)	209	210	187	183	182	177	182	182	168
<b>Food Index</b> <sup>a</sup> (1975=100)	232	203	167	184	194	176	178	176	176

## Industrial Materials Prices

	1980	1981	1982	1983	1984	1985			
						1st Qtr	Jan	Feb	Mar
<b>Aluminum</b> (¢ per pound)									
Major US producer	71.6	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0
LME cash	80.8	57.4	44.9	65.1	56.8	49.2	48.3	50.0	49.5
<b>Chrome Ore</b> (South Africa chemical grade, \$ per metric ton)									
	55.0	53.0	50.9	50.0	50.0	49.9	49.7	50.0	50.0
<b>Copper</b> <sup>a</sup> (bar, ¢ per pound)									
	98.7	79.0	67.1	72.0	62.4	62.1	60.8	63.5	62.2
<b>Gold</b> (\$ per troy ounce)									
	612.1	460.0	375.5	424.4	360.0	300.0	302.8	302.1	295.3
<b>Lead</b> <sup>a</sup> (¢ per pound)									
	41.1	32.9	24.7	19.2	20.0		18.9	17.2	
<b>Manganese Ore</b> (48% Mn, \$ per long ton)									
	78.5	82.1	79.9	73.3	69.8	69.6	69.8	69.8	69.4
<b>Nickel</b> (\$ per pound)									
Cathode major producer	3.5	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	3.0	2.7	2.2	2.1	2.2	2.2	2.2	2.2	2.3
<b>Platinum</b> (\$ per troy ounce)									
Major producer	439.5	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	677.0	446.0	326.7	422.6	358.2	269.3	275.3	276.4	256.3
<b>Rubber</b> (¢ per pound)									
Synthetic <sup>b</sup>	40.6	47.5	45.7	44.0	44.4	NA	47.0	47.7	NA
Natural <sup>c</sup>	73.8	56.8	45.4	56.2	49.6	42.0	42.0	42.0	42.0
<b>Silver</b> (\$ per troy ounce)									
	20.7	10.5	7.9	11.4	8.1	5.9	6.0	6.1	5.7
<b>Steel Scrap</b> <sup>d</sup> (\$ per long ton)									
	91.2	92.0	63.1	73.2	86.4	NA	82.5	82.0	NA
<b>Tin</b> <sup>a</sup> (¢ per pound)									
	761.3	641.4	581.6	590.9	556.6	501.1	504.7	499.0	499.7
<b>Tungsten Ore</b> (contained metal, \$ per metric ton)									
	18,219	18,097	13,426	10,177	10,243	11,515	10,952	11,568	12,025
<b>US Steel</b> (finished steel, composite, \$ per long ton)									
	486.2	543.5	567.3	590.2	611.61	NA	617.83	617.83	NA
<b>Zinc</b> <sup>a</sup> (¢ per pound)									
	34.4	38.4	33.7	34.7	41.5	40.0	38.9	40.0	41.1
<b>Lumber Index</b> <sup>e</sup> (1975=100)									
	167	159	140	190	176	177	169	180	182
<b>Industrial Materials Index</b> <sup>f</sup> (1975=100)									
	184	166	142	152	138	123.0	124.9	122.7	121.4

<sup>a</sup> 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.

<sup>b</sup> S-type styrene, US export price.

<sup>c</sup> Quoted on New York market.

<sup>d</sup> Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.

<sup>e</sup> This index is compiled by using the average of 11 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

<sup>f</sup> 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.

**World Crude Oil Production  
Excluding Natural Gas Liquids**

Thousand b/d

	1980	1981	1982	1983	1984 <sup>a</sup>				1985
					Annual	3d Qtr	4th Qtr	Jan	
<b>World</b>	<b>59,463</b>	<b>55,827</b>	<b>53,014</b>	<b>52,588</b>	<b>53,718</b>	<b>53,195</b>	<b>53,661</b>		
<b>Non-Communist countries</b>	<b>45,243</b>	<b>41,602</b>	<b>38,810</b>	<b>38,228</b>	<b>39,257</b>	<b>38,711</b>	<b>38,952</b>		
Developed countries	12,859	12,886	13,276	13,864	14,302	14,216	14,618		
United States	8,597	8,572	8,658	8,680	8,735	8,776	8,807	8,737	
Canada	1,424	1,285	1,270	1,356	1,411	1,397	1,448		
United Kingdom	1,619	1,811	2,094	2,299	2,535	2,451	2,646		
Norway	528	501	518	614	700	681	764		
Other	691	717	736	915	921	911	953	27	
Non-OPEC LDCs	5,443	6,036	6,633	6,823	7,515	7,565	7,704		
Mexico	1,936	2,321	2,746	2,666	2,746	2,724	2,723	2,644	
Egypt	595	598	665	689	827	833	890		
Other	2,912	3,117	3,222	3,468	3,942	4,008	4,091		
OPEC	26,941	22,680	18,901	17,541	17,440	16,930	16,630	14,591	
Algeria	1,020	803	701	699	638	650	633	600	
Ecuador	204	211	211	236	253	261	253	260	
Gabon	175	151	154	157	152	157	150	150	
Indonesia	1,576	1,604	1,324	1,385	1,466	1,400	1,411	1,160	
Iran	1,662	1,381	2,282	2,492	2,187	2,002	2,299	1,400	
Iraq	2,514	993	972	922	1,203	1,249	1,233	1,200	
Kuwait <sup>b</sup>	1,389	947	663	881	912	933	834	800	
Libya	1,830	1,137	1,183	1,076	1,073	1,027	1,000	1,000	
Neutral Zone <sup>c</sup>	544	370	317	390	410	386	380	380	
Nigeria	2,058	1,445	1,298	1,241	1,393	1,232	1,600	1,400	
Qatar	471	405	328	295	399	440	317	280	
Saudi Arabia <sup>b</sup>	9,631	9,625	6,327	4,867	4,444	4,338	3,699	3,300	
UAE	1,702	1,500	1,248	1,119	1,097	1,012	1,056	1,106	
Venezuela	2,165	2,108	1,893	1,781	1,813	1,843	1,765	1,555	
<b>Communist countries</b>	<b>14,220</b>	<b>14,225</b>	<b>14,204</b>	<b>14,360</b>	<b>14,461</b>	<b>14,484</b>	<b>14,709</b>	<b>14,042</b>	
USSR	11,700	11,790	11,750	11,820	11,870	11,864	12,067	11,400	
China	2,113	2,024	2,044	2,120	2,280	2,200	2,222	2,222	
Other	407	411	410	420	420	420	420	420	

<sup>a</sup> Preliminary.<sup>b</sup> Excluding Neutral Zone production, which is shown separately.<sup>c</sup> Production is shared equally between Saudi Arabia and Kuwait.

**Big Seven: Inland Oil Consumption***Thousand b/d*

	1980	1981	1982	1983	1984				1985	
					Annual	Oct	Nov	Dec	Jan	Feb
United States <sup>a</sup>	17,006	16,058	15,296	15,184	15,708	15,631	15,602	15,353	16,150	16,030
Japan	4,674	4,444	4,204	4,193	4,349	3,880	4,373	5,029		
West Germany	2,356	2,120	2,024	2,009	2,014	1,877	2,093	1,856		
France	1,965	1,744	1,632	1,594	1,531	1,587	1,530	1,577	2,024	1,738
United Kingdom	1,422	1,325	1,345	1,290	1,621	1,830	1,981	1,850		
Italy <sup>b</sup>	1,602	1,705	1,618	1,594	1,513	1,502	1,560	1,558	1,763	
Canada	1,730	1,617	1,454	1,354	1,348	1,410	1,423	1,311	1,363	

<sup>a</sup> Including bunkers, refinery fuel, and losses.<sup>b</sup> Principal products only prior to 1981.**Big Seven: Crude Oil Imports***Thousand b/d*

	1980	1981	1982	1983	1984				1985	
					Annual	Oct	Nov	Dec	Jan	Feb
United States	5,220	4,406	3,488	3,329	3,402	3,751	3,552	3,126	2,560	2,160
Japan	4,373	3,919	3,657	3,567	3,664	3,405	3,489	3,722	3,194	
West Germany	1,953	1,591	1,451	1,307	1,332	1,060	1,366	1,328	1,395	
France	2,182	1,804	1,596	1,429	1,395	1,346	1,325	1,502	1,494	
United Kingdom	893	736	565	456	482	506	478	486		
Italy	1,860	1,816	1,710	1,532		1,416				
Canada	557	521	334	247	244	187	235	285		

**OPEC: Crude Oil Official Sales Price <sup>a</sup>***US \$ per barrel*

	1979	1980	1981	1982	1983	1984	1985
							Jan
<b>OPEC average <sup>b</sup></b>	18.67	30.87	34.50	33.63	29.31	28.70	28.59
<b>Algeria</b> 42° API 0.10% sulfur	19.65	37.59	39.58	35.79	31.30	30.50	30.50
<b>Ecuador</b> 28° API 0.93% sulfur	22.41	34.42	34.50	32.96	27.59	27.50	27.50
<b>Gabon</b> 29° API 1.26 % sulfur	18.20	31.09	34.83	34.00	29.82	29.00	29.00
<b>Indonesia</b> 35° API 0.09% sulfur	18.35	30.55	35.00	34.92	29.95	29.53	29.53
<b>Iran</b>							
Light 34° API 1.35% sulfur	19.45	34.54	36.60	31.05	28.61	28.00	29.11
Heavy 31° API 1.60% sulfur	18.49	33.60	35.57	29.15	27.44	27.10	27.55
<b>Iraq <sup>c</sup></b> 35° API 1.95% sulfur	18.56	30.30	36.66	34.86	30.32	29.43	29.43
<b>Kuwait</b> 31° API 2.50% sulfur	18.48	29.84	35.08	32.30	27.68	27.30	27.30
<b>Libya</b> 40° API 0.22% sulfur	21.16	36.07	40.08	35.69	30.91	30.40	30.40
<b>Nigeria</b> 34° API 0.16% sulfur	20.86	35.50	38.48	35.64	30.22	29.12	27.90
<b>Qatar</b> 40° API 1.17% sulfur	19.72	31.76	37.12	34.56	29.95	29.49	29.49
<b>Saudi Arabia</b>							
Berri 39° API 1.16% sulfur	19.33	30.19	34.04	34.68	29.96	29.52	29.27
Light 34° API 1.70% sulfur	17.26	28.67	32.50	34.00	29.46	29.00	29.00
Medium 31° API 2.40% sulfur	16.79	28.12	31.84	32.40	27.86	27.40	27.65
Heavy 27° API 2.85% sulfur	16.41	27.67	31.13	31.00	26.46	26.00	26.50
<b>UAE</b> 39° API 0.75% sulfur	19.81	31.57	36.42	34.74	30.38	29.56	29.31
<b>Venezuela</b> 26° API 1.52% sulfur	17.22	28.44	32.88	32.88	28.69	27.88	27.88

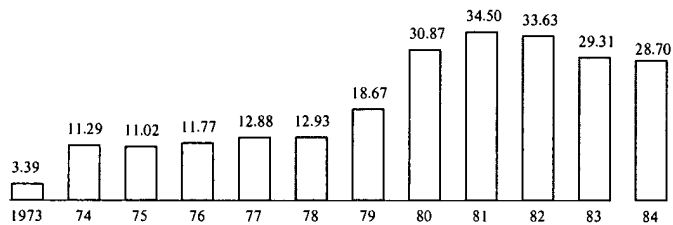
<sup>a</sup> F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil.

<sup>b</sup> Weighted by the volume of production.

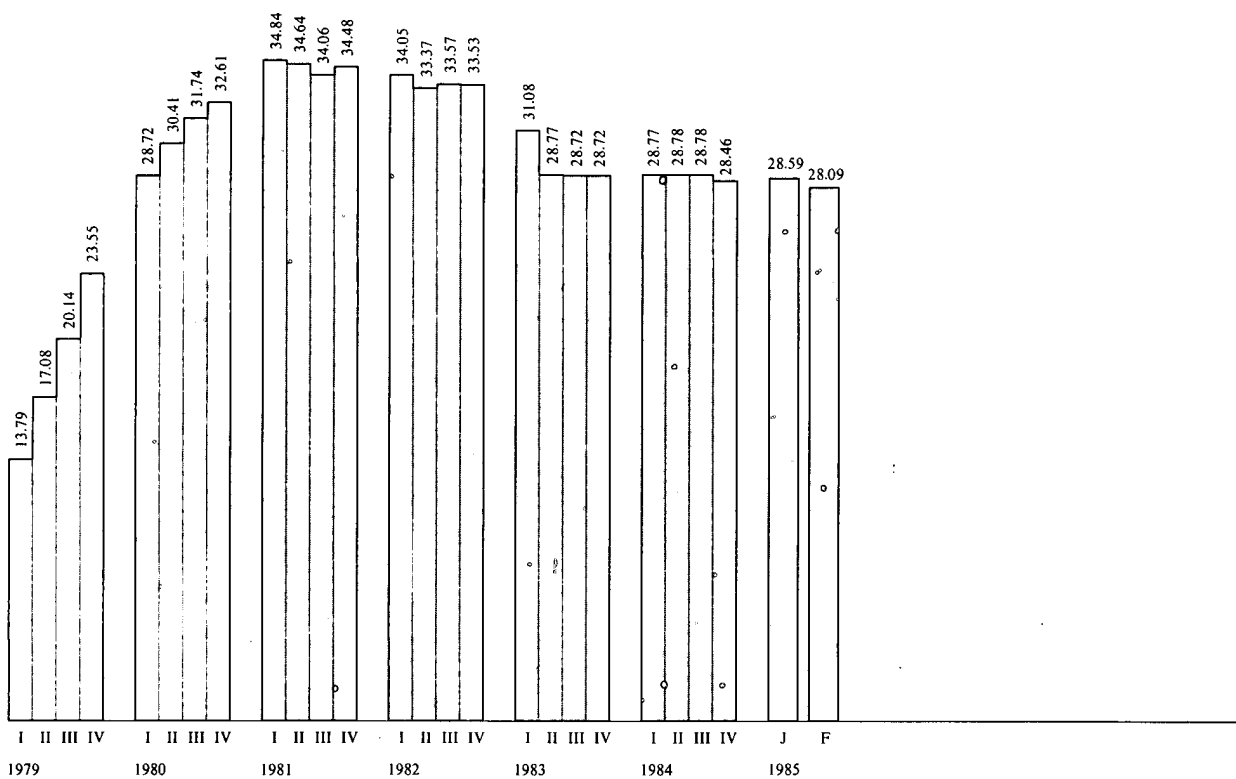
<sup>c</sup> Beginning in 1981 the price of Kirkuk (Mediterranean) is used in calculating the OPEC average official sales price.

**OPEC: Average Crude Oil Sales Price**

US \$ per barrel



Annual average



The 1973 price is derived from posted prices, not official sales prices.

