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WORLD OIL RESOURCES

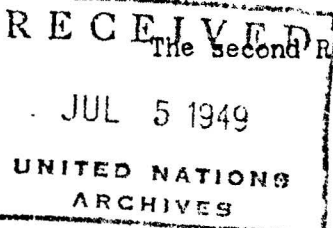
Memorandum by the International Cooperative Alliance.

The Resolution on World Oil Resources adopted by the Congress of the International Co-operative Alliance (I.C.A.) at Prague, 1948, is, in all its essentials, to be regarded as a renewed expression of the opinions of the World Co-operative Movement concerning free and equal access to World Resources in general which were laid before the Economic and Social Council in 1947 (at its Fifth Session in Lake Success) in the terms of a similar Resolution adopted at the I.C.A. Congress at Zurich in 1946. Both Resolutions are to be viewed in the light of the policy with regard to the general problems of production and international trade which has been pursued over a long period of years within the scope of activities of the I.C.A., and which has also asserted itself since the war.

At the first meeting of the I.C.A. after the cessation of hostilities - London, September, 1945 - the main lines of this policy were formulated in two Resolutions relating to the general problems of organisation of world production and interchange of products on an international scale, as manifested by the experiences of the previous development of events which led up to the war.

The first of these Resolutions stressed that the growing impediments to international trade and the degeneration of production into an employment-restricting monopoly constituted a dangerous threat to the standard of living even before the war, and declared that "if this state of affairs continues after the war the consequences will be disastrous".

The second Resolution dealt particularly with the raw material



problem from the angle of the Atlantic Declaration. It exhorted the United Nations to intervene against the imperialistic policy of international trusts and cartels, and to make it possible for Co-operative Organisations to secure a just share of the raw material supplies, in order to utilise them as a practical means of giving effect to the pledges of the Atlantic Declaration, thereby fulfilling the desire of the peoples for the creation of economic prosperity on a democratic basis, which is a cardinal necessity for enduring peace between the nations.

This attitude of the I.C.A. with regard to raw materials - which conforms to the general aims of the Co-operative Movement, as, from the co-operative point of view, the sole objective of economic activity should be to provide every human being, irrespective of nationality, origin and domicile, with decent material conditions of life, and at the same time should provide consumers' Organisations with fair facilities for the fulfilment of their task, which is to contribute to organising economic life generally on the basis of these human principles - was restated, as follows, in a Paper presented to its Congress at Zurich in 1946 and unanimously endorsed by the delegates present:-

"From the consumers' viewpoint it is absolutely necessary that raw materials should be made available to the whole of humanity on equal terms. No valid reason can be constructed for regarding every raw material as the monopoly of the State within whose boundaries it happens to exist or can be produced. On the contrary, raw materials should be the first thing after armaments to be placed under the control of the United Nations; and the model for their exploitation should be the principles applied within the Co-operative Movement, viz., equal conditions

for all and the right of every enterprise using raw materials to buy as much as it considers it can utilise".

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A few general observations should be added to these statements of the views prevailing within the World Co-operative Movement with regard to the raw material problem expressed in recent Resolutions of the I.C.A. - which were quoted also in the document supporting its Resolution on World Oil Resources presented to the Fifth Session of the Economic and Social Council in 1947.

The extraordinary importance of the problem of access to the world raw material resources is intimately tied up with the continuous industrialisation of the world. The unequal distribution of the production of raw materials over the surface of the globe is, in the main, explained by the position of deposits of minerals and by climatic conditions affecting the harvests. Countries less fortunately situated in these respects may well complain, but very little in the dispositions of nature can be changed through human interventions. The more diversified the industrialisation of a country becomes the greater, as a rule, will be its dependence on the supply of raw materials from other countries. During the liberalistic era this dependence made itself felt only in a lesser degree. The tendencies inherent in the liberal free trade system to secure the foundations of peaceful trading interchange between the different countries of the world asserted themselves even over periods of actual warfare.

The radical changes in the general conception of commercial policies in the period following the first World War were, to a great

extent, brought about by a new view on the question of raw materials in international trade. The war had clearly demonstrated the tremendous importance of the supply of raw materials for warfare, for it had very soon become absolutely clear that victory was dependent upon the strength and efficiency of the industrial war efforts, and these, in their turn, upon a continuous and undisturbed supply of raw materials. For the first time in modern history a war trade policy was put into effect with the objective of securing maximum supply of raw materials for the allied groups of nations, and, at the same time, of cutting off the supply for the adversaries. According to a widely expressed view, this policy made a decisive contribution to the outcome of the war.

The experience gained from the first World War afterwards gave a powerful incitement to the nations to adjust their raw materials and general supply policy in peacetime to the potential demands of warfare. To a growing extent economic policy and planning were directed towards "national autarchy", i.e. towards efforts within the different national economies to develop industrial and agricultural production and resources so as to be able to withstand the possibility of being cut off from supplies from overseas and other countries for a shorter or longer period. To the extent that this new economic policy was put into practice by a growing number of countries, the efforts to re-establish the freedom of international trade-interchange became fruitless, the structure of production was to a growing extent based on uneconomical foundations, actual world trade was stagnant and the standard of living was lowered in many countries.

As this development went on, it became evident that economic policies of this kind, openly directed towards preparations for war (and defence against war) and discarding the demands of the broad masses



for a higher living standard and increased prosperity, did not reduce but substantially added to the potential dangers of war. A new motivation for aggressive policies in general was formulated, based on complaints over "the unfair distribution of world resources" and centred in the claim for "Lebensraum" - the supreme right of securing by warlike conquests the vital interests of countries poor with regard to raw materials. Obviously, this theory, nursed by the Nazi and Fascist countries, was one of the driving forces in the outbreak of the second World War.

This particular aspect of economic nationalism in the inter-war period also gave a powerful stimulation to the restrictive policies regarding the production of certain raw materials carried on over a long period of years by private international monopolies, cartels, combines and conventions of different kinds. Dislocations of world trade resulting from the autarchy policies of various countries caused "over-production", i.e., difficulties in marketing certain raw materials under the conditions prevailing, with ensuing price-falls.

Emergencies of this kind gave a powerful incentive to efforts among the producers in the various countries to bring about more permanent restrictions of production with a view to stabilising prices.

International commodity agreements along these lines were rather numerous in the '20s and '30s - in many cases established on the sub-structure of agreements between private international combinations, and in others with the support of the Governments of the producer countries.

There is sufficient evidence at hand to show that, as a rule, these international commodity agreements, one-sidedly dominated by the producers, did not succeed in bringing about any durable stabilisation of prices, leading to an expansion of production at long sight. On the contrary, the producer-dominated commodity agreements seem to have

substantially contributed to increasing the instability of the raw material markets. In certain cases the producers appear to have made use of their power to restrict production with the effect of raising prices to a much higher level than was justified by the costs of production, thus bringing about a continuous shrinking of consumption. In other cases the joint efforts of the producers did not prove sufficiently powerful to attain the effects aimed at by the commodity agreements, or the parties to the agreements did not attain the solidarity required for this purpose; the international cartel agreements or commodity arrangements had a short flourishing period and then broke up for different reasons, giving rise to precipitated price-falls far below the cost limit. The conclusion to be drawn from the experiences in the inter-war period is that a policy of expanding production of raw materials, in conjunction with a policy of reasonable price stabilisation - harmonised with the development of production costs - cannot be effectively pursued on the basis of one-sided agreements between producers.

The outstanding features of the general situation regarding raw materials in the years before the second World War thus seem to have been, on the one hand, a growing tendency among nations to monopolise their domestic resources for their own needs, coupled with efforts to assure the covering of their needs for certain "strategic" raw materials by extending their influence over resources in other countries, frequently by using their nationals as implements, particularly for the acquisition of long-term concessions; on the other hand, a general instability of production and demand in the field of raw materials exchanged in international trade, caused by restrictive forces of different kinds, inherent in the general economic and commercial policies of various countries as in the steady expansion of private monopolistic combinations and their influence over the world

market. It was accordingly stressed in the very lively discussion of the international raw material problems during the last war and in the years immediately following that the solution should be pursued along two lines - both of which involve a certain measure of international concerted action - viz., by laying down certain general principles regarding free and equal access to raw material resources, irrespective of the country or area of the world in which they happen to be available; and by drawing up certain lines of action and patterns of behaviour to be observed by all raw-material producing countries, with a view to providing for an expanding production, all due regard being paid in the first line to the needs of a rising world consumption. In the light of the findings of scientists and technicians in the different fields of research, the potential size of the resources known and their availability for exploitation should not, as a rule, place any serious obstacles in the way of a substantial increase of production and an ensuing rise of the prosperity of the world.

By including the Fourth Principle of the Atlantic Declaration in the Charter of the United Nations Organization an important step - but only a step - has been taken to ensure the observation by all nations of the principle of free and equal access to the resources of the world. The implementation of the principle will mean that the Governments of the nations members of the United Nations Organization will have to consent to ceding some of their sovereignty also in practice. The practical implications of the Fourth Principle endorsed by the United Nations Charter cannot be but a widened "internationalisation", arrangements for a super-Governmental, or Super-state, planning of the production of raw materials. The production of raw materials should be regarded as a means for ensuring to all peoples the highest possible standard of living and not as an aim in itself having the immediate objectives of providing for the raw-material-producing countries or for the owners of

the capital invested maximum revenue or profits. The aim of a super-Governmental planning should be to attain the maximum production of the various raw materials that can be marketed at prices covering the costs of efficient producers. The planning schemes should also provide for a continuous increase in the efficiency of the producing enterprises so as to enable them to be carried on at the lowest possible costs, subject to normal and reasonable compensation to labour employed and capital invested. It should also be regarded as absolutely necessary that all categories of buyers should be entitled to cover their needs by buying wherever they like and without discrimination.

The implementation of these basic principles for planning the exploitation of world raw material resources can be effected by the means of international conventions under the auspices of the United Nations Organisation. Governments voluntarily consenting to such degree of international "administration" of their own resources as required for the purpose in view take their decisions with the knowledge that they will be compensated by corresponding advantages in the form of widened access to the resources of other countries. The wisdom of this policy has been acknowledged by the Charter of the International Trade Organisation, conforming to which (Chapter I) the signatory parties formally undertake "to further the enjoyment by all countries, on equal terms, of access to the markets, products and productive facilities which are needed for their economic prosperity and development."

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The solution of the world raw materials problem by international planning of a super-governmental nature - by voluntarily concluded international conventions or by other means arrived at by the assistance of the United Nations Organisation - can evidently only be brought about by successive stages. When the I.C.A. Resolution on World Oil Resources

adopted by the Zurich Congress in 1946 was presented to the Economic and Social Council at its Fifth Session in 1947 with the request that the question of an International Oil Convention under the auspices of the United Nations Organization should be submitted to a study by an appropriate U.N. Agency, one of the objections raised was that the question of oil could not be singled out for a separate study; that, if the raw materials problem had to be approached, it could only be done in an overall way, and the study to be made should logically comprise also coal, iron and steel, rubber, copper, nitrates, etc. It seems, however, that, on the contrary, any such overall and simultaneous solution is excluded by the extreme vastness and complexity of the problem and by its practical implications which vary from case to case.

In principle, the practical solution can only be found by applying varying methods for varying categories of commodities. It is a quite different task to organise, with the objectives just indicated, the production by international agreement of, for example, primary foodstuffs produced by millions of units - large, medium-sized and small farmers, plantations, etc., in many parts of the world - from that of organising the production of industrial raw materials, many, and perhaps the most important, of which are being produced by a limited number of enterprises in a limited number of areas. The desirability of bringing a commodity under a scheme of international administration by the consent of the countries concerned may also vary considerably, according to the degree of monopolistic concentration attained, the effects of monopolistic price-fixing and restriction of production on subsequent stages of processing or manufacture, the repercussions of restrictive practices in the production of or trade in the raw material in question on other industries, whether it is a "key" commodity or not, and similar circumstances.

This principle - that the commodities to be administered internationally should be dealt with on an individual basis, as the necessity arises and according to the varying methods of organisation appropriate in each case - has also been acknowledged by the Charter of the International Trade Organisation. Chapter VI of the Charter provides the framework for Inter-Governmental Commodity Agreements in the cases of primary commodities affected by special difficulties, such as a tendency towards persistent disequilibrium between production and consumption, the accumulation of burdensome stocks and pronounced fluctuations in prices, having serious adverse effects on the interests of producers and consumers, as well as widespread repercussions jeopardising the general policy of economic expansion. The Chapter further provides for the establishment of Study Groups, each for the study of a separate commodity; for Commodity Conferences with the object of drawing up the Commodity Agreements and for the setting up of the international administrative machinery to supervise the working of the Agreements, generally in the form of a Commodity Council for each particular commodity, on which producer and consumer interests shall be equally represented.

The Inter-Governmental Commodity Agreements of this type which may come into function when the International Trade Organisation has been established may be characterised as a kind of international convention aiming at the alleviation of some acute difficulties connected with the world raw material problem in general. As already mentioned, their principal aim would be to provide support and assistance in situations of over-production, which are particularly trying in those branches of production of primary commodities where the bulk of the production falls on a large number of small farmers or other independent producers or where large numbers of unskilled workers are likely to be affected. It is, however, foreseen that this type of agreement might also be used to assure the equitable distribution of a primary commodity in short supply.

In the case of petroleum and petroleum products, one is dealing with a veritable key commodity - one of the three pillars of the motive power economy of the modern world, indispensable for those branches of transport and communications which have been developed on the basis of the specific technical qualities and character of oil. The relative part played by oil in meeting the demand for energy has been constantly growing. It was recently stated by a trade journal of high reputation (Petroleum Press Service, April, 1949) that from 9.4 per cent of world energy consumption (oil, coal and hydro-electric power) in 1920, the proportion supplied by oil rose to 21.3 per cent in 1938, to 26.3 per cent in 1947, while the percentages of coal were 88.2, 73.8 and 68.1, respectively. According to all indications, oil will provide an even larger proportion of the world's energy supplies in the decades that lie ahead.

Measured in terms of international trade, petroleum products are now the most important item, both as regards volume and value. More than 150 million tons moved in world trade in 1948, about 10 per cent more than the total volume of international coal shipments and twice the volume of all food in international trade. The value of petroleum products in international trade in 1947 was almost three times as high as that of coal and more than the aggregate value of all wheat and cotton in international trade. These figures may well illustrate the overwhelming importance of oil as a world trade commodity.

One of the most characteristic features of the oil industry is its remarkably high degree of concentration of capital and enterprise. It has frequently been pointed out that a number of particular circumstances connected with the specific methods for exploitation and marketing of the comparatively new commodity are partly responsible for this concentration. The needs for capital investment were already exceedingly large at an early stage of the development of the industry,

as costs for financing the prospecting and drilling of wells have always been high and a completely new machinery had to be created for transport, refining, storing, distribution and export of petroleum. Initial costs rose at a later stage, when exploitation of oil deposits was extended to un-developed areas, where they had to cover also the construction of harbours, railways, pipe-lines, as well as dwellings and other services for those employed in the new oil-fields.

The total investments in the oil industry of the United States of America, U.S.A.'s largest single industry and by far the largest oil industry in the world, have been estimated at 15 billion dollars up to 1948, whereas the requirements for new investments of the world oil industry for the two years 1948-1949 are calculated at 2,700 million dollars, or almost two thirds of the total amount granted under the Marshall Aid scheme for European recovery during these years. It is evident that the huge needs for investments expressed by these figures could only be covered and the risks involved borne by large-scale enterprises. Still the profits, from the start of the pioneering period and for many decades after, were so strikingly high that large and small capitalists were always ready to subscribe for the shares of the oil companies. The rate of profits is still remarkably high. According to the trade journals, earnings in the past two years (1947-1948) have not only been at levels unparalleled in the history of the oil industry, but the net profits of certain large companies have been at a scale in excess of the largest corporation earnings hitherto recorded.

It would be superfluous to give but a few data illustrating the dimensions of the large oil combines dominating the international market. According to an official Report presented by a Swedish Government Committee in 1947, the total production of crude oil of the five large Standard Oil companies and of the Tidewater Oil and Sinclair Oil companies of the U.S.A. - which are alleged to form a more or less permanently consolidated combine or group - was 45 million tons or



20 per cent of the crude oil production of the U.S.A. for that year. The control of the American refinery industry by the Standard Oil group, according to the Report, was 40-50 per cent and its share of the exports of petroleum products from the U.S.A. 60-70 per cent. As regards the Royal Dutch Shell combine, when pointing out that it has been particularly anxious to acquire the control of crude oil producing regions, the Report states:

"Particularly during the first period of development of the combine this control brought strategic advantages which were utilised in battles of competition often extended over long periods of years. The combine controls, through ownership or lease, crude oil deposits in, i.e., India, the United States of America, Egypt, Iraq, Roumania, Venezuela, Colombia, Argentina, Chile, Uruguay, Ecuador, Guatemala, Australia and Canada. It owns pipe-lines, a larger tanker fleet than any other oil combine, as well as oil tanker stations and other establishments in ports and centres of communications in all parts of the world. Its resources of capital are very considerable. The Dutch mother company in 1943 had a share-capital of 505.12 million florins, whereas Shell Transport and Trading Company showed a share-capital of £40.95 million."

According to a recent statement (Petroleum Press Service, April, 1949), "it is also a fact that, while petroleum in major quantity is produced in some 20 countries, the international oil trade is conducted almost entirely in oil produced by U.S., British and British-Dutch concerns".

It is evident that a concentration of capital of the magnitude that is shown by the larger and largest oil companies implies a virtual monopoly. Effective competition on the part of smaller enterprises is,

for the oil companies' temptations to the temptation to make use of their concentrated monopolistic power to create unfair prices from the consumer are too great to be resisted for a considerable time. Official investigations concerned with the domestic market in the U.S.A. and other countries have drawn attention to the exceedingly high rate of return on net earnings of the oil industry, including combines and by the oil industry as a whole - for example, investigations under the U.S. anti-trust legislation in the first decades of the 1900s revealed that the net earnings of the Standard Oil Company for the ten years ending in 1916 averaged over 25 per cent on the Company's net assets - and it is stressed that it is not necessary to discuss at all whether the prices charged are reasonable or not as such a ratio of earnings to net capital. The Commissioner of Corporations in his Report on the Petroleum Industry, Part II (published in 1907) briefly summarised his judgment of the Company's price policy at that time in the words: "The domestic consumer has been compelled to pay an exorbitant tribute to the oil monopoly". It cannot be truthfully argued - as is frequently attempted - that accusations of this kind belong to the past and that the oil industry has long ago started to mend its ways in this respect. As already mentioned, it has recently been stated that the last two years' earnings have been "unparalleled in the history of the industry".

The oil companies may reply that under any circumstances a very large part of their current revenue and also of their earnings are being set aside to meet the continuous demands for new investments and that, by thus continuing to expand and improving the operations of the industry, they are doing a great service for humanity which has to be paid for in one way or another. Oil magnates like the late John D. Rockefeller

\*\*Oil companies as a whole have always provided a major part of their capital expenditures from internal funds derived from the cash generated out of their operations. In 1948 something like 90 per cent of the capital expenditure of 30 U.S. oil companies came from internal funds". (Petroleum News Service, April, 1949).

have also stressed the magnitude of the donations to educational, religious, humanitarian and other activities from the earnings of the oil industry. In this connection the remarks by an eminent economist on the activities of the Standard Oil Company should receive due attention:

"Truly, there are various grave and far-reaching problems connected with the question as to whether a monopoly in oil is to be permitted to continue as being on the whole a blessing to mankind, whether a few cents per gallon added to the price of the oil that lights the humbler worker's home or to the price of the gasoline that drives Ford and Packard and business truck is or is not to be here-after the stable foundation for world-wide business activities and for humanitarian succours as well".

It can scarcely be denied that, in these words, this serious problem has been admirably and weightily formulated by Professor Eliot Jones (in his book "The Trust Problem in the United States", New York, 1922, p. 91).

Turning from the domestic markets of oil-producing countries to the international market for petroleum and petroleum products it has already been stated, in this presentation, that international trade in these products is "almost entirely" in the hands of a limited number of companies, the activities of which are highly verticalised, extending from producing crude oil at home or in concession areas to retail marketing in almost all consumer markets of any importance. The vertical organisation of the combines implies that there is generally only a comparatively limited number of active enterprises in each consumer country; enterprises (affiliated companies to the large combines) which are at the same time importers and wholesalers with a considerable share of the retail market at their command, either directly through retailing organisations of their own, or indirectly through dependent private retailers tied up by means of generous rebates or credits. The road to

horizontal collaboration thus lying open, there should be no reason for surprise that in most countries these latent possibilities have also been utilised for monopolistic price-fixing, which has been particularly remarkable in periods of relative shortage. It may be sufficient to quote in this connection statements made by a few official investigations.

A report on motor fuel, prepared by a Sub-Committee appointed by the Standing Committee on the Investigation of Prices in Great Britain, dated November 23rd, 1920, was summarised as follows in the "Times":

"The Sub-Committee now state that the main position in regard to supplies, described in their first report, remains unaltered. Supplies are being outstripped by the demand, and the control is dangerously concentrated in the hands of two world-wide combines - the Standard Oil and Royal Dutch Shell groups - and the urgent necessity for action to meet the present crisis is still more evident and vital. These combinations also own the bulk of the distributive machinery, and that renders effective competition impossible. Their possession of tank steamers so obscures the position that an entirely false impression is created as to the actual cost of freight.

Nothing less than Governmental action can affect this alarming situation. As regards petroleum products, the British Government could not on its own initiative fix prices on the cost of production without incurring the danger of supplies being diverted. It could, however, control freight, and fix fair distribution and other charges in this country".

The Swedish Government Committee on Investigation of the Oil Market, which presented its report in 1947 (referred to above) stated:

"The by far largest section of production and distribution is controlled by international combines which have within the

framework of their organisation linked up both branches of activity. Combinations which thus extend over all stations of the market incur by their mere existence dangers of cartel policies. The oil combines are themselves carrying the bulk of the risks which are in other branches of a similar magnitude dispersed between a large number of individual enterprises at the different stages between producer and consumer. With the growth of combination, implying that the control of the market in the producer countries as well as international trade is being increasingly consolidated in a comparatively small number of enterprises, the technical possibilities of a joint control by means of cartel agreements of marketing prices and trade margins. Efforts to this end have been observed over a long period of years in all countries of any importance as consumer markets".

It has been a comparatively easy task for the combines, as experience from different periods shows, to combat by joint action sporadic efforts by commercial outsiders to gain a share of the market by price competition. This was apparent also during the latter half of the 1920s and the first half of the 1930s, when, in the European markets and elsewhere, the most urgent problem of the combines was to tackle the exertions of the U.S.S.R. petroleum industry to market its export surplus of petroleum and petroleum products. It is worth while noticing that in this situation the combines did not shrink in certain cases from using highly aggressive measures to assert their position in the market.

The existence of formal agreements between the leading combines with a view to asserting their power of controlling important consumer markets has been evidenced by official investigations, for example, the Swedish Government report already mentioned:

"In our capacity of an authority endowed with special rights of investigation we have devoted our attention to the

question of collaboration between the importers by the assistance of cartels and other associations in restraint of competition.

In the course of meetings with representatives of the importing firms and by submitting an extensive collection of documents to scrutiny, we have been able to state that collaboration between the importing firms has taken place in different respects, i.e., regarding the fixation of market quotas, prices, offers to customers, fixing of rebates, relations to Co-operative Organisations of consumers, transfer of customers, etc. In this conjunction it should be stated that this collaboration in its main parts is based on international agreements, one of which - with the title of "Draft Memorandum of Principles" with subjoined explanatory notes - has been reprinted in our report; this agreement affects the Standard, Shell and B.P. Combines. We have also said in our summarising commentary that the representatives of the companies affiliated have laid down erroneous and misleading statements of what has taken place in this respect before the Committee".

In other countries, e.g., Great Britain, such agreements restricting competition between the importers - companies affiliated to the combines - and uniformly regulating the relations to the customers have been made public from time to time; no attempt has been made to conceal their existence or, on the other hand, to defy the marketing order established by them.

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The powerful position of the big oil combines has been further reinforced by their acquisition of oil-bearing lands in all parts of the world. Relatively few oil companies dominate at present the exploitation of world oil resources. Testifying 4th June, 1947, before the United States Senate Foreign Relations Committee, Ralph Davies, special consultant to the Secretary of the Interior, among

other things said:

"Nationals of the United States and Great Britain hold, between them, 90 per cent of the world's oil resources, exclusive of Russia, and account for a similar percentage of the international trade in oil. Nationals of the two countries have very considerable joint holdings".

The history of foreign oil concessions extends far back, into the first decade of the present century. Some of their entanglements in world politics are well known. During the pioneering period the big American companies mainly based their monopolistic position on the domination of pipe-lines and other transport facilities, of the refining industry and of distribution. The cheapest way of getting supplies of crude oil would be to leave free space for cut-throat competition among a large number of small, individual drillers of oil. At long sight, the leading circles in the oil industry held the view that American oil deposits were, in practice inexhaustible. The first American exploits in oil production abroad had, in the main, much more to do with conveniently supplying foreign markets than with making up the deficiencies of American production. Also the acquisition of oil concessions by the British and Dutch combines were, during their first period, mainly dictated by the strategic commercial policies of the combines. After the first World War, and up to the present, the rush for concessions has been principally propelled by the perception of the part oil is playing in modern warfare and of the importance of the control of rich and, from a military strategic point of view, conveniently situated oil fields for military preparedness. National interests have, to an ever increasing extent, been married to commercial considerations, implying that in their pursuits in foreign concession areas the combines have

frequently been backed up by their Governments. In some cases Governments have been induced to acquire a stock interest in, or complete financial control of, oil combines. One aspect of this battle for foreign oil fields - characterised by conflicts and clashes, by armistices and alliances - is that it is bound to breed and retain a feeling of mutual suspicion and craving for power among nations which, in itself, is one of the latent dangerous incentives for war.

Another aspect of the problem of oil concessions - as of concessions in general - is the danger for direct conflicts between countries, caused by tensions between concessionaires and concessions-granting Governments. It has been pointed out that when natural resources of any kind are developed by foreign capital in the midst of a poor people it may easily appear to be greedy exploitation, or even robbery of the natural wealth of their country for the further enrichment of richer peoples. The wish of Governments to protect the investments of their nationals may lead to situations of undue political pressure, to humiliating situations for the country granting concessions and to actual disputes. The need for an international authority to adjudicate conflicts and disputes bound to arise from oil concessions, not only from the point of view of International Law but at the same time in view of the interests of the maintenance of peace and of world economic progress, stands out clearly in the light of happenings in the past. Adjudication of this kind is not without precedent, although a permanent framework for it was never set up. When in 1932 the Government of Iran cancelled the Anglo-Iranian Company's concession, the Company, with the support of the British Government, submitted the case to the League of Nations, which set up a special tribunal to review the matter, the Czechoslovakian statesman, the late



Dr. Edouard Benes, was called upon to act as a special adjudicator, and reconciliation between the parties was attained by drawing up a new concession agreement, stipulating, i.e., that instead of a share of the profits of the exploiting Company of 16 per cent the Iranian Government should receive a flat royalty of 4 shillings per ton. In the case of the nationalisation of the oil properties in Mexico a proposal for arbitration made by the American, British and Dutch Governments, on the other side, was rejected by the Mexican Government, which insisted on its rights in the exercise of its sovereign power to legislate on natural resources within its jurisdiction. Later, however, an agreement regarding compensation for the properties nationalized was reached. In the Colombian petroleum law the production of oil is expressly declared to be "of public interest" and subject to expropriation at any time.

It is quite clear that grave dangers for the maintenance of friendly and peaceful relations between the nations are inherent in the principles and practice of the present system of oil concessions. Suspicion and distrust are bound to arise on the part of the countries granting the concessions; the concessionaires are bound to be haunted by the risks of impending expropriation or nationalisation. The countries granting concessions will evidently strive to attain the largest benefits possible for the National Exchequer when concluding the concession agreements; the concessionaires, on their part, will be tempted to extract maximum profits from their operations in the shortest time possible to cover the risks involved in the huge capital outlay for effective exploitation. With regard to third parties - most consumer countries which in practice are excluded from sharing the benefits of the oil riches in undeveloped areas otherwise than through the intermediation of the companies in possession of the concessions - their reaction will be a growing feeling of dissatisfaction and

actual grievances, as more and more of the oil territories of the world not yet occupied by the mighty (by far the smaller part) are brought under their domination. This reaction is bound to be particularly intense in the case of enormous bulk concessions of a recent type, as, for instance, in some countries in the Middle East, where exclusive rights for exploitation have been acquired by a few companies extending over practically the whole oil-bearing area available. In Saudi Arabia the long-term concessions (running over 50-75 years) granted to the American companies thus comprise a land area equal to 450,000 square miles and alleged to contain twice the proved reserves of the entire United States. The same applies, in principle, to the concessions in Iraq and Iran, unequalled in size, except by the Arabian concessions.

There should be no dissension from the opinion that the situation obtaining at present in the world of oil concessions implies serious threats to commercial stability and to peace. It is true that, over a long period of years, world production of petroleum has increased - although during most of that time demand seems to have exceeded supply - with the opening up of new deposits in different parts of the world by the assistance of the system of concessions as hitherto practised. On the other hand, it seems to be an obvious fact that the exploitation of the world oil resources might have been far more successful had it been undertaken in the spirit of planned and concerted international efforts.

It is evident that the system of industrial concessions granted by the Government of one country to nationals of another cannot be abolished at a single stroke; and it is by no means the intention of the I.C.A. to suggest that a study of the problem by the United Nations Organisation should be directed on such lines. While fairly general agreement might be found on the view that a new system of concerted international economic and technical assistance

should be developed to allow the under-developed countries of the world to utilise their natural resources and potentialities for industrial and general economic development by their own efforts and without the limitations on their sovereignty necessarily imposed in practice by the concession system, it should be acknowledged at the same time that this system, as a legalised international institution, might entail advantages to many countries in this category when embarking upon or speeding up their industrialisation. What is needed, and particularly in the field of oil concessions, is the general acceptance of some guiding principles for the drawing up and application of concession contracts so as to prevent the concessions from developing into pillars for autocratic international monopolies detrimental to free international trade and to the legitimate consumer interests, and the concessionaires from assuming super-Governmental powers dangerous to world peace. A system should be found which will allow small units to engage in the opening up of new oil-bearing areas at the side of the large units, thus implementing the principle that all nations should enjoy access on competitive and non-discriminatory terms to the petroleum resources of the world. Where exclusive rights for exploitation of the oil-fields of a country have been granted, the concessionaires should be bound by an international convention to sell their products on equal terms to all buyers without discrimination. Every effort should be made, by international agreement, to ensure to the countries where the deposits are situated a just and fair revenue from the natural wealth in question, as well as corresponding security to the concessionaires, without vesting in them unnecessary powers.

If a solution is not found to these problems, there is every danger that the development of the last decades will continue,

causing still more serious dislocations in the general supply of petroleum and its products and growing obstructions to an increase of the world oil production, which will keep pace with the expanding demand. The oil companies will strive to tighten their grip on the world's actual production and potential reserves to reinforce the foundations of their monopoly; more and more countries in geographical possession of these reserves will nationalise their resources, thereby exposing themselves to the temptation to utilise them - in the monopolistic ways indicated by the big commercial oil combines - to the benefit of their National Exchequers; and more and more importing countries will contemplate the establishment of national import monopolies to try to evade, in some way or other, the exorbitant private taxation imposed by the international combines.

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The first suggestion towards a solution of the international oil problem by asking for a special study of the problem in all its implications by an international organisation of Governments, with a view to finding ways and means by international action to counteract the restrictive effects on world oil production of the activities of the world oil monopoly, was probably the proposal submitted in 1920 to the British Government by the special Sub-Committee of the Standing Committee on the Investigation of Prices already mentioned in this document. In their second White Paper on motor fuel, dated 23rd November, 1920, the Sub-Committee reported that after very long and careful consideration they had come to the conclusion that the only two ways of overcoming existing difficulties were:

1. Combined action among the consuming countries of the world through the Economic Section of the League of Nations.

2. The production of substitutes and the adoption of alternative sources of power to such an extent that the supply will reduce prices to a reasonable level. It is essential that the production and distribution of substitutes should not be controlled by monopolists.

So far as substitutes for motor fuel came into the picture, the subsequent development has shown that the oil combines were fully aware of this, although remote, menace to their monopoly. When Dr. Friedrich Bergins had developed his invention in the field of the conversion of coal, coal tars and heavy petroleum residues to motor fuel and other useful oils, and the utilisation of this invention on an industrial scale had been started by the German Dye Trust, the Standard Oil Company of New Jersey (in 1929) acquired the American rights to the Bergins patents and proceeded to develop them further, also to apply them to the hydro-genation of petroleum oils. The production of petroleum from coal was developed in large-scale industrial enterprises in Germany during the last war and no doubt played an important part in German warfare. Yet, the production of substitutes for petroleum, generally taken, on a scale large enough to offer effective competition to crude oil and its products still belongs to the future.

When the International Co-operative Alliance presented to the Fifth Session of the Economic and Social Council in 1947 its suggestion of a special study to be made on the problem of World Oil Resources by an appropriate agency of the United Nations Organisation, it was acting under the influence of a similar world shortage atmosphere to that which existed in 1920, when the British Committee submitted its proposals to the British Government. The emergency situation in 1947 would, in particular, as it seems, have justified speedy action with a view to embarking upon a study of the problem of oil resources from an international angle. The extreme shortage on the oil market prevailing in 1947 seems to have been at

least partly relieved in 1948 and 1949, the crude oil quotations having dropped, while the stocks of petroleum products in the United States showed a remarkable increase in the winter 1948-49. The need to curtail oil exports from the largest exporting country, the United States, has ceased and the demands from the European and other markets for some products has shown a spectacular contraction. This development, partly due to the shortage of dollars in Europe and elsewhere, partly to the increased European coal production and the limitation of non-essential uses of petroleum products in many countries by rationing and similar methods, should, however, in no way be interpreted as a sign that free competition is going to assume the sway in the world oil market. The problem of the world oil resources is a long-term one, and the shifting, short-term interplay of temporary factors and forces influencing the markets ought to be kept apart from the permanent feature of the world situation, which is one of tightening overall monopolistic influences.

The reason why the International Co-operative Movement, through the I.C.A., is now for the second time raising the question of a study of the problem of the world oil resources with a view to curbing these influences is, in the first place, because the Co-operative Movement has among its chief aims the defence of the consumers' interests as a whole. The question of the fixation of consumer prices of petroleum products is a question that intimately concerns the vital interests of millions and millions of farmers, fishermen, car and truck owners all over the world. The practical conclusions to be drawn from the commercial and productive activities of the Co-operative Organisations in other fields are that they have, during the last decades, established their special organisations on the co-operative pattern in almost all continents.

Practical experiences over a long period of years have produced full evidence of the fact that co-operative enterprise, granted reasonable freedom to develop its activities on a competitive basis, is the most effective counteractive against cartels and other monopolistic organisations abusing their power over the market. Where, in an allegedly competitive economy, new enterprises entering a branch of a monopolistic or semi-monopolistic character, are, as a rule, easily ousted by the holders of monopolistic powers, Consumers' Co-operative Organisations are able to hold their own by virtue of their specific character. As enterprises belonging to the consumers and integrally controlled by them, established to defend their interests with regard to the lowest possible market prices, they would on no account become a party to agreements with cartels or combines to restrict production or keep up prices. Against national monopolistic combines and cartels, which have been misusing their powers, outstanding successes have been attained by National Co-operative Organisations which, for example, by establishing competitive manufacturing or processing enterprises have brought down prices on the domestic market. The results of these interventions have, most frequently, been spectacular increases of the production of the commodity or article in question, and industry generally has benefitted as a consequence of the additional purchasing power released by the price cuts. The Co-operative Movement has thus been able to render outstanding services to the national economy and has, to an ever-increasing extent, proved its value as one of the most effective guardians of the public interest. During the past 30 to 40 years there have been many such instances in most countries where the Co-operative Movement has attained the expansion and strength required - in Sweden, Denmark, Great Britain and other countries.

Similar methods were also followed by the consumers of petroleum products, either by organising on a vocational basis or by making use of the general Consumers' Co-operative Organisations. Co-operative Societies for the joint purchasing of petrol and other oils have been in existence for many decades in Great Britain, Sweden, Norway and other countries in Europe, founded by taxi and truck owners, fishermen and other commercial users of petroleum products. From the beginning of the 1920s, farmers in the U.S.A. and Canada, in the desire to obtain vocational farm supplies at lower prices, have formed Co-operative Purchasing Societies, which, among other things, make joint purchases of petrol, lubricating oils and other petroleum products. The activities of these Purchasing Societies first took the form of concluding delivery contracts with private oil companies, with a view to ensuring the highest possible rebates by means of their steadily growing purchasing volume. As the movement spread rapidly in the farming areas, the Societies federated and formed Wholesales, which gradually took up the refining and production of crude oil. Already before the last war these Wholesales were operating oil-wells, refineries and pipe-lines on a comparatively large scale, largely financing their expansion out of the profits made from refining and still being able to sell their products at considerably lower prices than those charged by private companies. The results of the co-operatively organised trade in petrol and other oils in the United States has, on the whole, become a spectacular success and one of growing importance as a regulator of the market price of petroleum in the rural areas, such as was never dreamed of when the first Societies started their activities. A few years ago there were in the United States 2,000 local Co-operative Oil Societies, owning and operating 750 oil-wells and 1,600 miles of pipe-lines, while in the



typically agricultural areas 20 per cent of the demand for petrol and other oils of the farming industry was satisfied by the Co-operative Oil Organisations. The progress has continued even more rapidly during the last few years. In 1948 the Consumers' Co-operative Association, which carries on its activities in nine States and is the largest Wholesale of Co-operative Oil Societies, increased its deliveries to members by 35 per cent as regards refined fuels and by 24 per cent as regards lubricating oils.

Mainly on the initiative of the American Co-operative Oil Organisations and through the promotion of the project by the I.C.A., an agency for co-ordinating the activities of the Co-operative Oil Organisations in the different countries was established in 1947. The first suggestions on these lines, made as early as 1937, were conceived in the light that an effective counteractive against powerful international combinations in general - with huge resources of capital at their disposal and, for the control of raw material resources in some branches, for example oil, allied with State-owned or State-controlled enterprises, or backed up by Governments - cannot, as a rule, operate with any prospects of success if pursued by National Organisations alone, but demanded concerted co-operative action on the widest possible scale. The agency created for this purpose, the International Co-operative Petroleum Association (I.C.P.A.) is incorporated in the United States and, in the main, is carrying on its activities on a brokerage basis. Its programme for future extension, however, is necessarily very ambitious if the Organisation is to have serious prospects of outbalancing the monopolistic powers of the leading international oil combines. The development plan of the I.C.P.A. comprises import and export of oils, ownership and operation of refineries, pipe-lines and tankers, purchase or lease of oil

properties in different parts of the world, and opening up of oil-bearing lands in undeveloped areas at the side of private oil companies. Within the framework of the I.C.P.A., organisations in producer and consumer countries are already able to collaborate without competing with one another for profits. The American Co-operative Oil Organisations, previously described, own and operate oil-fields and refineries, turning out sales products like petrol and other motor fuels, lubricates and fuel oil. The European Organisations, on the other hand, are setting up their own important distribution apparatus. Five Swedish Wholesales, for instance, representing farmers, fishermen, commercial users of oil and general consumer interests, federated into a special import Organisation, own or have at their disposal water terminals, tankers, storage and processing plants, as well as a wide network of tank stations and garages. The truly international character of the I.C.P.A. is illustrated by the fact that Organisations in the following countries are already members or have declared their willingness to participate as soon as possible: Argentina, Australia, Belgium, Canada, China, Cuba, Denmark, Egypt, Finland, France, Great Britain, Greece, Iceland, Israel, Italy, Jamaica, the Netherlands, Norway, Siam, Sweden, Switzerland, South Africa, Tunisia and the United States. In the beginning of 1949 26 Co-operative Organisations in 20 countries were in various stages of qualifying for membership.

The I.C.P.A. has thus set out to be the only commercial enterprise in the field of oil distribution and production working for lower prices to consumers in every country. It is not yet operating a refinery of its own (the American co-operative refineries are owned and operated by the National Organisations) and has no actual complaint to make of being cut off from supplies of crude

oil from the Middle East on behalf of its member Organizations. But it is evident that when it embarks upon refining on a scale of some magnitude its possibilities of carrying on adequate production will be determined by its prospects of acquiring oil deposits of its own in geographically suitable areas, or of concluding long-term contracts for deliveries with the combines owning and operating the deposits on non-discriminatory terms. It may succeed in persuading the combines of their duty having regard to the legitimate interests of consumers in all parts of the world, or it may fail in its persuasions. The fact remains that, as matters stand at present, there can be no appeal against the decisions in this respect which may ultimately be taken by the combines. The I.C.P.A. may try to go out to new oil-bearing areas of the world and apply for oil leases - and find itself locked out by the insurmountable fence of bulk concessions acquired by the combines in almost all of them. In this case also there can be no appeal. There is, at present, no International Court to which an appeal could be made.

The I.C.A., when stating these simple facts, does not plead any commercial cause on its own behalf or on that of its Auxiliary Organization, the I.C.P.A. The position of the I.C.P.A. has been stated comprehensively as an example of the present highly unsatisfactory situation in the world of oil, namely, that smaller units when seeking to participate in the exploitation of world oil resources are altogether at the mercy of the big combines, particularly as regards the immensely rich new oil-bearing areas, and that very narrow limitations are set to the possibilities of a really effective competition with the combines. Co-operative Oil Organizations in some countries, as shown above, have been able to develop their activities and are still doing so, but only because they are working under less unfavourable conditions with regard to access to the raw material in their spheres of activity than in other

areas which seem to be of decisive importance for the future oil supplies of the world. As their progress goes on they will no doubt encounter growing resistance and find themselves engaged in a bitter fight for their very existence, unless something is done by way of international governmental concerted action to establish respect for the public interest and the rights of the consumers in the world of the oil combines.

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The Resolution adopted by the I.C.A. Congress at Prague, September, 1948, reads as follows:

"The 17th Congress of the International Co-operative Alliance stresses the urgent necessity of an effective implementation of the principle of the Atlantic Charter of free and equal access to the raw material resources of the world for the maintenance of a lasting peace:

Further, that these raw material resources to an ever-increasing extent are being exploited by monopolistic combinations, cartels and trusts, active in the national or international field, with a view to deriving excessive profit by restricting production and establishing domination of the markets of distribution;

Also that this development in the case of certain important raw materials, as petroleum, has had the effect that, in spite of abundant potential resources, the supply available during periods of particularly heavy demand cannot satisfy the growing needs with the result that, in the present situation, a world shortage of petroleum has arisen;

The Congress, therefore, emphasises the urgency that this development be submitted for a study to a suitable organ or specialised agency within the framework of the United Nations Organization to serve as a basis for measures to be taken with a view to safeguarding, by international agreement, the expansion

of production and free access to petroleum, also to providing for the consumers all reasonable facilities to cover their needs through organisations of their own."

In presenting this Resolution to the Ninth Session of the Economic and Social Council, the International Co-operative Alliance is repeating its suggestion to the Fifth Session of the Council that the question of World Oil Resources be submitted to a close investigation by a suitable organ or agency within the framework of the economic and social activities of the United Nations Organization, with a view to elucidating fully the possibilities of establishing, by an international convention or by any other means, some agreement on general principles to implement Article 7 of the Atlantic Declaration on free and equal access to the riches of the earth, with special regard to World Oil Resources. At its Fifth Session the Council resolved only to take note of the Resolution presented by the I.C.A., while referring to the desirability of raising the question anew on a later occasion. In the opinion of the I.C.A., the development in the field of oil production and international trade in oil during the past two years has fully demonstrated not only the desirability but the urgent necessity of international concerted action by Governments. In the view of the I.C.A., a study on World Oil Resources from the point of departure mentioned above would, moreover, be highly valuable in contributing to the clarification of the problem of raw materials in its entirety in the spirit of the Atlantic Declaration, which forms the very foundations of important parts of the Charter of the United Nations Organization.

The I.C.A. does not suggest any particular organ or agency to carry out the proposed study, nor does it venture to try to define the scope of the study. In the debates on the question at the Fifth Session of the Council the suggestion was made as a preparatory step

that some organ of the Council should be commissioned to define the scope and general outlines of the study to be made before a decision was taken as to which agency should finally be asked to undertake the investigations and submit the report. In the view of the I.C.A., this procedure might have certain advantages. It has noted that the Charter of the International Trade Organization contains certain provisions (Chapter V, Article 49), according to which the Organization is authorised "to conduct studies either on its own initiative or at the request of any Member or of any organ of the United Nations or of any other inter-governmental organisation, relating to general aspects of restrictive business practices affecting international trade." These provisions might have afforded an opportunity to find a competent organ which might have been entrusted with the task of investigation if the machinery of the I.T.O. had been completely set up. It is not known to the I.C.A. whether the Interim Commission of the I.T.O. now in function has the resources of carrying out an investigation on the general lines suggested in this presentation, but under any circumstances the limitations indicated by the qualification "affecting international trade" might prevent the problem being dealt with in all its implications by an organ of the I.T.O. The problem of World Oil Resources does not only affect international trade in the more technical sense of the word; it also affects world production, as well as the most vital problem of the United Nations, namely, the promotion of friendly relations between nations and the maintenance of peace.

In the presentation to the Fifth Session of the Council of its suggestion for a study on the Oil Problem - and in order to give expression to its willingness, as a Consultative Non-Governmental Organization, to offer its co-operation to the fullest extent to the Council - the I.C.A. had formulated a series of the general principles of a convention on World Oil Resources to serve as a basis of discussion. While declaring

anew its sincere desire to make any contribution within its power to the solution of the task before the Council, and in the spirit of this renewed presentation, the I.C.A. restates these formulations of the main principles which would underlie an International Oil Convention, the carrying out of which would be the responsibility of the organ charged with its administration.

1. To see that oil concessionaires operate in the public interest;
2. To plan and enforce oil conservation measures;
3. To provide equal access to oil stocks in order to assure that all nations, large and small, can buy oil on an equal footing;
4. To assure that all types of purchasers - Governments, Co-operative Organizations or private corporations - can buy oil on a basis of equality;
5. To prohibit price discrimination in favour of particular purchasers and to assure that all purchasers can buy oil in adequate quantities;
6. To serve as a tribunal to adjudicate any oil disputes that might arise (complaints might be brought by member Governments, oil-field franchise or lease-holders, or purchasers. At present no tribunal exists to which such disputes may be brought for settlement).

The I.C.A. is well aware of the extreme complexity and the wide ramifications of the problem herewith presented to the United Nations Organization, but no other organization than an organization of Governments can, however, proceed to solve it with reasonable prospects of success; and no other organization than the United Nations has the authority and the resources with regard to economic and technical experts to approach it in all its issues. The task of safeguarding the fair distribution of the world's raw material from the view-point of consumers' needs in all countries, thereby contributing to curbing the dangerous misuse of monopolistic power by super-governmental private combinations and to defeating narrow-minded national egotism, is also a task of peace. The 100 million families in more than 30 countries gathered in the I.C.A.

set their hopes upon the United Nations Organization that the great innovating idea of Article 4 of the Atlantic Declaration will not remain empty words. The epoch-making promises for mankind embodied in the Charter of the United Nations must, in all sections of its activities, be fulfilled by keen and courageous action; otherwise the way to the decline into utter powerlessness of this new World Organization will be accepted as an indisputable fact by the broad masses of the world. It is the sincere conviction of the World Co-operative Movement that the high hopes placed in the United Nations in this particular matter now presented to the Economic and Social Council will not be frustrated.