COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT BY THE COMMISSION
ON THE BEHAVIOUR OF THE
OIL COMPANIES IN THE COMMUNITY
DURING THE PERIOD FROM
OCTOBER 1973 TO MARCH 1974

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INTRODUCTION

On 21st December 1973 the Commission issued a Press Statement [1] the text of which was as follows :

" Investigations by the Commission in the oil sector

In the present circumstances of the oil products market, the Commission is disturbed about the supply position of oil products distributing firms independent of the integrated groups which have their own refining facilities. These independent firms often encounter grave supply difficulties in connection with the common market refineries and some are in an alarming situation.

The Commission considers that arrangements should be made to ensure that the present circumstances do not give rise to the elimination of independent trading or its absorption by the big companies.

Refusal by the big companies to supply the independent distributors in an equitable manner may give rise to an application of the competition rules of the Treaty and in particular Article 86 thereof.

The same holds good for practices which consist in the big companies applying to their trading partners different conditions for the provision of equivalent services or subjecting the signature of contracts to the acceptance by their partners of extra services.

The Commission has decided to make the requisite investigations with the firms ".

The circumstances to which the Commission referred were those which resulted from the events following the war between Israel and Arab countries of 6th to 16th October, 1973 and which completely disrupted the international oil market.

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1) Information for Press (IP 226/73 of 21.12.1973)

This report contains the results of the enquiry undertaken by the Commission and provides at the same time information requested by the European Parliament.

In no way does the report replace any procedures which the Commission has commenced, or may commence,in application of the rules of competition of the Treaty, after having pursued enquiries into the behaviour of companies in the market for certain oil products.

PART I

PART I

THE ENQUIRY BY THE COMMISSION

A. SCOPE AND OBJECTS OF THE ENQUIRY

The Commission's intention to commence investigations was widely reported particularly since public interest in the oil companies had, since before the crisis, been whetted by several enquiries pursued in other countries. Particular mention may be made of the hearings before a Senate Committee in the United States on the market performance and competition in the petroleum industry, the enquiry by a French parliamentary committee into oil companies operating in France and enquiries undertaken by the Swiss Commission on Cartels. However, the only enquiry which was concerned directly with events during the oil crisis was that undertaken in Germany by the Bundeskartellamt, which conducted public hearings on the activities of oil companies in Germany.

Even before December 1973 however, the Commission had observed in the Second Report on Competition Policy (1) when dealing with the price trends of crude oil and petroleum products and the competitive situation in that market, that it was watching carefully a very unstable situation. In the Third Report on Competition Policy (2), the Commission referred to its decision to open the necessary investigations into producer companies and dealers in the oil industry and expressed its concern that the price trends would give rise to circumstances in which anti-competitive practices might develop. It mentioned particularly the danger of the application by member states of national regulations concerning prices of oil products. Although effective in slowing down the tendency of prices for such products to rise, these regulations might nevertheless open up possibilities of some national markets becoming more profitable, thus making it attractive for operators of refining capacity to treat these markets advantageously at the expense of controlled markets. The Commission drew attention to the difficulties facing independent dealers and stressed that

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(1) Second Report on Competition Policy : April 1973; Sec 62.
(2) Third Report on Competition Policy : May 1974; Sec. 2.

it would be able, in particular, to apply Articles 85 and 86 of the Treaty of Rome, in any cases of distortion of competition or anticompetitive practices.

The aims of the general series of investigations initiated by the Commission in December 1973 were to allow it to obtain data and other information concerning a number of companies within the oil industry which would enable the Commission to determine whether the comportment of companies was compatible or not with the provisions of Article 85 or 86 of the Treaty of Rome. Because of the special circumstances of, and its concern for the position of independent dealers, the Commission ensured that such firms were included in the planning and conducting of the enquiries.

So far as Article 85 is concerned, the enquiries were to seek evidence of the existence of agreements between undertakings, decisions by associations of undertakings and concerted practices which might affect, or had affected, trade between member states and which had as their object or effect, the prevention, restriction or distortion of competition within the common market during the period of the crisis.
Particularly in mind was the possible existence of agreements or concerted practices between oil companies concerning the sharing of markets or the fixing of prices or other conditions for transactions concluded by the parties concerned.

The enquiries by the Commission were also aimed at examining the compatibility of the comportment of oil companies with Article 86 of the Treaty of Rome which forbids abuses of a dominant position. The general reliance of the Community on oil products for the supply of a considerable proportion of its energy needs contributed to the view that during the oil crisis, the position of oil companies was reinforced in respect of individual customers, for example, the smaller independent distributors, who had been accustomed to relying on one major oil company for their supplies, or in respect of a national market or other significant part of the common market whose supplies of oil products were largely dependent upon a few of the major oil companies. It was therefore possible to conceive the existence of dominant positions occupied by oil companies collectively or individually in specific markets.

The Commission was concerned at the possibility that major oil companies which occupied a dominant position in respect of a customer might have either restricted their deliveries or imposed prices for continued supplies of oil products which were unfair, even taking into account the spiralling costs of crude oil, or might have been able to make the conclusion of supply contracts subject to the acceptance by the customer of supplementary obligations which were unconnected with the object of the contracts. Where oil companies were likely to occupy a dominant position collectively, the Commission was anxious to ensure that markets, production or prices had not been manipulated in a way which would prejudice the interests of consumers.

The various possibilities of abuse of a dominant position arising out of the structure and economics of the oil markets during the crisis period were given special attention by the Commission. The first one concerned the survival of the independent distributors. In most cases, these independent distributors obtained, and indeed relied on, supplies from major oil companies who themselves operated distribution or retail networks in competition with the independents. It was therefore possible that because of shortage of supplies these major companies might have restricted supplies to independent companies, either by direct refusal to supply or by the imposition of purchase prices which, because of the maximum retail prices imposed by the governments of the countries concerned, did not allow a viable margin for the independents. Although the oil companies might have been able to act in this way to ensure the maintenance of adequate supplies to their own networks, this would have been done at the expense of independent enterprises whose continued existence was threatened.

Another aspect which drew the attention of the Commission was the fact that during the crisis, certain member states had introduced various forms of price control, whilst others, such as Germany, had not. This meant that the possibility of higher profit margins from sales in a member state without maximum price control might have attracted oil companies (and, in this case, perhaps not only the major oil companies) to direct supplies to such markets to the detriment of other member states.

B. ORGANISATION OF THE ENQUIRY

a) Choice of countries and companies

The Commission decided to commence its enquiries in those countries which had excess refining capacity and which accordingly were sources of supply to countries with insufficient refining capacity. In the years 1972 and 1973, the Netherlands, Italy and to a lesser extent Belgium and France showed positive export balances. Exports from the Netherlands for example went mainly to other countries of the Community and especially to Germany. According to the energy statistics in Eurostat 2/75*, pages 61 and 63, Germany imported in 1973 about 30% of its domestic consumption of oil products and the quantity involved was equivalent to the total exports of such products from the Netherlands.

In the Netherlands besides member companies of the large international groups such as EXXON, SHELL, B.P. and CHEVRON (which belongs to the group of enterprises of the Standard Oil Company of California), independent oil companies who were leading exporters of light fuel oil to Germany were included in the investigations.

In Belgium the investigations covered two refineries : Albatros and the Société Industrielle Belge des Pétroles (SIBP), both of which undertook process refining of crude oil made available to them by other companies, who were either shareholders of these refineries or hirers of refining capacity. Other Belgian companies were investigated, among them Elf (Belgique).

In Italy and France besides the large international companies, enquiries were undertaken at the national companies Azienda Generale Italiana Petroli (AGIP) and Compagnie Française des Pétroles (C.F.P.) whose operations, although international, are less so than those of the former companies.
Esso Italiana and two independent Italian refineries were also investigated.

(*) Eurostat = Statistical Office of the Communities : Luxembourg

In France, besides C.F.P., the Société Française des Pétroles B.P. and several independent companies were included in the investigations.

In the United Kingdom, B.P. Trading Ltd. which handles the international commercial interests of the B.P. Group was investigated.

Investigations were not pursued at that time in Germany in view of the enquiries and public hearings which were then being carried out by the Bundeskartellamt into "suspicions of abusive advantage of dominant positions in prices sought for petrol, diesel fuel and light fuel oil".

The main oil companies operating in Germany were invited to these hearings which took place in the period 22 March to 4 April 1974. In view of the special situation concerning the market for oil products in Germany and considering particularly the shortage of refinery capacity in that country, the Commission estimated that their appraisal of the position in Germany should be based principally on information obtained in other member states where oil products were produced for export to Germany. Information in respect of refining operations carried out in Germany was supplied by the companies or groups who operated those refineries.

The investigations, and the discussions which took place with the companies were generally conducted in an atmosphere of cooperation, and considerable efforts were made to produce promptly the various documents and information requested by the Commission's investigators.

b) Choice of period

The enquiries were concerned with the activities of the companies from October 1972.

The first investigations took place in January 1974 at which time the average F.O.B. price for crude oil from the Persian Gulf had reached its highest point.

The period from 1st October 1973 to 31st March 1974 was more precisely analysed by comparison with the corresponding period of the previous year.

c) Choice of products

The following products were covered by the enquiries :

- crude oil
- petrol - normal
- petrol - super
- naphtha
- middle distillates : diesel oil, gas-oil, light fuel oils.
- residual fuel oils.

The enquiry was extended to cover aviation jet fuel by the supplementary questionnaire referred to below. This enquiry therefore covered the principal mineral oil products (other than those in gaseous form), which constitute a significant percentage of the products derived per tonne of crude oil in an average refinery in Europe.

The information received in the course of the enquiry suggested the need to focus further attention on some particular aspects of the activities of the oil companies. It was decided that this supplementary information should be requested from companies under the provisions of Article 11 of Regulation 17.

The questionnaire was aimed at covering the movements of crude oil and oil products between refineries and affiliates of each company on the one hand and, on the other, between these and third companies. It contained a section on sales prices practised by that company on the German market. This information was obtained from companies established within the Community as well as from parent companies in third countries.

This is the first time that an enquiry of this magnitude has been undertaken by the Commission in respect of oil companies in connection with the rules of competition of the Treaty of Rome. It is also the first time that a report has been published following such an enquiry. The Commission considered that it would be useful to recall some background information concerning the European oil industry and accordingly one part of the report examines the structure and organization of the oil industry in the

Community and outlines the events leading up to the oil crisis.

PART II

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PART II

A. STRUCTURE OF THE OIL INDUSTRY IN EUROPE

1. Classification of oil companies

The oil industry in Europe is made up of oil companies of varying sizes whose structures are often very different but which can be grouped into various categories.

Traditionally the oil industry is divided into two parts: the seven international companies - often referred to as the seven majors - with their subsidiary companies throughout the world, on the one part, and, on the other part, those companies which are not attached to these and which might therefore be described generally as independents.

However this division is arbitrary and no longer reflects the present structure of the oil industry, especially in Europe.

In a communication to the Council dated 18 December 1968, entitled "The First Guidelines for a Community Energy Policy" from the Commission, the Commission attempted to develop a classification which might correspond more closely with the actual situation of the oil industry in Europe. Under this classification, the enterprises which operate on the European oil market fall into three principal categories as follows :

(a) The large international integrated companies operating worldwide. In this category are placed seven fully integrated companies : five American - Standard Oil Company of New Jersey (Esso or Exxon), Texaco Inc. (Texaco), Gulf Oil Corporation (Gulf), Standard Oil Company of California (Chevron) and Mobil Oil Corporation (Mobil) - and two European : Royal Dutch Shell (Shell) and British Petroleum Company (B.P.)

(b) The integrated oil companies of which the activities are to a greater or lesser degree concentrated in one or several member states. There are in this category two French companies : Compagnie Française des Pétroles (CFP/Total) which is often included among the large international companies and the Enterprise de Recherches et d'Activités Pétrolières (Elf/ERAP); one Italian company : Ente Nazionale Idrocarburi (ENI); one German company : Veba Aktiengesell-schaft and one Belgian company : Petrofina S.A. (Fina).

With the exception of the last-named, all these companies belong totally or partly to the corresponding member state.

(c) Smaller companies which import and distribute oil products and of which some have their own refineries . Oil companies of this type may be further divided into three groups from the point of view of size and the extent of their operations.

In the first group one could place certain international companies most of which are of United States origin and which operate refineries and distribution networks, such as the Marathon Oil Company (U.S.), CONOCO (U.S.), the Burmah Oil Company Ltd. (U.K.) and Philips Petroleum Company (U.S.).

Besides these international companies one finds European companies whose activities are largely limited to one country in the EEC. In this group is Anonima Petroli Italiana - API (Italy) which has a refinery and distribution network.

The third group might include a very large number of small or medium-sized oil companies which specialise in the wholesale or retail distribution of oil products and which have no refineries (Commission of the European Communities : " Small and medium-sized oil companies in the European Communities ", XVII/415/74 - 19 December, 1974).

In each country of the EEC, about ten of the large oil companies from the above three categories (a) , (b) and (c) are active, each possessing one or more refineries and/or a dense distribution network. Alongside these larger companies the majority of the small or medium-sized oil companies are concentrated at the level of distribution. Their importance is usually regional or even more local. Altogether, however, they hold about 20 % of the market for oil products in the ECC (See Part V).

What has just been said points to the heterogeneous nature of the structure of the oil companies operating on the market in the EEC. This heterogeneity is primarily a function of the extent to which the various oil companies have access to supplies of crude oil but also stems from the degree of integration which is extensive in certain undertakings but minimal in others.

The following table (Table 1) shows the principal financial and operational statistics in respect of the companies in the first category of enterprise mentioned above :

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Annual results of the large international integrated companies

Table 1

Name of Oil Group		Net income (a)	Amount distributed	Amount retained	Depreciation	Capital expenditure (b)	Long term debt (c)	Value of fixed assets (c)	Return on shares (d)	Refining runs (e)	Product sales	Natural Gas sales (f)
		Million $ - %								Million t. - %		Million m³ %
ESSO (EXXON)	1968	1.277	785	492	849	[illegible]	2.083	10.077	13 %	231	[illegible]	53.988
	1971	1.462	851	611	•	[illegible]	2.679	11.930	14 %	258	279	86.925
	1972	1.532	852	680	1.060	1.984	2.617	12.645	13 %	257	285	95.040
	1973	2.443	952	1.491	1.136	2.235	2.671	13.462	19 %	283	309	99.565
	1974	3.142	1.119	2.023	1.265	2.910	3.052	14.837	21 %	259	275	100.332
% increase	1971/1972	5 %	0	11 %	•	10 %	- 2 %	6 %		0	2 %	9 %
	1972/1973	59 %	12 %	119 %	7 %	13 %	2 %	6 %		12 %	8 %	5 %
	1973/1974	29 %	18 %	36 %	11 %	30 %	14 %	10 %		- 10 %	- 11 %	1 %
Chevron (Socal)	1968	452	218	234	314	651	604	3.491	11 %	73	100	[illegible]
	1971	511	237	274	•	722	1.054	4.400	11 %	95	102	17.004
	1972	547	246	301	377	597	1.032	4.532	11 %	105	108	17.034
	1973	844	263	581	406	739	1.064	4.831	15 %	112	113	16.097
	1974	970	327	543	510	[illegible]	1.015	5.329	16 %	107	109	15.322
% increase	1971/1972	7 %	4 %	10 %	•	- 17 %	- 2 %	3 %		11 %	6 %	0
	1972/1973	54 %	7 %	93 %	8 %	24 %	3 %	7 %		7 %	4 %	- 5 %
	1973/1974	15 %	24 %	- 7 %	26 %	55 %	- 5 %	10 %		- 4 %	- 4 %	- 5 %
Gulf	1968	626	291	335	420	1.064	[illegible]	4.622	14 %	74	73	30.521
	1971	561	312	249	•	908	2.100	5.793	10 %	82	77	36.077
	1972	197	311	(-114)	576	718	1.941	5.418	8 %	97	84	36.454
	1973	800	296	504	610	823	1.608	5.468	15 %	99	90	34.110
	1974	1.065	307	738	609	1.406	1.471	6.035	18 %	98	84	30.205
% increase	1971/1972	- 65 %	0	- 154 %	•	- 21 %	- 8 %	- 6 %		18 %	9 %	1 %
	1972/1973	306 %	- 5 %	542 %	6 %	15 %	- 17 %	1 %		2 %	7 %	- 6 %
	1973/1974	33 %	4 %	50 %	0	71 %	- 9 %	10 %		- 1 %	- 7 %	- 11 %
Mobil	1968	431	208	223	365	603	748	3.389	11 %	83	94	27.340
	1971	541	259	282	•	911	1.134	4.425	12 %	95	102	36.138
	1972	574	269	305	444	1.030	1.083	4.977	12 %	110	110	36.648
	1973	840	285	[illegible]	493	1.186	1.087	5.635	16 %	118	[illegible]	37.535
	1974	1.047	326	721	570	1.450	1.729	6.311	17 %	107	111	36.505
% increase	1971/1972	6 %	4 %	8 %	•	13 %	- 4 %	13 %		16 %	7 %	1 %
	1972/1973	48 %	6 %	[illegible]	11 %	15 %	0	13 %		7 %	3 %	2 %
	1973/1974	23 %	14 %	28 %	16 %	22 %	59 %	12 %		- 9 %	- 3 %	- 3 %
Texaco	1968	[illegible]	394	425	322	1.065	[illegible]	5.960	16 %	120	109	[illegible]
	1971	901	436	469	•	1.047	1.290	7.223	14 %	144	[illegible]	[illegible]
	1972	899	452	437	427	1.123	1.360	7.819	13 %	148	[illegible]	47.759
	1973	1.292	470	822	551	1.241	1.778	8.477	17 %	153	[illegible]	[illegible]
	1974	1.586	571	1.015	636	1.859	1.897	9.593	19 %	153	[illegible]	[illegible]
% increase	1971/1972	- 2 %	4 %	- 7 %	•	5 %	5 %	9 %		3 %	8 %	12 %
	1972/1973	45 %	4 %	88 %	29 %	12 %	31 %	8 %		3 %	3 %	- 4 %
	1973/1974	23 %	21 %	23 %	17 %	50 %	7 %	13 %		-	- 1 %	- 4 %
Royal Dutch Shell	1968	865	370	495	670	1.328	1.447	8.159	12 %	219	223	34.803
	1971	901	454	447	•	1.909	2.461	10.360	10 %	251	260	54.488
	1972	735	456	279	1.034	1.993	3.583	11.436	7 %	258	272	60.482
	1973	2.114	620	1.494	1.257	1.925	3.990	12.826	17 %	278	290	64.743
	1974	3.361	727	2.634	1.320	2.843	4.140	14.042	24 %	244	256	69.187
% increase	1971/1972	- 18 %	0	- 38 %	•	4 %	46 %	10 %		3 %	5 %	11 %
	1972/1973	188 %	36 %	435 %	22 %	- 3 %	11 %	12 %		8 %	7 %	7 %
	1973/1974	59 %	17 %	76 %	5 %	48 %	4 %	9 %		- 12 %	- 12 %	7 %
British Petroleum	1968	310	173	137	223	511	607	2.080	9 %	91	83	2.457
	1971	404	196	208	•	955	993	2.911	10 %	100	103	3.507
	1972	185	162	23	315	868	969	3.354	5 %	114	115	4.383
	1973	953	171	782	394	1.115	1.265	4.103	16 %	108	110	4.129
	1974	1.410	191	1.219	475	1.737	1.456	5.060	20 %	97	[illegible]	3.415
% increase	1971/1972	- 54 %	- 17 %	- 89 %	•	- 9 %	- 2 %	15 %		14 %	[illegible]	25 %
	1972/1973	415 %	6 %	3.300 %	25 %	28 %	31 %	22 %		- 5 %	[illegible]	- 6 %
	1973/1974	48 %	12 %	55 %	21 %	56 %	15 %	23 %		10 %	[illegible]	- 17 %
Total of the seven large international integrated companies	1968	[illegible]	2.439	[illegible]	3.163	[illegible]	[illegible]	27.778		891	[illegible]	[illegible]
	1971	[illegible]	2.745	2.539	•	[illegible]	11.721	47.042		1.025	1.090	[illegible]
	1972	[illegible]	2.748	[illegible]	[illegible]	[illegible]	12.595	50.213		1.089	1.153	[illegible]
	1973	9.295	3.057	6.238	[illegible]	[illegible]	13.453	54.802		1.156	1.210	302.216
	1974	12.581	3.568	8.913	5.395	[illegible]	14.760	61.207		1.065	1.103	299.239
% increase	1971/1972	- 12 %	0	[illegible]	•	0	7 %	7 %		6 %	3 %	8 %
	1972/1973	100 %	11 %	226 %	15 %	12 %	[illegible]	9 %		5 %	5 %	1 %
	1973/1974	35 %	17 %	43 %	11 %	[illegible]	10 %	12 %		- 8 %	- 3 %	- 1 %

Source: "The Petroleum Economist", May 1973, 1974, 1975

(a) Net revenue available for distribution, after exceptional profits and losses and other expenses.

(b) Only for the plants and equipment owned by the companies.

(c) At the close of the year.

(d) Figures given in the reports showing the net revenue (before exceptional revenue) as an average percentage of the value of the shares in the trading year.

(e) In certain cases, processing agreements with other companies are included.

(f) For Mobil, the gross production of natural gas is included.

This report is not concerned with the financial results of the large oil groups and will limit itself here to some comments relevant to the results given in the table.

It must first be stressed that these are consolidated results which include all the operations of the companies in the various industrial sectors and in the different parts of the world where they are active.

In 1973, the economic expansion and the resulting pressure on the market for oil products gave rise to increased demand and an increase in the companies' profit margins. After four years of stagnation, the increase in the net revenue of the large international companies of American origin from 1972 to 1973 was 66.6 %. This improvement was due to their operations outside the U.S.A. and, in particular, in Europe. The large European companies enjoyed spectacular increases in their revenues but reduced the sums distributed to permit investments without unduly increasing their long term debt.

In 1974, the net revenues increased on average by 25.4 % compared with 1973 for the five American majors and by 59 % and 48 % respectively for Shell and B.P. The results are all the more striking because, in the same period, the sales of products of all these companies diminished; in the case of the two European majors the regression was more pronounced, 11.8 % and 10.9 %. This increase, unlike that in 1973, stemmed mainly from operations in the U.S.A. and from very favourable results in the chemical sector.

Nevertheless, despite the increase in net revenues, the long term debt of companies of which the growth had been generally halted in 1973, again swelled significantly.

According to company reports, the situation reversed during the third quarter of 1974 and in the fourth quarter the losses were replaced by profits.

The development of profits in 1973 was therefore not continued in 1974: the margin of profit on concession oil (see Page 57) was reduced. The considerable increase in the prices of products curbed consumption. The weather was favorable to fuel economy. The under-employment of transport and refining capacity increased costs.

2. The role of companies in oil production

Until the middle of the 1950's practically all the production of crude oil in the world, less China, the USSR and Eastern Europe, was produced by the large international companies which were accordingly in a position to determine prices. Since about 1955 however, the structure of the oil industry has been modified slightly. Attracted by the considerable increase in the demand for oil, and by the advantageous conditions of concession agreements granted by new producing countries (1), several newcomers have entered the business at the production stage, particularly in the Middle East and in Africa: Occidental Oil, Continental Oil, Phillips Petroleum, Marathon and ENI are examples of such enterprises. Advantageous conditions of access to production agreed by producing countries for light crude oil, giving a higher yield, allowed these companies to break into the European market for the sale of light products - petrol and gas oil - without big investments.

Ten years after the creation in September 1960 of the Organization of Petroleum Exporting Countries (OPEC), a collection of circumstances brought an end to a long period of abundance of cheap oil and permitted the producing countries to join together in controlling production and prices. Among these circumstances were an exceptionally high and maintained increase in the demand for oil in Europe and in Japan and the factors which arose, in the sectors concerned, from the future energy supply in the United States, and, from the aspect of supply, the temporary withdrawal from service of Tapline (the trans-Arabian pipeline from the Persian Gulf to Sidon on the Mediterranean) and the reductions of production in Libya and in Nigeria.

The pressure on the oil market at this period was temporary. Nevertheless it was sufficient to change the balance of power in favour of the oil producing countries. Since then the oil companies have had to concede to the oil producing countries on several issues in the course of the series of conferences called by these countries concerning proposals for increasing their revenues as well as their participation in concessions : among these conferences were those held at Caracas, December 1970; Teheran, February 1971; Tripoli, March 1971;

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(1) Libya, particularly, had granted concessions on very advantageous terms in order to break into markets. For several years, taxes were calculated on the actual price instead of the posted price (see Page 76) and rebates were granted which were partially subsidized by the state.

Algiers, June 1971 and Geneva, 1972. However, until 1973 this process of evolution of power had been somewhat slow because of the differences in the economic situation of the oil producing countries. The further turmoil between Israel and the Arab countries had injected a fresh political solidarity into the relationship between the oil-producing countries in the Middle East which served to accelerate this process of change and which attempts by the oil companies and consumers were unable to curb.

Nevertheless, in 1973 the large oil companies still controlled 60 % of the oil production in the world, less China, the USSR and Eastern Europe. This percentage was greater - reaching as much as 100 % in some instances - in most of the Middle East countries and in Africa, which areas were of particular importance for the supplies to Europe (see Table 2).

(a) Table 2

Total production of crude oil by the seven major oil companies

1973 — 1000 t — %

Country of origin	Total production of crude oil	Crude oil production of the seven major oil companies: Esso	Chevron	Gulf	Mobil	Texaco	Shell	B.P.	Total 2 – 8	(9) as a % of (1)
Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Western Europe	15.042	2.204	28	151	1.035	1.417	1.886	81	6.802	45,2
Austria	2.578	–	–	–	183	–	183	–	366	14,2
France	1.255	520	–	151	–	–	19	–	690	55,0
Holland	1.494	747	–	–	–	–	747	–	1.494	100,0
Norway	1.579	–	–	–	–	–	–	–	–	–
Spain	111	–	28	–	–	28	–	–	56	50,5
United Kingdom	93	–	–	–	–	–	–	80	80	86,0
Fed. Rep. of Germany	6.711	937	–	–	852	1.389	937	1	4.116	61,3
Africa	276.795	10.921	202	25.462	14.664	259	45,847	32.794	130.149	47,0
Angola	8.112	–	–	7.276	–	57	–	–	7.333	90,4
Gabon	8.889	–	–	–	–	–	2.590	–	2.590	29,1
Libya	101.496	10.921	–	–	3.814	–	10.463	–	25.198	24,8
Nigeria	100.767	–	202	18.186	10.850	202	32.794	32.794	95.028	94,3
Middle East	1.029.958	109.389	102.531	71.598	55.073	103.092	81.565	199.952	723.200	70,2
Abu Dhabi	61.708	4.461	–	–	4.461	–	8.922	17.775	35.619	57,7
Bahrain	3.396	–	1.698	–	–	1.698	–	–	3.396	100,0
Dubai	5.608	–	–	–	–	561	–	–	561	10,0
Iran.	293.908	18.845	18.845	18.845	18.845	18.845	37.690	107,687	239.602	81,5
Irak	92.586	3.036	–	–	3.036	–	6.072	6.072	18.216	19.7
Kuwait	119.053	–	–	52.753	–	–	–	66.300	119.053	100,0
Oman	14.421	–	–	–	–	–	12.258	–	12.258	85,0
Qatar	27.491	1.059	–	–	1.059	–	14.605	2.118	18.841	68,5
Saudi Arabia	364.392	81.988	81.988	–	27.329	81.988	–	–	273.293	75,0
Turkey	3.553	–	–	–	343	–	2.018	–	2.361	66,5
Far East/Oceania	113.152	9.729	23.990	–	1.586	24.540	16.068	–	75.913	67,1
Australia	18.380	8.143	–	–	–	550	550	–	9.243	50,3
Brunei	11.183	–	–	–	–	–	11.183	–	11.183	100,0
Indonesia	69.934	1.586	23.990	–	1.586	23.990	–	–	51.152	73,1
Malaysia	4.335	–	–	–	–	–	4.335	–	4.335	100,0
Latin America/ Caribbean	262.934	82.029	3.242	10.944	5.890	16.665	46.174	127	165.071	62,8
Argentina	21.961	–	–	–	–	–	90	–	90	0,4
Colombia	9.339	891	992	–	–	2.860	889	127	5.759	61,7
Ecuador	10.626	–	–	–	–	5.241	–	–	5.241	49,3
Peru	4.178	–	–	–	–	9	–	–	9	0,2
Trinidad	7.656	–	–	–	–	2.259	371	–	2.630	34,4
Venezuela	174.769	81.138	2.250	10.944	5.890	6.296	44.824	–	151.342	86,6
North America	613.043	70.291	31.222	33.651	24.822	52.292	40.637	1.600	254.515	41,5
World total (a)	2.310.924	284.563	161.215	141.806	103.070	198.265	232.177	234.554	1.355.650	58,7

(a) Excluding China, the U.S.S.R. and Eastern Europe. The total production of this group is approximately 500 million tonnes.

Source: Petroleum Times, July 26, 1974.

3. Structure of refining and distribution in the Community

It will be seen from Table 3 that the oil companies belonging to the first two categories mentioned in Paragraph 1 above control a large share of the refining capacity of the Community.

Table 4 sets out the refining capacities in Western Europe of various categories of enterprises.

Two characteristics which are noticeable in respect of the refining capacity of the EEC are the geographical concentration of the refineries and the existence of a number of refineries which are shared by several oil groups. The refineries of the oil companies are situated in particular regions of the Community which are advantageous for the receipt of crude oil and the onward flow inland of oil products, such as the areas of Rotterdam, Antwerp, the valley of the Seine and the region of Berre,near Marseilles. At the same time, other regions, such as Ireland, Denmark and the south of Germany have insufficient refining capacity tó meet their domestic needs.

The ownership of some refineries is shared by several oil groups: for example, the refinery operated by S.I.B.P. at Antwerp is owned by B.P. and Petrofina and the Caltex refinery at Rotterdam is owned jointly by Texaco and Chevron. In addition, extensive arrangements exist between oil companies for the exchange of refining capacity. This joint operation of refineries by some oil companies and the exchange of refining capacity cannot be without effect on the solidarity of the oil companies concerned.

The exchanges of refining capacity between companies occur particularly between regions where excess refining capacity exists in large facilities (10 million tonnes and above); they allow economies of scale in refining costs and avoid the costs of cross-transporting oil products.

So far as exchanges of products are concerned, which also illustrate the solidarity between companies, these are usually complementary to exchanges of refining capacity. They allow companies, particularly those which have no refineries in a particular region, to avoid the burden of transport in making available products from their own refineries. Petrofina, for example, has developed particularly such a network of exchange agreements in respect of its share of the products of SIBP at Antwerp and of other refineries in the common market.

Table 3 a

List of refineries

1000 t.

Company	Location	Theoretical crude oil processing capacity (at the end of the year)					
		1970	1971	1972	1973	changes 1973/1972	%
GERMANY		120.263	126.508	133.160	145.610	+ 12.450	+ 9,3
Schleswig-Holstein		3.550	3.550	3.550	6.000	+ 2.450	+69,0
Deutsche Texaco A.G.	Heide/Holstein	3.000	3.000	3.000	5.600	+ 2.600	+86,7
Occidental Oel G.m.b.H.	Brunsbüttel	550	550	550	400	- 150	-27,3
Hamburg		12.560	13.380	15.300	15.300	-	-
BP Benzin und Petroleum A.G.	Hamburg-Finkenwerder	4.300	5.100	5.100	5.100	-	-
Deutsche Shell A.G.	Hamburg-Harburg	4.300	4.300	4.300	4.300	-	-
Esso A.G.	Hamburg-Harburg	3.600	3.600	5.500	5.500	-	-
Ölwerke Julius Schindler	Hamburg	360	380	400	400	-	-
Bremen Mobil Oil A.G.	Bremen	1.800	1.800	1.800	1.800	-	-
Niedersachsen		9.053	9.078	10.060	10.060	-	-
Gew.Erdöl-Raff.Deurag-Nerag	Misburg/Hannover	2.550	2.550	2.550	2.550	-	-
Mineralölwerke Peine	Peine	18	18	-	-	-	-
Wintershall A.G.	Salzbergen	335	360	360	360	-	-
Wintershall A.G.	Lingen/Ems	3.750	3.750	4.750	4.750	-	-
Erdölwerke Frisia A.G.	Emden	2.400	2.400	2.400	2.400	-	-
Nordrhein-Westfalen		39.550	43.850	43.850	51.350	7.500	+17,1
Gelsenberg Aktiengesellsch.	Gelsenkirchen	7.000	7.000	7.000	7.000	-	-
Union Kraftstoff	Wesseling/Köln	5.600	6.000	6.000	6.000	-	-
Deutsche Shell A.G.	Monheim/Rhein	400	500	500	500	-	—
Occidental Oel G.m.b.H.	Essen	750	750	750	750	-	-
Fina Bitumenwerke G.m.b.H.	Mülheim/Ruhr	500	500	500	500	-	-
VEBA-Chemie A.G.	Gelsenkirchen-Buer	4.400	7.400	7.400	10.000	+ 2.600	+35,1
Esso A.G.	Köln	5.600	5.700	5.700	5.700	-	-
Erdöl Raff.Duisburg G.m.b.H.	Duisburg	2.000	2.000	2.000	2.000	-	-
BP Benzin und Petroleum A.G.	Dinslaken	5.000	5.000	5.000	9.900	+ 4.900	+80,0
Deutsche Shell A.G.	Godorf	8.300	9.000	9.000	9.000	-	-
Hessen Caltex Deutschl. G.m.b.H.	Raunheim	4.500	4.500	4.500	4.500	-	-
Rheinland-Pfalz		5.800	6.050	6.300	6.300	-	-
Elf Mineralöl G.m.b.H.	Speyer	2.300	2.550	2.800	2.800	-	-
Mobil Oil Raff. Wörth G.m.b.H.	Wörth/Rhein	3.500	3.500	3.500	3.500	-	-
Baden-Württemberg		19.250	19.600	21.600	21.600	-	-
Esso A.G.	Karlsruhe	8.900	9.000	9.000	9.000	-	-
Oberrh. Mineralölwerke G.m.b.H.	Karlsruhe	6.750	7.000	7.000	7.000	-	-
Erdölraffinerie Mannheim	Mannheim	3.600	3.600	5.600	5.600	-	-
Bayern		21.900	22.400	23.800	26.300	+ 2.500	+10,5
Deutsche Shell A.G.	Ingolstadt	3.000	3.000	3.000	3.000	-	-
Esso A.G.	Ingolstadt	4.800	4.900	5.000	5.000	-	-
Erdölraffinerie Ingolstadt A.G.	Ingolstadt	3.200	3.200	3.000	3.000	-	-
Erdölraff.Neustadt G.m.b.H. & Co.	Neustadt/Bayern	3.500	3.500	5.000	7.000	+ 2.000	+40,0
BP Benzin und Petroleum A.G.	Vohburg/Donau	4.400	4.800	4.800	5.100	+ 300	+ 6,3
Deutsche Marathon Petr. G.m.b.H.	Burghausen	3.000	3.000	3.000	3.200	+ 200	+ 6,7
Saarland Saarland-Raff. G.m.b.H.	Klarenthal	2.300	2.300	2.400	2.400	-	-
NETHERLANDS		68.472	77.697	99.130	99.130	-	-
West (Noord- en Zuid-Holland)		68.472	77.697	99.130	99.130	-	-
Asphalt- en chemische fabrieken	Amsterdam	300	300	200	200	-	-
Mobil Oil N.V.	Amsterdam	4.000	6.000	6.500	6.500	-	-
Chevron Petroleum (Caltex)	Pernis-Rotterdam	12.900	12.900	15.900	15.900	-	-
Esso Nederland	Rotterdam Botlek	16.000	16.000	16.000	16.000	-	-
Shell Nederland	Pernis-Rotterdam	24.500	21.725	30.000	30.000	-	-
Gulf	Rotterdam Europoort	4.972	4.972	4.730	4.730	-	-
British Petroleum	Rotterdam Europoort	5.800	15.800	25.800	25.800	-	-

Table 3 b

List of refineries

1000 t.

Company	Location	Theoretical crude oil processing capacity (at the end of the year)					
		1970	1971	1972	1973	changes 1973/1972	%
FRANCE		116.485	121.045	145.410	153.885	+ 8.475	+ 5,8
Paris		7.300	7.300	9.600	9.600	-	-
U.G.P. et U.I.P.	Grandpuits	3.600	3.600	3.600	3.600	-	-
Elf-Union	Gargenville	3.700	3.700	6.000	6.000	-	-
Haute-Normandie		37.300	37.300	46.300	46.300	-	-
Compagnie Française de Raffinage	Gonfreville	14.300	14.300	23.300	23.300	-	-
Esso Standard S.A.F.	Port-Jérôme	7.200	7.200	7.200	7.200	-	-
Compagnie de Raffinage Shell Berre	Petit-Couronne	9.200	9.200	9.200	9.200	-	-
Mobil Oil Française S.A.	Gravenchon	3.600	3.600	3.600	3.600	-	-
Société Française des Pétroles B.P.	Vernon	3.000	3.000	3.000	3.000	-	-
Nord		9.000	9.000	9.000	9.000	-	-
Société Française des Pétroles B.P.	Dunkerque	5.500	5.500	5.500	5.500	-	-
Antar	Valenciennes	3.500	3.500	3.500	3.500	-	-
Bretagne Antar	Vern s/Seiche	1.450	1.450	1.450	1.450	-	-
Loire Antar	Donges	4.550	8.000	8.000	8.300	+ 300	+ 3,8
Lorraine							
Société de la Raffinerie de Lorraine	Hauconcourt	4.000	4.400	4.400	4.500	+ 100	+ 2,3
Alsace		8.100	8.100	8.200	8.200	-	-
Compagnie Rhénane de Raffinage	Reichstett	3.700	3.700	3.700	3.700	-	-
Société de Raffinage de Strasbourg	Herrlisheim	4.400	4.400	4.500	4.500	-	-
Aquitaine		9.400	9.400	9.500	9.000	- 500	- 5,3
Compagnie de Raffinage Shell Berre	Pauillac	4.500	4.500	4.500	4.000	- 500	- 11,1
Union Industrielle des Pétroles	Ambès	2.100	2.100	2.100	2.100	-	-
Esso Standard S.A.F.	Bordeaux	2.800	2.800	2.900	2.900	-	-
Rhône-Alpes							
Union pour le Raffinage et la Pétrochim.	Feyzin	6.250	6.960	7.225	8.800	+ 1.575	+ 21,8
Languedoc Mobil Oil Française S.A.	Frontignan	4.000	4.000	4.000	6.000	+ 2.000	+ 50,0
Provence		25.135	25.135	37.735	42.735	+ 5.000	+ 13,3
Compagnie Française de Raffinage	La Mède	10.235	10.235	10.235	10.235	-	-
Compagnie de Raffinage Shell Berre	Berre-l'Etang	7.500	7.500	13.500	13.500	-	-
Société Française des Pétroles B.P.	Lavéra	4.400	4.400	11.000	11.000	-	-
Esso Standard S.A.F.	Fos s/Mer	3.000	3.000	3.000	8.000	+ 5.000	+166,7
BELGIUM		35.885	41.700	42.284	43.084	+ 800	+ 1,9
North		35.885	36.700	37.284	38.084	+ 800	+ 2,1
Albatros	Antwerpen-Noord	2.700	3.200	3.500	3.500	-	-
International Oil Refinery (Albatros)	Antwerpen-Zuid	1.750	1.750	-	-	-	-
Esso Belgium S.A.	Antwerpen-Noord	4.730	4.730	4.730	4.730	-	-
Raffinerie Belge des Pétroles	Antwerpen-Noord	5.000	5.000	5.000	5.000	-	-
Société Industrielle Belge des Pétroles	Antwerpen-Noord	15.500	15.500	16.200	17.000	+ 800	+ 4,9
S.A. Anglo-Belge des Pétroles	Antwerpen-Zuid	40	40	40	40	-	-
Belgian Shell S.A.	Gent	540	540	544	544	-	-
Texaco Belgium S.A.	Gent	5.625	5.940	7.270	7.270	-	-
South							
Chevron Oil Belgium S.A.	Feluy	-	5.000	5.000	5.000	-	-

Table 3 c

List of refineries
1000 t.

Company	Location	Theoretical crude oil processing capacity (at the end of the year)					
		1970	1971	1972	1973 1)	variations 1973/1972	%
ITALY			169.880	173.780	178.650	+ 4.870	+ 2,8
Piemonte			12.850	12.850	12.850	-	-
Sarpom S.p.a.	Trecate		7.800	7.800	7.800	-	-
Rol	Viguzzolo		50	50	50	-	-
B.P. Italiana	Volpiano		5.000	5.000	5.000	-	-
Liguria			16.650	16.650	16.700	+ 50	+ 0,3
Garrone Raff.Petroli	Genova		6.700	6.700	6.750	+ 50	+ 0,7
San Quirico S.p.a.	Genova		1.700	1.700	1.700	-	-
Fina Italiana S.p.a.	Genova		-	-	-	-	-
Iplom	Busalla		1.600	1.600	1.600	-	-
Shell It.	La Spezia		5.700	5.700	5.700	-	-
SPI S.p.a.	Arcola		850	850	850	-	-
Delle piane	Genova		100	100	100	-	-
Lombardia			21.820	25.720	28.390	+ 2.670	+ 10,4
AGIP S.p.a.	Cortemaggiore		140	140	140	-	-
Amoco Italia S.p.a.	Cremona		5.000	5.000	5.000	-	-
Anic S.p.a.	Sannazzaro		6.500	6.500	6.500	-	-
Shell It.	Rho		5.700	5.700	5.700		-
Gulf Italiana S.p.a.	Bertonico		-	3.900	5.800	+ 1.900	+ 48,7
Fina Italiana S.p.a.	Milano		330	330	-	- 330	-100,0
I.C.I.P. S.p.a.	Mantova		2.600	2.600	3.500	+ 900	+ 34,6
Lisea S.p.a.	Valmadrera		450	450	450	-	-
Lombarda Petroli S.p.a.	Villasanta		1.100	1.100	1.300	+ 200	+ 18,2
Veneto Irom S.p.a.	Venezia		5.300	5.300	5.300	-	-
Friuli-Venezia Giulia Aquila S.p.a.	Trieste		3.000	3.000	3.000	-	-
Emilia-Romagna			7.960	7.960	7.960	-	-
Sarom	Ravenna		7.700	7.700	7.700	-	-
Montecatini Edison	Ferrara		260	260	260	-	-
Toscana Stanic S.p.a.	Livorno		4.600	4.600	7.400	+ 2.800	+ 60,9
Marche Api	Falconara		3.300	3.300	3.300	-	-
Lazio			6.000	6.000	6.450	+ 450	+ 7,5
Raffineria di Roma	Pantano di Grano		4.000	4.000	4.000	-	-
Getty Oil Italiana	Gaeta		2.000	2.000	2.450	+ 450	+ 22,5
Campania Mobil Oil Italiana	Napoli		7.300	7.300	7.300	-	-
Puglia			10.360	10.360	9.260	- 1.100	- 10,6
Stanic S.p.a.	Bari		3.800	3.800	3.800	-	-
Montecatini Edison	Brindisi		1.560	1.560	1.560	-	-
Shell It.	Taranto		5.000	5.000	3.900	- 1.100	- 22,0
Sicilia			47.010	47.010	47.010	-	-
Mediterranea S.p.a.	Milazzo		18.000	18.000	18.000	-	-
A.B.C.D. S.p.a.	Ragusa		200	200	200	-	-
Anic Gela Mineraria S.p.a.	Gela		5.040	5.040	5.040	-	-
Esso Rasiom	Augusta		10.770	10.770	10.770	-	-
Sincat S.p.a.	Priolo		13.000	13.000	13.000	-	-
Sardegna			23.730	23.730	23.730	-	-
Saras	Sarroch		18.000	18.000	18.000	-	-
Sardoil	Porto Torres		5.730	5.730	5.730	-	-

1) 1 July, 1973

Table 3 d

List of refineries
1000 t.

Company	Location	Theoretical crude oil processing capacity (at the end of the year)					
		1970	1971	1972	1973	1973/1972	%
UNITED KINGDOM		114.809	121.936	124.222	141.970	+ 17.748	+ 14,3
England		79.192	85.073	86.559	89.545	+ 2.986	+ 3,4
British Petroleum Co.Ltd.	Kent	10.160	11.500	10.900	10.900	-	-
Shell U.K. Ltd.	Stanlow	10.700	10.700	10.700	10.700	-	-
	Shellhaven	10.200	10.200	10.200	10.200	-	-
	Teesport	5.400	5.400	6.100	6.400	+ 300	+ 4,9
	Heysham	2.000	2.000	2.000	2.000	-	-
Esso Petroleum Co. Ltd.	Fawley	16.400	19.400	19.800	19.400	- 400	- 2,0
Lindsey Oil Refinery Ltd.	South Killingholme	7.000	7.200	8.460	9.600	+ 1.140	+ 13,5
Mobil Oil Co. Ltd.	Coryton	6.750	6.760	6.760	8.600	+ 1.840	+ 27,2
Philips-Imperial Petroleum Ltd.	Nonth Tees	5.080	5.080	5.000	5.000	-	-
Continental Oil Co. Ltd.	Killingholme	4.064	4.064	3.940	4.300	+ 360	+ 9,1
Burma Oil Trading Ltd.	Ellesmere Port	300	1.626	1.626	1.445	- 181	- 11,1
	Barton	173	173	173	-	- 173	- 100,0
Berry Wiggins and Co. Ltd.	Kingsnorth	320	300	300	300	-	-
	Weaste	188	170	-	-	-	-
Philmac Oils Ltd.	Eastham	457	500	600	700	+ 100	+ 16,7
Wales		24.630	25.830	27.000	41.750	+ 14.740	+ 54,6
British Petroleum Co. Ltd.	Llandarcy	8.130	8.330	8.300	8.300	-	-
Esso Petroleum Co. Ltd.	Milford Haven	6.100	6.100	6.300	15.400	+ 9.100	+ 144,4
Texaco Refining Co. Ltd.	Pembroke	5.900	6.900	7.250	8.900	+ 1.650	+ 22,8
Gulf Oil Refining Co. Ltd.	Milford Haven	4.500	4.500	5.150	5.150	-	-
AMOCO (U.K.) Ltd.	Milford Haven	-	-	-	4.000	+ 4.000	-
Scotland		9.467	9.403	9.163	9.175	+ 12	+ 0,1
British Petroleum Co. Ltd.	Grangemouth	9.144	9.040	8.800	8.800	-	-
Shell U.K. Ltd.	Ardrossan	200	200	200	200	-	-
Wm. Briggs and Sons Ltd.	Dundee (Campendown)	123	163	163	175	+ 12	+ 7,4
Ulster British Petroleum Co. Ltd.	Belfast	1.520	1.630	1.500	1.500	-	-
IRELAND							
Irish Refining Co. Ltd.	White Gate (Cork)	2.966	2.966	2.966	2.966	-	-
DENMARK		10.800	10.900	10.992	10.992	-	-
Dansk Esso A/S	Kalundborg	3.500	3.500	3.500	3.500	-	-
Gulf Oil A/S	Gulf Havn (Stigsnäs)	4.500	4.500	4.592	4.592	-	-
A/S Shell Raffinaderiet	Fredericia	2.800	2.900	2.900	2.900	-	-

Source : Energy Statistics -Eurostat, Luxemburg

Table 4

Refining capacities of oil groups in Western Europe

(M t/an - en %)

Group	Capacities at year end			
	1972		1973	
	M t/an	% total	M t/an	% total
Esso	126,4	14,6	142,7	15,6
Chevron	22,9	2,7	24,8	2,7
Gulf	25,6	3,0	20,4	2,2
Mobil	38,4	4,4	42,6	4,7
Texaco	28,9	3,3	34,3	3,8
Total U.S. majors	242,2	28,0	264,8	29,0
Shell	133,4	15,4	133,9	14,6
B.P.	110,5	12,8	121,1	13,2
Total European majors	243,9	28,2	255,0	27,8
CFP/Total	49,6	5,7	50,7	5,5
ELF/Antar	37,6	4,4	40,0	4,4
ENI	19,6	2,3	33,0	3,6
Petrofina	16,1	1,9	18,0	2,0
Total European integrated companies	122,9	14,3	141,7	15,5
U.S. independents	33,8	3,9	36,9	4,0
German independents (a)	60,4	7,0	65,0	7,1
Italian independents	85,3	9,9	78,0	8,5
Other independents	75,0	8,7	74,0	8,1
Total independents	254,5	29,5	253,0	27,7
General total	863,5	100,0	914,5	100,0

M = Million

(a) details for VEBA	26,8	3,1	29,4	3,2

NB.: The expression VEBA refers to the VEBA GBAG group which came into being during the crisis.

Source : Statistics published by the Direction des Carburants, France.

B. THE OIL CRISIS

1. Trends in the demands for energy in the Community between 1960 et 1973

During the period 1960 to 1973 the gross domestic energy consumption of the nine countries of the Community increased at an annual rate of 4.7 %. But whilst the consumption of hydrocarbons (oil and natural gas) increased at an average rate of annual growth of almost 13 %, the consumption of solid fuels (coals and lignite) reduced at a rate of about 3.4 % per annum.

The disparity between these rates led to a distinct change in the pattern of dependance on the various sources for the energy consumption of the Community. In 1960 solid fuels still accounted for about 67.4 % of the total energy consumption as compared with 26.9 % for hydrocarbons. In 1973 the situation was reversed. Hydrocarbons then accounted for 71.9 % of the total energy consumption, whilst solid fuels accounted for no more than 23.7 % (See Table 5).

Domestic consumption of primary energy in the enlarged European Economic Community

Table 5

Energy sources	1960		1970		1971		1972		1973	
	M tec	% total	M tec	% total	M tec	% total	M tec	% total	M tec	% total
Coal and equivalents	463	62.9	333	28.0	299	24.8	271	21.5	280	20.9
Lignite and equivalents	33	4.5	35	2.9	34	2.8	35	2.8	37	2.8
Oil and equivalents	185	25.1	674	56.7	704	58.4	750	59.4	793	59.3
Natural gas	13	1.8	88	7.4	114	9.4	147	11.6	168	12.6
Other fuels	1	0.1	2	0.2	2	0.2	2	0.2	2	0.1
Electrical energy	41	5.6	57	4.8	53	4.4	57	4.5	57	4.3
Total	736	100.0	1.189	100.0	1.206	100.0	1.262	100.0	1.337	100.0

tec = tonnes of coal equivalent

Source : Bulletin of Energy Statistics - EUROSTAT, Luxembourg.

The explanation of this development lies in the fact that during the decade 1960 to 1970, oil was abundant and cheap. This situation had the effect of accelerating the shrinkage of the coal industry and slowing down the development of nuclear energy in the Community.

As a result, in 1973 almost 60 % of the energy needs of the Community was covered by oil of which about 98% was imported (see Table 6). Almost 95 % of this oil came from the Middle East and from Africa : Table 6 shows clearly the dependence of the energy requirements of the Community on the countries in these regions of the world.

Table 6

Oil supplies of the European Economic Community

Origin of crude oil	1970		1971		1972		1973		1974	
	M/t	% total	M/t	% total	M/t	% total	M/t	% total	M/t	% total
A. Production of the Community	13	2.4	12	2.2	11	1.9	11	1.8	10	1.7
B. Imports from the Near and Middle East	265	49.9	321	58.5	360	63.0	421	67.8	415	71.4
Africa	219	41.3	183	33.3	170	29.8	161	25.9	137	23.6
Rest of the world	34	6.4	33	6.0	30	5.3	28	4.5	19	3.3
Total imports	518	97.6	537	97.8	560	98.1	610	98.2	571	98.3
C. TOTAL supplies (A + B)	531	100.0	549	100.0	571	100.0	621	100.0	581	100.0

Source : Bulletin of Energy Statistics EUROSTAT, Luxembourg.

The countries who, in 1973 depended least on oil for their energy requirements, were the Netherlands and the United Kingdom where, in both cases, dependence on oil was below 50 %: in the case of the Netherlands this is attributable to their resources of natural gas which has been extensively developed as an alternative fuel whilst the economy of the United Kingdom is strongly and traditionally related to coal. The countries most dependent on oil were Italy, Ireland and Denmark : in the first two cases 75 % and in the third case almost 90 % of the domestic consumption of prime energy was satisfied by oil (see Table 7).

Table 7

Domestic consumption of primary energy in the European Economic Community - 1973

Country	Hard coal		Lignite		Crude oil		Natural gas		Other fuels		Primary electricity		Total consumption	
	M tec	% total	M tec	% total	M tec	% total	M tec	% total	M tec	% total	M tec	% total	M tec	% total
Germany	85	30,5	34	89,5	209	26,4	39	23,2	1	100,0	12	20,7	380	28,4
France	40	14,3	1	2,6	177	22,3	20	11,9	0	0	19	32,8	257	19,2
Italy	11	3,9	1	2,6	136	17,2	21	12,5	0	0	14	24,1	183	13,7
Netherlands	4	1,4	0	0	42	5,3	41	24,4	-	-	0	0	87	6,5
Belgium	17	6,1	0	0	39	4,9	10	6,0	0	0	0	0	66	4,9
Luxembourg	3	1,1	0	0	2	0,2	0	0	0	0	1	1,7	6	0,5
United Kingdom	115	41,2	-	-	155	19,5	37	22,0	-	-	12	20,7	319	23,9
Ireland	1	0,4	2	5,3	8	1,0	-	-	-	-	0	0	11	0,8
Denmark	3	1,1	0	0	25	3,2	-	-	-	-	0	0	28	
Community Total	279	100,0	38	100,0	793	100,0	168	100,0	1	100,0	58	100,0	1.337	100,0

M = Million

tec = tonnes equivalent of coal

The differences between the data in Table 5 for 1973 and the data set forth in Table 7 as the "Community total" arises from the rounding off of the figures.

Source : Bulletin of Energy Statistics : EUROSTAT - Luxembourg.

2. <u>The events in 1973</u>

During 1973 there gradually developed a market situation which was particularly favourable to sellers. This was due to events which influenced both the demand and the supply of oil.

During this year, the total world needs had increased by some 8 % which was more rapid than had been envisaged : in Japan and in the United States the increase was 15 % and 4.5 % respectively. Faced with a serious shortage in domestic resources, the national production having decreased slightly, and with inadequate refining capacity, the Government of the United States authorized an increase in imports of crude oil and refined products. Thus the United States for the first time became an important buyer of crude oil from the Middle East and Africa. As a consequence of the restrictions imposed by the U.S. legislation concerning environmental protection, this extra demand was concentrated almost exclusively on the market of crude oil from Africa which has a low sulphur content (Algerian, Libyan and Nigerian oil) as well as that of light products and middle distillates.

These products had been purchased by the United States partly from Europe and this fact, together with a brisk domestic demand, did not fail to cause pressure on the markets for petrol and gas oil, particularly during the first three months of 1973. For the whole year, the total demand for oil products in the Community of nine increased by about 6 %, the demand for gas oil exceeding by 12% that of 1972.

All these events influencing demand came about at a moment when the supply situation on the world market was relatively weak. This was attributable to several reasons. Firstly, certain producer countries, particularly Kuwait, Libya, Nigeria and Bahrain had reduced their production for technical reasons or with the aim of conserving their resources. Thus despite the production effort of Saudi Arabia and Iran, the resulting increase in supply was not entirely able to cover the increase in the demand for oil.

There were, in addition, various factors of a technical and economic character which had the consequence of delaying the development of the capacity of production installations and port facilities for the transport and loading of crude oil in certain producer countries. These delays were partly due to delays in manufacture and delivery of material for exploitation and, on the other hand, to the postponement by the oil companies of certain investments because of the uncertainty concerning conditions of production which had existed

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The close balance between supply and demand reached its crisis point at the time of the war between Israel and Arab countries of 6th to 16th October 1973.

On 8th October, the oil companies and the six oil producing countries of the Persian Gulf (Saudi Arabia, Iran, Iraq, Kuwait, Abu Dhabi and Quatar) met in Vienna to review the Teheran Agreement on prices of February 1971. Another meeting between the producer countries of the Persian Gulf took place on 16th and 17th October in Kuwait. They decided unilaterally to fix new prices for crude oil which were 75 % higher than the previous prices. At the same time they decided to reduce gradually, by 5 % each month, their production of crude oil until the withdrawal of Israel from the territories which it had occupied and, further, to put an embargo on exports to countries which they considered to be enemies of the Arab cause, especially the United States, the Netherlands and Denmark.

On 22nd and 23rd December, at a meeting in Teheran, the oil producing countries of the Persian Gulf decided to increase their prices for crude oil from 1st January 1974 by more than 100%. At the same time, however, they decided to relax from that date their restrictions on production but the embargo was to be maintained for a further two months.

Thus as can be seen from the example given in Table 8, the average cost of access to one type of crude oil increased almost five-fold within the space of three months.

Table 8

Price of Arabian light crude oil from Ras Tanura

(in $ / barrel)

Price	1.10.73	16.10.73	1.1.74	1.7.74
Posted price	3.01	5.12	11.65	11.65
Average cost of access for the producing companies	2.01	3.39	9.34	9.51

3. Immediate consequences of the oil crisis

The events described above had serious repercussions on the national and international economic life of all the countries in the Community. The problems which arose concerned principally the availability of supplies and price levels, and it became necessary to adjust energy policies to the changes in these two factors.

The supply conditions had been disturbed for several months before the end of the war of October 1973 and the security of supplies of certain countries of the Community was very uncertain. All countries, very quickly after October 1973, took measures aimed at guaranteeing security of their supplies: these measures included export controls of oil products, setting up of stocks, prohibition on the driving of motorcars on Sundays, petrol rationing, which was introduced briefly in the Netherlands, and bilateral agreements with producer countries.

From the start, the crisis has been regarded essentially as a problem of shortage of oil, but as the grounds for fear in this direction were reduced, the problem of prices, with all its financial and economic consequences, came to the forefront.

In fact the supply difficulties reduced, particularly after December 1973, whilst prices increased in a spectacular way. In the space of a few months, petrol quotations on the Rotterdam market had more than doubled, those of gas oil had increased by two and a half times and those of industrial fuels had increased more than six-fold (see Table 9).

The domestic prices for oil products did not increase at the same pace particularly as they were closely controlled by the Governments in most of the member countries. In fact, the cost of crude oil contributes only partly to these domestic prices which are composed also of costs of refining, of transport, of distribution and, for some products, particularly of indirect taxes on consumption.

Nevertheless, these prices were increased several times, although at different dates, in the various countries of the Community, in order to take account of the increases in costs of crude oil (see Table 10).

Table 9

QUOTATIONS FOR OIL PRODUCTS AT ROTTERDAM (a)

Products	Feb. 1970	Aug. 1970	Dec. 1970	April 1971	Dec. 1971	Dec. 1972	April 1973	June 1973	Aug. 1973	Oct. 1973	Dec. 1973	Feb. 1974	June 1974
Normal petrol 91 - 92 RM	23,90-24,75	31,75-32,25	31,00-32,25	34,25-35,00	32,50-33,00	47,75-51,00	74,00-77,50	110,00-117,50	80,00-85,00	108,00-114,00	170,00-190,00	145,00-155,00	153,00 158,00
Super petrol 93 - 99 RM	18,25-19,00	26,50-28,00	22,50-23,00	26,00-27,00	23,00-23,50	41,75-43,00	64,00-69,00	98,00-106,00	72,00-76,00	98,00-103,00	160,00-180,00	140,00-150,00	143,00 148,00
Diesel oil	20,00-20,50	29,50-30,50	33,00-34,50	30.00-30,50	27,00-28,25	35,00-36,75	44,00-46,00	65,00-69,00	68,25-71,00	130,00-140,00	165,00-180,00	97,00-103,50	87,50 91,00
Heavy fuel oil S : 1 % max.	12,25-12,50	25,00-27,00	24,00	22,50	13,50	22,25	24,50	29,25	21,75	33,00	140,00	76,00	67,50
S : 3,5 % max.	12,75-13,00	24,50-26,00	22,75	21,50	12,25	15,25	15,50	18,75	16,25	25,00	130,00	70,00	64,00
unker C (extra-heavy fuel oil)			22,75-24,00	21,50-23,00	12,25-13,25	15,25-16,00	15,50-16,25	18,75-20,00	16,25-17,50	25,00-27,00	130,00-140,00	70,00-80,00	64,00 67,00

(a) Platt's quotations for cargoes F.O.B. Rotterdam

Table 10 a

Domestic prices for certain oil products – taxes included

in $ per m³

Products	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark
Super petrol									
1.8.73	319,7-363,1	309,8	280,1	321,7	326,0	261,4	194,6	206,8	396,0-396,0
23.11.73	277,4-320,4	298,4	306,0	302,9	296,3	239,5	184,4	201,5	385,4-374,2
30.4.74	375,3-399,8	359,7	409,9	379,4	354,0	293,2	245,8	268,7	373,6-373,6
Normal petrol									
1.8.73	289,2-337,0	285,0	262,8	310,8	309,3	249,6	183,4	192,8	383,5-381,0
23.11.73	251,0-294,0	276,3	289,5	292,8	292,8	229,2	174,1	188,6	371,9-360,6
30.4.74	346,7-367,2	330,9	389,4	368,6	338,6	281,9	235,9	258,0	363,4-363,4
Diesel oil									
1.8.73	299,6-325,7	198,0	138,3	161,3	171,2	113,7	182,4	155,2	129,5-129,5
23.11.73	260,0-290,2	191,2	157,1	172,0	165,3	113,1	178,3	150,7	160,0-128,5
30.4.74	354,9-366,3	213,8	212,8	208,7	215,2	155,9	240,7	213,5	140,9-164,7
Domestic fuel									
1.8.73	73,9- 78,3	71,9	32,8	82,2	86,2- 81,6	75,3	54,9	43,7	94,6- 94,6
23.11.73	64,2- 67,9	80,4	30,9	98,0	90,1- 86,1	86,3	91,7	41,7	135,2- 96,9
30.4.74	126,6-130,7	108,9	71,6	123,9	105,7-101,5	86,6	95,3	90,9	137,5-137,5
Heavy fuel oil, high sulphur content									
1.8.73	45,7	43,1	23,9	30,9	38,2	50,1	49,8	39,4	60,3-n.q.*
23.11.73	39,6	35,7	22,8	32,1	41,4	50,9	46,3	37,7	64,9-n.q.
30.4.74	77,6-79,6	63,6	55,2	65,7	90,8	53,8	85,6	81,2	108,3-n.q.
Exchange rate 1 $ =	DM	FF	Lira	Fl.	BF	BF	£	£	Kr
24.7.73	2,30	4,04	578,4	2,55	34,82	34,82	0,394	0,394	4,02
27.11.73	2,65	4,52	604,6	2,76	39,62	39,62	0,427	0,427	4,44
30.4.74	2,45	4,87	634,12	2,58	37,43	37,43	0,411	0,411	5,89

*n.q. = not quoted on a public exchange.

Tableau 10 b

Domestic prices for certain oil products - exclusive of taxes

in $ per m^3

Products	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark
uper petrol									
1.8.73	96,7-135,8	97,9	72,4	112,1	93,9	95,3	69,0	77,9	139,9
3.11.73	83,9-122,6	105,8	81,4	108,4	90,8	93,1	68,5	81,9	150,0-140,3
0.4.74	158,5-180,6	165,6	183,0	148,8	130,4	136,3	125,4	140,6	177,4
ormal essence									
1.8.73	69,2-112,3	86,0	62,9	102,7	79,8	84,1	57,8	64,8	129,0-126,9
3.11.73	60,0-98,8	95,2	73,1	99,7	87,9	83,3	58,2	69,8	138,3-128,5
0.4.74	132,8-151,2	148,7	170,9	139,5	117,3	125,5	115,5	130,6	168,5
iesel oil									
1.8.73	89,7-113,2	74,5	49,4	88,9	71,9	75,3	56,8	46,4	112,6
3.11.73	77,8-105,0	78,7	58,3	104,3	75,7	78,7	62,4	49,8	139,1-111,7
0.4.74	150,5-160,8	103,9	111,8	135,3	114,3	117,8	120,3	105,1	122,5-143,2
omestic fuel									
1.8.73	62,9-66,9	56,6	24,3	66,3	62,7-58,7	60,8	49,3	40,9	82,3
3.11.73	54,7-58,0	64,4	26,9	82,4	67,7-64,2	72,6	86,5	39,1	117,6-84,3
0.4.74	110,6-114,3	88,8	63,3	106,5	80,7-77,0	72,3	89,9	85,1	119,6
eavy fuel oil,high ulphur content									
1.8.73	35,3	36,6	20,0	29,2	30,9	45,1	44,2	36,9	52,4
3.11.73	30,5	30,3	19,1	30,4	34,0	46,2	41,1	35,3	56,4
0.4.74	64,3-66,1	54,1	48,1	62,7	77,2	48,8	80,2	76,1	94,2
ame exchange rates s are set forth in Table 10 a.									

The considerable rise in price of crude oil contributed at the same time to price increases in the various sectors of activity throughout the oil industry and accelerated the rate of inflation which was already raging in several countries.

The additional charges which had to be borne in order to have access to the same quantities of crude oil as before, had as an immediate consequence, an increase in the external debts of several countries of the Community.

In order to face up to all these problems which arose from the oil crisis, the Governments of member states of the Community brought into operation certain defensive measures which had an influence on the operation and unity of the common market.

4. Reactions of the Commission

Since the start of the oil crisis the Commission of the European Communities had taken several initiatives which were aimed at resolving, at a Community level, problems which confronted member states.

At the end of their conference which took place in Copenhagen on 14th and 15th December 1973, the Heads of State or of Government asked the Commission to put forward propositions " aimed at resolving, in a concerted manner, the problems arising from the development of the present energy crisis " and to provide "arrangements which will ensure that all member states take, on a collective and equitable basis, measures aimed at reducing the consumption of energy ".

On 16th January 1974 the Commission communicated to the Council six propositions in respect of measures which might be taken in the Community because of the oil crisis. These propositions envisaged simultaneous action on transactions in oil products between member states and with other countries, on the prices of these products, and on measures which were aimed at reducing energy consumption, by such means as would maintain, by common action as a Community, the smooth operation of the common market.

In its communication to the Council, the Commission said that exchanges of oil products within the Community would have to be undertaken with due respect for the principle of free circulation of goods and that procedures were envisaged which would allow remedies to be applied in any cases of difficulties which might arise in member states. It further proposed that abnormal exports to third countries which might jeopardize the availability of supplies to the Community should be avoided. The attainment of these objectives depended on a ready access to precise and homogenous information on intra-Community exchanges and on exports to third countries. They also called for frequent consultations between member states and the Commission in order to agree on possible commercial measures.

The Commission further proposed to the Council a temporary Community system for the supervision of prices of oil products and subsequently a recommendation of the Council was addressed to member states on the subject of the maintenance and harmonization of voluntary measures for the reduction of energy consumption in the Community.

Since these measures were aimed at facing up to a crisis situation, the Commission hoped that its propositions might be adopted by the Council for application up to 30th June 1974. In fact the crisis had receded somewhat by the beginning of 1974 and the Council never pronounced on these propositions by the Commission.

The reactions by the Commission to the onset of the oil crisis were justified by the outbreak of the war in the Middle East and the measures decided upon by the member countries of OPEC. It was, at that time, impossible to foresee future developments and it would have been improvident not to take a serious view of the possibility of a crisis of long duration.

The impression may perhaps be gained from this report that the effects of the crisis on supplies to the Community were not particularly severe. Such a conclusion is possible now, several months afterwards. It nevertheless remains true that the end of 1973 and the beginning of 1974 was regarded by the Community, member states, oil companies and consumers as a period of crisis and attitudes and measures then taken were conditioned by the desire to be prepared for a possible long duration.

PART III

PART III

RELATIONS BETWEEN THE OIL COMPANIES AND PUBLIC AUTHORITIES

Close relationships existed in all countries in the Community between the oil companies and public authorities. During the oil crisis such links became more extensive, particularly in Belgium, the Netherlands, France and Italy. Sometimes the relationships are based on laws or regulations such as in Italy and France; in other instances the relationship is on a de facto basis.

Section A below analyses the general relationship between the oil companies and the national authorities. Section B describes the relationship which existed between the oil companies and national governments in respect of the resolution of certain specific problems which arose, such as that concerning the maintenance of supplies to certain classes of consumers and independents during the oil crisis. Section C deals with agreements concerning supplies to certain national enterprises.

A. GENERAL RELATIONSHIPS BETWEEN OIL COMPANIES AND NATIONAL AUTHORITIES DURING THE OIL CRISIS

(a) Belgium

In pursuance of a Convention dated 12th May 1964, a committee of control - Comité du contrôle d'electricité et du gaz - was established in Belgium with responsibilities for submitting recommendations to the Government in respect of tariffs and distribution arrangements for gas and electricity. Before the crisis, no such arrangements existed in respect of oil. However there existed a Consultative Committee for oil created by Royal Decree of 27th September 1972. At the beginning of November 1973 a further liaison committee was created but not as the result of any legislation or specific regulation. The president of the committee was the Minister of Economic Affairs and members were drawn from various ministries with associated interests and the oil companies. This liaison committee was divided into three specialised sections dealing respectively with:

- gas oil, light heating oil and petrol
- residual fuels
- liquid petroleum gas.

The activities of the liaison committee gave rise to the publication by the Minister of a number of directives concerning, for example, requisition procedures and the maintenance of supplies to independents.

But the oil crisis had emphasized the necessity of a more permanent relationship between the Government and the oil companies. There was accordingly created by royal decree on the 8th April 1974, the Comité de Concertation et de Contrôle (Official Gazette of the 10th April 1974). The Committee had as its prime purpose the exploration of solutions to problems concerning the production, the supply, import, distribution, transport, storage, marketing and costs of oil and of oil products. The Committee was empowered to deal with the problem of formulating prices for oil products.

Membership of the Committee was drawn from three sources -organizations with a 'supervisory' rôle (trade unions and professional associations), organizations to be supervised (refining and distributing companies) and public authorities.

Price structure difficulties were sorted out by the 'planning agreement' signed on 24th July 1974 by the Minister of Economic Affairs and the Belgian Oil Federation, which set up a procedure for establishing sale prices.

(b) Holland

The relationship between the oil companies and the government has always been based on what might be described as a gentlemen's agreement. Up to 1950, Shell was the only refining company operating in Holland. The subsequent establishment of new refineries meant that the Minister for Economic Affairs was obliged to contact each of the oil companies concerned when he wished to discuss problems affecting the oil industry in Holland as a whole. In order to simplify these contacts, the Olie Contact Commissie (O.C.C.) was established about 1950 at the invitation of the government. The chairmen of the O.C.C. have always been former directors of Shell. All the companies which undertake refining in Holland are represented on the O.C.C., that is Shell, Esso, BP, Chevron, Texaco, Mobil, Gulf, Compagnie française des pétroles and Petrofina which hires refinery capacity. One of the functions of the O.C.C. is to submit to the Minister of Economic Affairs joint propositions in respect of the calculation of maximum prices.

During the oil crisis the members of the O.C.C. in agreement with the organizations for commercial retailers of oil products, proposed minimum profit margins for deliveries of oil products through the Rijksbureau, whose function is described in detail in Section B. The recommended margins were subsequently opposed by the independent oil companies on the basis that they did not permit these companies to cover their costs of distribution. During the oil crisis the companies who were members of the O.C.C. cooperated with the Rijksbureau for the establishment and maintenance of 'pools' of oil products which were intended to provide supplies to consumers and independent companies who found themselves in particular difficulties through the shortage of oil products.

(c) France

The French oil industry is regulated by the Law of 1928. This law organizes the oil industry and casts the public authorities in the role of guardian of the oil companies. This undoubtedly had the effect of creating a strong state interest in the oil sector represented by C.F.P. and Elf Erap but it also gave rise to a situation favourable to concertations between oil companies. Without describing in detail the French legislation, mention may be made of the main principles together with some indication of how this legislation has influenced the behaviour of the French oil companies during the oil crisis.

The successive laws and government decrees affecting the oil industry dealt with such matters as the import of crude oil, the distribution of refined products, the establishment of prices at both the refinery and distribution level, the definition of oil products and the control of quantities made available for sale on the French market. Oil companies in France participated to some extent in the operation of a state monopoly,a function which had been assigned to them by the Law of 1928. In effect, the provisions of the various laws and decrees envisage that the right to import crude oil will be reserved exclusively to certain named companies who have been granted an authorization which is valid in principle for ten years. Similarly the right to import and distribute refined products depends on the grant of an authorization which is valid for three years and which deals with quota arrangements for petrol only. At the present time no limits are fixed in respect of other oil products. La Compagnie Française de Raffinage, which is a subsidiary of the Compagnie Française des Pétroles, also enjoys a special authorisation for it to distribute annually 25% of the oil products intended for domestic consumption and to import corresponding quantities of crude oil.

These arrangements had the effect of inducing certain concerted practices which went beyond the limits envisaged by the legislators.

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the French national authorities established the fact that a system of distribution quotas had existed over two periods, 1960 to 1962 and 1968 to 1969. Attempts by the oil companies to increase prices by concerted action, however, were rare during these periods. Such concerted practices concerned sales of fuel oil to municipal establishments and on the wholesale market for fuel oils and petrols. These enquiries, which covered the whole of France, were the subject of an opinion expressed by the Committee on Cartels and Dominant Positions , (Bulletin Officiel des Services de Prix dated 18th April 1973).
In this opinion the French authorities recognised that the Law of 1928 had of necessity given rise to a certain concertation in the field of distribution of oil products. The Committee stressed, however, that the restrictive practices which had been detected had gone far beyond the extent necessary for the proper application of the government regulation. That Committee also recommended that no legal action should be taken before 1st October 1973, on condition that by that date the public authorities and the oil industry would have defined the field and the extent to which concerted practices were admissible in the sector of oil products.

Because of the action taken by the French authorities, the Commission did not deem it appropriate to introduce formal procedures under Articles 85 and 86 of the Treaty of Rome in respect of the concerted practices which had been brought to light by the report of the Committee on Cartels and Dominant Positions.

Towards the end of 1973, a protocol was drawn up by the public authorities and signed by the oil companies and the trade organizations. This protocol and its ratification by the signatories was published on 20th February 1974. The object of the protocol was to define the commercial practices which were admissible in the light of the rules of competition under French law.

So far as the concerted practices of a regional nature are concerned, in particular those involving the municipal markets in the region of Marseilles and which were the subject of legal action commenced by the French judiciary at the beginning of 1973, their essentially local character places them outside the criteria for the application of the Treaty of Rome.

(d) United Kingdom

When it became clear in October 1973 that the production of crude oil would be affected by the Israel-Arab conflict, the Department of Trade and Industry in the United Kingdom set up an Oil Emergency Group which was charged with coordinating government action. At the same time, the Oil Industry Emergency Committee (O.I.E.C.) was convened under emergency arrangements for dealing with supply difficulties. Membership of the O.I.E.C. consisted of representatives of the principal oil refining and marketing companies in the United Kingdom: several subcommittees were formed to deal with special topics such as marketing, retail supplies and statistics. Following the introduction of the Fuel and Electricity (Control) Act 1973, directions were issued in November 1973 to all companies requiring them to reduce deliveries to customers of the main oil products to 90% of the level of deliveries in the previous year.

(e) Italy

The plan for the reorganization of the Italian oil industry was adopted by the Inter-Ministry Committee of Economic Planning (C.I.P.E.) some time before the commencement of the oil crisis. Its aims were:

- to give a defined status to the State companies and especially to Ente Nazionale de Idrocarburi (ENI) and its subsidiary; Azienda Generale Italiana Petroli (AGIP); and
- to maintain conditions of competition between a large number of enterprises.

The crisis and the various national regulations which maintained maximum prices below international levels accelerated the process envisaged by the plan of reorganization and modified extensively the structure of the Italian oil industry. Shell Italiana and B.P. Italiana left the market, the former being purchased completely by A.G.I.P. and the latter by the Monti Group. The outcome was a reinforcement of the influence of the State on the Italian oil industry but this was achieved at the cost of heavy losses which were suffered during the crisis by A.G.I.P.

The new plan for the reorganization of the oil sector provided for the introduction of import quotas for crude oil and an increase of the quantity authorized for A.G.I.P. It also envisaged the development of a fleet of tankers of E.N.I. under the Italian flag. It further envisaged the development of all the oil activities of A.G.I.P. and eventually the extension of state control to the whole of the sector concerned with the distribution of oil products. The development of A.G.I.P. in the various fields was considered by the State as necessary to ensure the adequacy of supplies for the national market. To effect this, the plan envisaged an extension of the activities of E.N.I. in the sector of the production of crude oil either by an intensification of exploration activities or by the conclusion of medium and long-term purchasing contracts within the framework of exchanges, of links and of contracts for cooperation and indústrial assistance with oil producing countries.

So far as refining is concerned, the part played by international oil companies was already extremely limited. In 1974, 79% of the authorized refining capacity was already covered by the following companies:

E.N.I.	20%
Esso	19.1%
Monti Group	15.1%
Montedison	8.6%
Moratti	8.3%
Rovelli	4.1%
Garrone	4.0%
	79.2%

It can be seen that Esso was, and it remains, the only international company of significance in the field of refining. The other international companies which exist in Italy represent in total no more than 11.5% of the authorized capacity.

In conclusion, the oil crisis modified the oil policy in Italy. Before the crisis the activity of the E.N.I. Group constituted a competitive factor with the other international groups established in the country. Since the crisis, the influence of the State in the oil sector has been clearly extended. E.N.I. now occupies the role of a supply agency in respect of crude oil both for its own refineries and for non-integrated Italian groups who undertake process refining.

(f) Ireland

During the oil crisis the relationships between the Irish Government and the oil industry in handling the oil supply shortage and economy measures were pursued on a basis of close cooperation between the oil companies and the Minister for Transport and Power. In addition, regulations governing the maintenance of oil reserves were made by the Minister. Under Irish legislation however, the Minister for Transport and Power can, in an emergency situation, control the activities of oil companies through the Fuels (Control of Supplies) Act 1971.

(g) Denmark

In normal times, the delivery of oil products by the oil industry to traders and consumers is not subject to any form of legislation but during the oil crisis two ministerial decrees were issued - on 19th and 27th November 1973. Both these decrees concerned gas oil, diesel oil, bottled gas and fuel oil. The first of these decrees established two committees: the first was concerned with the allocation of oil products between traders and the second was established by the Minister of Commerce as a general supervisory body: the latter was also empowered to investigate and act in respect of complaints received from consumers. The first decree also contained provisions concerning the registration by suppliers of details of their transactions in oil products.

(h) Germany

During the crisis the Federal Government did not find it necessary to introduce any law or regulation concerning quantities and prices of oil products.

The difficulties which nevertheless arose in connection with supplies were solved through close contacts between the public authorities and the oil companies. Enterprises in the oil sector, producers, importers and dealers were represented on supply committees - 'Industry' and 'Importers and intermediary dealers'.

Several arrangements resulted from this cooperation. For some oil products including petrol, industrial and domestic fuels and naphtha, communication networks were set up by the oil companies to avoid disturbances of supply. A voluntary information system was established under which the oil companies regularly informed the Ministry for Economic Affairs of, in particular, imports of crude oil and oil products, refining, sales, stocks and selling prices.

In respect of the supply of diesel oil, priority was given to meeting the requirements of industry to avoid an adverse effect on the employment situation. Supplies of light fuel oil to domestic consumers were limited to 75% of their normal consumption to induce consumers to make the fullest use of their stocks. The oil companies endeavoured to prevent their filling-stations from giving priority to regular customers.

In addition, voluntary limitations were introduced on prices of certain products, including light fuel oil.

(i) Luxembourg

Almost all the oil products to meet the requirements of Luxembourg had for a long time originated from refineries at Antwerp. In 1972 Luxembourg began to receive some products from Germany, particularly residual fuel oils. The existence of a system of maximum prices for these products in Luxembourg caused difficulties for some independent companies who obtained supplies from Germany.

Export licences

Side by side with these rules and arrangements dealing primarily with price levels, all the Community countries except Denmark and Ireland introduced export licensing systems for oil products during the crisis. Although these licences were theoretically granted without restrictions in time, at no cost and for whatever quantity was requested, the control facilities which they placed in the hands of the Member States in fact inevitably tended to segregate the common market.

Hence during the crisis,all the member states equipped themselves with the means to take action with varying degrees of compulsion. It is interesting to note that none of these measures really had any influence on trade in overall terms. Greater quantities of products might have been expected to flow away from markets with low controlled prices to markets where prices were higher or uncontrolled. But this did not happen, and although the figures show that imports into Germany did swell in October and November 1973, trade flows remained stable over the six-month crisis period and Germany continued to import the same volumes (99.8% of the corresponding period of the previous year) from the same exporting countries (mainly the Netherlands).

B. SPECIAL MEASURES AND PROBLEMS INVOLVING OIL COMPANIES AND GOVERNMENTS DURING THE CRISIS

a) Supply pools in Belgium and in the Netherlands

In Belgium and in the Netherlands the governments asked the large oil companies to make supplies available to consumers who were unable to obtain deliveries, such as independent companies who were unable to obtain oil products on the national market or by importation. From the point of view of competition,these pools led to very close contacts between the various companies who were members of the pools, without achieving a complete resolution of the supply problems of the independent companies.

Belgium

The Ministerial Decree of 6 November 1973 and subsequent notices provided that supplies should be made available to independent companies on the following basis:

- independent companies who were regular customers should be supplied with a minimum of 75% of their reference quantities; that is, the quantities which were delivered to them during the corresponding period in 1972;

- those companies who had made occasional purchases (on a "spot" basis) should receive a minimum of 50% of their reference quantities;

- other customers should be supplied with a minimum of 45% of their reference quantities.

However the interpretation of these provisions was left to the discretion of the large companies and they were implemented by directives of the Liaison Committee of the Belgian Oil Federation. This Federation set up a pool with a secretariat which had representatives of five of the large oil companies: B.P., Texaco, Shell, Esso and Calpam (SHV/Chevron).

The pool had two main functions:

- to supply independent importers with up to 45% of the quantities they had required in the corresponding period of the previous year;

- to supply priority customers, such as hospitals and schools.

The pool then allocated between its members those orders which the independents were unable to meet. The result was, for a time, a typical sharing arrangement of those markets which the independents had been forced to quit.

In March and April 1974, the operation of this pool was backed up by powers allowing the authorities to requisition products so as to meet certain very difficult situations facing the independents and priority customers. According to information provided by the Belgian oil companies, certain of these requisitions were carried out only to an extent varying between 15% and 48%.

Holland

A state office, the Rijksbureau, was set up in Holland by a Ministerial Decision of 13th November 1973, to organise the country's supplies of oil products. The Rijksbureau consisted of experts, seconded from oil companies operating refineries in Holland, supported by administrative staff. It was essentially an executive body. At the request of the Minister for Economic Affairs, it drew up a scheme of rationing and organized a pool of oil products, contributed by the oil companies, from which supplies were allocated to meet special demands of consumers and independent distributors. The activities of the Rijksbureau ceased on 1st April 1974.

b) Special problems relating to government price controls

In certain countries, particularly Belgium, the Netherlands and Italy, one of the effects of the price levels of the various oil products fixed by the government was to provoke movements of stocks of crude oil.

In the Netherlands a reduction in the production of heavy fuel by the refineries was noticed, due to the consumption having dropped by considerable proportions in comparison with the preceding year because natural gas was being used as a substitute form of energy.

The production of petrol increased, although during the crisis the consumption of petrol on the national market also diminished by 15% to 20% in respect of the reference months of the preceding year following the Dutch authorities' recommendations on fuel economy. Despite the oil embargo directed against the Netherlands, as a result of purchases of lighter oils which gave a greater yield of petrol, the production of petrol was maintained and, in fact, the proportion of petrol exported of the total production of petrol increased from 44% in January 1974 to 56% in March 1974. The fixing of domestic prices in the Netherlands for petrol at a level which was considerably lower than the international price therefore gave rise to a proportional increase in the exports of petrol.

In Belgium the introduction of maximum prices similarly influenced the behaviour of the oil companies, leading them to reduce their stocks and their imports of crude oil. In fact, it is apparent from an analysis of the financial effects of the crisis on one company in Belgium that the profits achieved by the enterprise on the whole of its products attained their highest level during the fourth quarter of 1973, then tailed off until they disappeared completely and turned into a deficit for fuels and gas oils from the beginning of 1974.

A note from the Oil Federation dated 16 January 1974 confirms that all the oil companies found themselves in the same situation. At the same time, refinery production reduced during the first quarter of 1974 in comparison with the corresponding quarter of 1973 by about 26% for petrol, 25% for gas oil and middle distillates and 27% for heavy fuel oil.

In Italy, according to data obtained from four companies, the average monthly prices for purchases of crude oil c.i.f. were, before the start of the oil crisis, largely above the prices fixed by the CIPE (the Inter-Ministry Committee for Economic Planning).

However, one must take into account the fact that because of the considerable capacities for stocks which existed in Italy, the increase in the maximum prices authorized by the CIPE in February 1974 allowed the oil companies to achieve considerable profits on the quantities held in stock. Crude oil purchased in November 1973 at 23.255 lire per tonne was accounted for on the basis of the price of 45.000 lire established by the CIPE in February 1974. These profits were, however, only temporary because the costs of replacing the oil sold had to be taken into account. Two international enterprises abandoned their activities on the Italian market - Shell Italiana and B.P. Italiana. The Moratti Group increased its activities in the field of refining services for export where prices were free. Moreover, the prices of naphtha, which were not subject to maximum price control, increased quite considerably. The petro-chemical refineries, such as those of Montedison, recovered the increase in price of crude oil on naphtha and petro-chemical bases since they were not able to do so on oil products which were subject to maximum price control. AGIP which, by taking up the BP network, had increased its share of the market, sustained considerable losses due to its purchases of crude oil at prices which were too high, taking into account the maximum prices in Italy.

This control of prices influenced the structure of the oil industry in Italy by discouraging international groupings which had partly given up their place to the ENI Group and had abandoned their refining activities to Italian companies offering refining services.

c) Stocks of crude oil and of refined products in Belgium

This problem was studied in considerable detail in view of the questions which had been raised in the European Parliament in respect of Belgium. The Commission supplemented its investigations on this aspect by sending a detailed questionnaire to eight Belgian oil companies who were carrying out refining in Belgium in the period from the end of November 1972 to the end of April 1974.

The Commission confirmed that the total stocks of crude oil increased up to 30th June 1973 and then thereafter were reduced uniformly until 30th April 1974. The reduction in the level of stocks showed some relationship with the increase in the price of crude oil and with the maintenance of the prices of oil products in Belgium at a level lower than the international quotations.

An analysis of the relevant data of the eight companies during this period in respect of each of the four occasions when price increases were authorized by the Belgian Government, revealed no similarity of movements in the stocks of crude oil belonging to the various companies which might have led one to presume the possibility of some concerted practice aimed at gaining profit from the increase in maximum prices.

A positive indication of the existence of a concerted practice would have been a collective increase in the stocks of crude oil in anticipation of the increase in maximum prices of oil products, and then a reduction in stocks when the increases in maximum prices had been approved.

In respect of the price increase of 1st January 1973 this double movement is identifiable only in respect of two companies out of the eight studied. For the increases which were put into effect on 1st June 1973 and 1st July 1973, this double movement was present in respect of all eight companies concerned. For the price increase of 15th November 1973, only one of the eight companies showed this double movement. For the increase of 1st April 1974 this double movement is noted for four companies out of the eight.

It therefore seems that, except for the price increase of 1st June 1973 when the oil companies increased their stocks before the price increase and reduced their stocks when the price increase became effective, the companies chose rather to attempt, by reducing their stocks of crude oil, to exert pressure on the Belgian Government to increase the maximum prices of oil products.

The Commission has found that in all countries operating price controls, the oil companies exerted pressure on governments in order to have prices adjusted in line with the increase in the cost of crude oil, Belgium appears to be the only country where this pressure was accompanied by stock movements and a slowdown in imports. The reason, no doubt, is that in other countries the regulations issued by the authorities gave them more clearly defined powers in controlling what the companies did with their stocks, while other governments decided more quickly on their attitude to requests from companies.

C. ARRANGEMENTS CONCERNING SUPPLIES TO CERTAIN NATIONAL ENTERPRISES

The Commission has examined certain supply arrangements between oil companies and some large national undertakings.

In France the Commission has examined the contracts entered into by two oil companies and Electricité de France. Both companies concluded with EDF contracts of similar type for the same duration of ten years, for the exclusive supply to certain power stations. Such contracts of exclusivity of supply could give rise to problems with regard to the rules of competition. Their terms will be the subject of further examination.

In Italy the contract entered into by Esso and Montedison for the provision of naphtha was for a duration of ten years. It has just expired. The Commission will examine the conditions on which it has been renewed.

In general, contracts between oil companies and national enterprises would have to be the object of a more detailed examination in order to determine whether the nature of these contracts has contributed to some sharing out of customers.

P A R T I V

PART IV

THE EFFECTS OF THE CRISIS ON QUANTITIES AND PRICES

A - Quantities

(a) General remarks

One of the items dealt with in this chapter will be supplies of crude oil. A number of terms used in the oil industry are used here and a definition of these terms and a brief description of the way in which crude oil is acquired may be helpful.

Before the crisis, the ownership of crude oil in the various producer countries depended on a series of agreements concluded in 1972 between the producer countries themselves and the oil companies or groups. Under these agreements, known as "participation agreements", the companies owned part of the crude oil. This was known either as "concession oil" or as "equity crude". The proportion of total production accounted for by concession oil varied from country to country and from agreement to agreement. Before the crisis, for instance, concession oil represented 75 % of total production in Saudi Arabia.

Another portion of crude oil production, owned by the producer state in line with its shareholding, was known as "participation" oil or crude and in January 1973 represented 25 % of Saudi Arabian production.

"Participation oil" is further subdivided into "bridging oil" and "phase-in oil". These were defined by the participation agreements.

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"Bridging oil" was the term applied to agreed quantities of participation crude oil which producer countries were obliged to sell back to oil companies during the first three years of the operation of the participation agreements (that is, 1973, 1974 and 1975) to permit these companies to fulfil, during these transitional years, their existing supply commitments. In the case of Saudi Arabia, 18,75% of the total oil production was allocated as bridging oil.

"Phase-in oil" was the term applied to agreed maximum quantities of participation crude oil which producer countries could require the oil companies to buy back from them, if, during the period when the producer countries were developing ("phasing-in") their own commercial policy, these countries encountered difficulties in disposing themselves of crude oil within these maximum quantities. It was envisaged that the "phase-in" arrangements would extend to 1991. In the case of Saudi Arabia, in 1973 3,75% of the total oil production was allocated as phase-in oil. The concepts of bridging oil and phase-in oil were not operated by all the oil producing countries and indeed fell out of use towards the end of 1973.

The balance of participation crude oil not earmarked as bridging oil or phase-in oil was referred to as "state oil", a term which is sometimes also used as an alternative to "participation oil".

These were the concepts which were in operation at the onset of the oil crisis; however, the situation changed rapidly. The proportion of total oil production attributed to participation oil was fixed, as has been said, at about 25% and should have remained at this level until 31 December 1977, after which date it was due to be increased annually until a limit of 51% was reached in 1982. But already by 1974 the various participation agreements were no longer respected by the producing countries and the proportions of concession oil and participation oil were, in that year, 40% and 60% respectively for the Persian Gulf states whilst the comparable proportions for Nigerian crude oil became 45% and 55% respectively.

(b) Total Community imports of crude oil

An examination of this cannot be undertaken without bearing it in mind that a comparison of data relative to two periods takes no account of increased consumption, which, in view of the economic expansion, it was normal to expect for the period October 1973 to March 1974, compared with October 1972 to March 1973.

Nevertheless, subject to this qualification, imports from October 1972 to March 1973 (the reference period) can be compared with those from October 1973 to March 1974 (Table 11).

The total Community imports of crude oil were at substantially the same level during the crisis as during the reference period.

An analysis of the imports of individual countries shows some variations to this.

In Germany, imports rose during the first two months of the crisis. The rise was due both to the desire of the oil companies to shield themselves against the effects of the embargo on crude oil exports to Rotterdam, which is the source of most German imports of refined products from Community countries (nearly 70 %), and to the attractiveness of the German market, where the level of prices allowed the largest profit margin.

By January 1974, the German market was saturated and imports began to fall off. Total German imports over the crisis period were 2 % below those of the reference period.

In the Netherlands, the effects of the embargo began to be felt seriously in December 1973 when crude imports fell to roughly 50% of the October level. By January, however, the supply situation in Rotterdam began to brighten as a result of the arrangements made by the large international companies to reroute, mainly through the United Kingdom, certain quantities intended for their Rotterdam refineries.

TABLE 11

Crude oil imports from non-member countries

Month	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Community (a)
					'000 t					
1972 Oct	8.282	10.045	10.546	6.366	3.222	–	8.788	–	(833)	48.082
Nov	9.172	11.697	10.751	6.125	3.232	–	8.691	–	(833)	50.501
Dec	9.076	10.454	10.505	5.514	2.818	–	9.124	–	(833)	48.325
1973 Jan	9.244	12.302	9.802	6.332	2.522	–	8.945	–	1.028	50.175
Feb	8.502	10.352	9.389	5.963	2.534	–	7.888	–	722	45.350
Mar	9.455	12.547	11.041	6.101	3.437	–	9.613	–	839	53.033
Total Oct.'72–Mar '73	53.731	67.397	62.035	36.401	17.765	–	53.049	–	5.088	295.466
1973 Oct	10.019	11.878	10.822	6.469	2.761	–	11.737	–	881	54.567
Nov	9.346	12.548	9.937	6.438	3.358	–	8.923	–	622	51.172
Dec	8.777	10.825	10.881	3.453	3.141	–	8.895	–	532	46.504
1974 Jan	8.707	11.407	11.134	5.257	2.768	–	9.820	–	952	50.045
Feb	7.259	11.285	10.006	4.686	2.348	–	8.921	–	560	45.065
Mar	8.380	10.650	10.514	5.509	1.082	–	10.376	–	867	47.378
Total Oct.'73 –Mar '74	52.488	68.593	63.294	31.812	15.458	–	58.672	–	4.414	294.731
					Difference in %					
1973/72 Oct	21,0	18,2	2,6	1,6	– 14,3	–	33,6	–	(5,8)	13,5
Nov	1,9	7,3	– 7,6	5,1	3,9	–	2,7	–	(–25,3)	1,3
Dec	– 3,3	3,5	3,6	– 37,4	11,5	–	– 2,5	–	(–36,1)	– 3,8
1974/73 Jan	– 5,8	– 7,3	13,6	– 17,0	9,8	–	9,8	–	– 7,4	– 0,3
Feb	– 14,6	9,0	6,6	– 21,4	– 7,3	–	13,1	–	– 22,4	– 0,6
Mar	– 11,4	– 15,1	– 4,8	– 9,7	– 68,5	–	7,9	–	3,3	– 10,7
Oct.'73–Mar '74/ Oct.'72–Mar '73	– 2,3	1,8	2,0	– 12,6	– 13,0	–	10,6	–	– 13,2	– 0,2

(a) Excluding Ireland, where no monthly figures are available

Ultimately, Dutch supplies during the crisis were 12.6% below those of the reference period.

In Belgium, despite the country's partial dependence on Rotterdam for supplies of crude oil by the Rotterdam-Antwerp pipeline, imports developed along different lines than in the Netherlands.

The fall in crude oil imports only became apparent in February 1974; it increased in March when the oil companies lost interest in the Belgian market, where the maximum prices imposed by the Government did not allow them to operate profitably.

In Denmark, the embargo had the same effects on imports as in the Netherlands, but this had no perceptible impact outside the country since Denmark is not an exporting country.

On the other hand, the existence of price controls undoubtedly led the companies to reduce their purchases of crude oil as in Belgium.

Italy, in contrast, imported a little more crude oil during the crisis than during the reference period, the reason being that the companies continued to exploit their Italian surplus refining capacity on the export market (Italian exports of finished oil products rose by 1% over the reference period; see Table 14).

The United Kingdom also increased its crude oil imports, but to a much greater degree than Italy (10.6%). The reason for this was that the companies were using their British refineries to make up for the temporary loss of output in Rotterdam caused by the embargo.

France was able to continue a normal supply pattern, and its refineries ran at full capacity.

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(c) Quantities of crude oil refined (Table 12)

During the first six months of the crisis, the volume of crude oil processed in Community refineries was 303 million tonnes as compared with 305 million tonnes during the reference period.

The Netherlands and Belgium witnessed a sharp drop of 13% and 10% respectively in refining activity.

France and the United Kingdom, on the other hand, refined greater volumes than in the previous year.

(d) Supplies to European companies with inadequate sources of crude oil

In times of crisis, it might be feared that companies not having enough crude oil of their own to keep their refineries running at capacity would be faced with supply difficulties.

On the whole, these companies did not suffer from a shortage of crude oil during the crisis.

Crude oil processed in refineries

Month	Germany	France	Italy	Nether-lands	Belgium	Luxem-bourg	United Kindom	Ireland	Denmark	Community (a)
				'000 t						
1972 Oct	9.733	10.963	11.572	6.568	2.860	-	8.728	-	(730)	51.154
Nov	9.587	11.395	10.451	6.083	3.236	-	9.030	-	(730)	50.512
Dec	9.886	11.684	11.399	6.244	3.304	-	9.906	-	(730)	53.153
1973 Jan	10.096	12.000	10.362	6.251	2.111	-	9.894	-	874	51.588
Feb	9.205	10.140	9.470	6.268	2.896	-	8.377	-	787	47.143
Mar	9.926	10.856	10.784	6.117	3.435	-	9.554	-	880	51.552
Total Oct '72- Mar '73	58.433	67.038	64.038	37.531	17.842	-	55.489	-	(4.731)	305.102
1973 Oct	10.813	12.044	10.993	6.278	2.965	-	10.226	-	830	54.149
Nov	10.145	11.952	9.893	5.712	3.449	-	9.534	-	739	51.424
Dec	9.587	12.133	11.297	5.030	3.400	-	10.211	-	760	52.418
1974 Jan	9.136	11.681	11.153	5.012	2.560	-	9.510	-	775	49.827
Feb	7.826	10.963	9.788	5.127	2.366	-	9.185	-	740	45.995
Mar	8.355	11.293	11.917	5.456	1.363	-	10.233	-	810	49.427
Total Oct '73 – Mar '73	55.862	70.066	65.041	32.615	16.103	-	58.899	-	4.654	303.240
				Difference in %						
1973/72 Oct	11,1	9,9	- 5,0	- 4,6	3,7	-	17,2	-	(13,7)	5,9
Nov	5,8	4,9	- 5,9	- 6,1	6,6	-	5,6	-	(1,2)	1,8
Dec	- 3,0	3,8	- 0,9	- 19,4	2,9	-	3,1	-	(4,2)	- 1,4
1974/73 Jan	- 9,5	- 2,7	7,6	- 19,8	21,3	-	- 3,9	-	- 11,3	- 3,4
Feb	- 15,0	8,1	3,4	- 37,3	- 18,3	-	9,7	-	- 6,0	- 2,4
Mar	- 15,8	4,0	10,5	- 11,8	- 60,3	-	7,1	-	- 8,0	- 4,1
Oct '73 - Mar '74/ Oct '72 - Mar '73	- 4,4	4,5	1,6	- 13,1	- 9,7	-	6,1	-	- 1,6	- 0,6

(a) Excluding Ireland, where no monthly figures are available

Petrofina, which has no resources of its own, had for several years been obtaining supplies from BP Trading under a long-term contract. BP and Petrofina own and operate the SIBP refinery at Antwerp on a 50/50 basis.

A comparison during the entire crisis period of BP's deliveries to its own refining subsidiary, **Anglo-belge des Pétroles (ABP)**, and to Petrofina shows that deliveries to Petrofina developed in the same way as those made to ABP.

In 1973, AGIP-ENI was prevented, to varying degrees, from exporting its production of crude oil by certain producing countries, with Iran blocking as much as 69% of its production.

Of nearly 18 million tonnes produced outside Italy, AGIP was able to ship only 10.6 million tonnes that year.

During the crisis, the proportion of its supplies accounted for by its own production fell steadily from 36% in October 1973 to 29% in March 1974.

Hence, AGIP was forced to buy more crude oil on the free market, in other words, outside that part of the market governed by participation agreements. It paid a higher price for the crude oil which it obtained than that paid by the integrated international companies, which have the best supplies of crude oil. The difference was between 10 and 20%.

Montedison had no supply difficulties since it was able to buy on the free market and pass the price difference on in products used in the petrochemical industry where there were no price controls.

Judging by the development of stocks held by Veba's refineries in Germany, which rose between October 1973 and March 1974, Veba does not appear to have experienced any difficulties with its supplies, which were assured, on the one hand, by its contracts with Mobil and BP and, on the other hand, by its own sources and its purchases elsewhere. For these latter purchases, Veba had to pay higher prices.

(e) Quantities of refined products supplied to the domestic market (domestic consumption) (see Table 13)

The stability of crude oil supplies, quantities refined and stocks held meant that the available quantities of finished products lso remained highly stable.

None the less, supplies of oil in the common market during the crisis were 5.6% lower then those of the reference period. However, exports to non-member countries rose by the same proportion. This resulted undoubtedly from the combined effect of energy-saving measures introduced in Community countries, a slight reduction in industrial activity and the attraction of world market prices.

The reaction of the oil companies to price controls also had repercussions on the extent to which the domestic markets of certain member countries continued to receive supplies.

Domestic supplies of **oil products**

Month	Germany	France	Italy	Nether-lands	Belgium	Luxem-bourg	United Kingdom	Ireland	Denmark	Community (a)
				'000 t						
1972 Oct	10.885	8.972	7.835	2.187	2.113	123	8.320	-	(1.660)	42.095
Nov	11.144	9.587	7.601	2.386	2.359	122	9.017	-	(1.660)	43.876
Dec	12.050	10.954	8.897	2.403	2.228	210	9.054	-	(1.660)	47.461
1973 Jan	12.389	11.630	8.336	2.482	2.301	148	9.826	-	2.028	49.140
Feb	11.125	10.320	8.119	2.247	2.283	135	8.865	-	1.758	44.852
Mar	11.718	10.705	8.051	2.302	2.431	142	9.644	-	1.848	46.841
Total Oct '72 - Mar '73	69.311	62.168	48.839	14.012	13.715	880	54.726	-	(10.614)	274.265
1973 Oct	12.761	10.547	7.652	2.521	2.320	149	9.129	-	1.847	46.926
Nov	12.035	10.689	7.168	2.069	2.386	137	9.281	-	1.688	45.453
Dec	10.686	11.738	7.876	2.143	1.986	227	8.096	-	1.488	44.240
1974 Jan	11.024	10.647	(7.752)	1.989	2.208	137	8.708	-	1.393	43.858
Feb	7.710	8.998	(7.752)	2.002	2.058	10	8.159	-	1.172	37.861
Mar	9.395	9.445	(7.752)	1.860	1.652	123	8.990	-	1.397	40.614
Total Oct '73 - Mar '74	63.611	62.064	45.952	12.584	12.610	783	52.363	-	8.985	258.952
				Difference in %						
1973/72 Oct	17,2	17,6	- 2,3	15,3	9,8	21,1	9,7	-	(11,3)	11,5
Nov	8,0	11,5	9,4	8,7	1,1	12,3	2,9	-	(1,7)	3,6
Dec	- 11,3	7,2	- 11,5	- 11,0	- 10,8	8,1	- 10,6	-	(- 10,4)	- 6,8
1974/73 Jan	- 11,0	- 8,5	- 7,0	- 19,9	- 4,0	- 7,4	- 11,4	-	- 31,3	- 10,7
Feb	- 30,7	- 12,8	- 4,5	- 10,9	- 9,9	- 92,6	- 8,0	-	- 33,3	- 15,6
Mar	- 19,2	- 11,8	- 3,7	- 19,2	- 33,0	- 13,4	- 6,8	-	- 24,4	- 13,3
Oct '73 - Mar '74/ Oct '72 - Mar '73	- 8,2	- 0,2	- 5,9	- 10,2	- 8,1	- 11,0	- 4,3	-	- 15,3	- 5,6

(a) Excluding Ireland, where no monthly figures are available

In the Netherlands and Belgium, in particular, the drop in supplies was partly due to the reluctance of the companies to supply products at the rather low maximum prices set by the Government. Domestic heating oil was the hardest hit.

In Germany, escalating prices in February 1974 acted as a brake on consumption, especially of domestic heating oil and diesel fuel. Quantities were available but the demand was no longer there.

(f) Total Community exports and imports of finished oil products (see Tables 14 a and 14 b)

Table 14 a (total exports) includes for each Community country:

- supplies to other Community countries
- exports to non-member countries.

Table 14 b (total imports) includes for each Community country:

- imports from other Community countries
- imports from non-member countries.

The figures given in the column for the Community thus cover trade within the Community (Tables 14 a and 14b), Community exports to non-member countries (Table 14 a) and Community imports from non-member countries (Table 14 b).

Total Community exports (to member countries and non-member countries) fell by only 5.8% in the crisis period compared with the corresponding months of the year before, which demonstrates that they were hardly affected by events in the Middle East.

However, the fall was sharper in two traditional exporting countries, the Netherlands and Belgium, which felt the effects of the embargo imposed on Rotterdam.

TOTAL EXPORTS OF ALL OIL PRODUCTS

TABLE 14 (a)

	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Community (a)
					'000 t					
972										
ct	725	1.046	2.275	3.541	1.102	-	1.257		(176)	10.122
ov	665	945	2.371	3.718	1.024	-	1.342		(176)	10.241
ec	612	927	2.088	3.841	1.395	-	1.455		(176)	10.494
973										
an	650	1.116	2.313	3.765	609	-	1.314		205	9.972
eb	680	1.041	2.135	3.524	1.121	-	1.000		202	9.703
ar	698	1.002	1.915	3.709	1.251	-	1.150		287	10.012
OTAL										
ct '72-Mar '73	4.030	6.077	13.097	22.098	6.502	-	7.518		1.222	60.544
973										
ct	1.018	1.172	2.340	3.849	1.286	-	1.767		303	11.735
ov	968	943	2.243	3.266	1.152	-	1.461		207	10.240
ec	603	1.142	1.960	2.446	1.509	-	1.138		207	9.005
974										
an	766	1.021	2.207	2.464	573	-	996		226	8.253
eb	687	883	2.657	3.110	695	-	756		231	9.019
ar	1.013	1.096	1.806	3.453	466	-	791		155	8.780
OTAL										
ct '73-Mar '74	5.055	6.257	13.213	18.588	5.681	-	6.909		1.329	57.032
					Difference in%					
973/1972										
ct	40,4	12,0	2,9	8,7	16,7	-	40,6		(72,2)	15,9
ov	45,6	- 0,2	- 5,4	- 14,0	12,5	-	8,9		(17,6)	0
ec	- 1,5	23,2	- 6,1	- 36,3	8,2	-	- 21,8		(17,6)	- 14,2
974/1973										
an	17,8	- 8,5	- 4,6	- 34,6	- 5,9	-	- 24,2		10,2	- 17,2
eb	1,0	- 15,2	24,4	- 11,7	- 38,0	-	- 24,4		14,4	- 7,0
ar	45,1	9,4	- 5,7	- 6,9	- 62,7	-	- 31,2		- 46,0	- 12,3
ct '73-Mar '74/ ct '72-Mar '73	25,4	3,0	0,9	- 15,9	- 12,6	-	- 8,2		8,8	- 5,8

(a) Excluding Ireland, where no monthly figures are available

TABLE 14(b)

TOTAL IMPORTS OF ALL OIL PRODUCTS

	Germany	France	Italy	Nether-lands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Community (a)
					' 000 t					
972										
ct	2.727	774	(500)	824	433	122	1.814		(1.035)	8.229
ov	3.266	817	(500)	797	425	127	1.921		(1.035)	8.888
ec	3.821	734	(500)	946	329	203	2.078		(1.035)	9.646
973										
an	3.313	(627)	321	788	647	138	2.158		1.355	9.347
eb	3.110	(627)	512	721	539	144	1.942		1.025	8.620
ar	3.026	(627)	414	619	631	139	1.655		1.065	8.176
OTAL										
ct '72-Mar '73	19.263	4.206	2.747	4.695	3.004	873	11.568		6.550	52.906
973										
ct	3.988	728	(350)	1.271	924	162	1.219		1.039	9.681
ov	3.685	519	(350)	671	570	139	983		888	7.805
ec	3.168	496	369	726	622	238	749		878	7.246
974										
an	2.726	340	246	701	580	143	1.043		830	6.609
eb	2.862	465	126	580	520	108	1.209		636	6.506
ar	2.796	342	309	776	494	116	1.234		619	6.686
OTAL										
ct '73-Mar '74	19.225	2.890	1.750	4.725	3.710	906	6.437		4.890	44.533
					Difference in %					
973/1972										
ct	46,2	- 5,9	(-30,0)	+ 54,2	113,4	32,8	- 32,8		(0,4)	17,6
ov	12,8	- 36,5	(-30,0)	- 15,8	34,1	9,4	- 48,8		(- 14,2)	- 12,2
ec	- 17,1	- 32,4	(-26,2)	- 23,3	89,1	17,2	- 64,0		(- 15,2)	- 24,9
974/1973										
an	- 17,7	(- 45,8)	-23,4	- 11,0	- 10,4	3,6	- 51,7		- 38,7	- 29,3
eb	- 8,0	(- 25,8)	-75,4	- 19,6	- 3,5	- 25,0	- 37,7		- 38,0	- 24,5
ar	7,5	(- 45,5)	-25,4	25,4	- 21,7	- 16,5	- 25,4		- 41,9	- 18,2
ct '73-Mar '74/ ct '72-Mar '73	- 0,2	- 31,3	-36,3	0,6	23,5	3,8	- 44,4		- 25,3	- 15,8

a) Excluding Ireland, where no monthly figures are available

This reduction in exports from Belgium and the Netherlands was offset by increased exports from Germany in particular. The increase in German exports (45% more in March 1974 than in March 1973) can be explained in part by the fall-off in demand on the domestic market at the end of the crisis in March 1974. This can also be attributed to the mild winter, to the fact that there was some consumption of industrial and domestic stocks and to the end of a period of panic over shortages which had begun in October 1973 and which, for a number of months, had triggered off an abnormally heavy demand.

The sum of the total imports of Community countries fell by 15.6%. However, German imports, which during the crisis period represented 43% of total Community imports, remained virtually static as compared with the reference period (- 0.2%).

Significant reductions occurred in French, Italian and British imports.

For the Community as a whole, the crisis resulted in a clear slowdown of trade in oil products, with a fall-off in both total exports and total imports.

During the crisis the exporting activities of Rotterdam and, to a lesser extent, Antwerp, were drastically curtailed.

(g) Intra-Community trade in oil products (see Tables 15 a and 15 b)

If we take 1972 as a normal year, we see that intra-Community trade rose in 1973 and then fell in 1974, both these years being affected by a three-month period of the crisis. Even after the end of the crisis, continuing effects can be seen.

TABLE 15 (a)
'000 t

Intra-Community trade in all oil products
1972, 1973 and 1974

Importing country	Exporting country: Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Community
Germany										
1972		3.168	2.292	18.569	2.316	-	1.717	-	66	28.128
1973		3.137	2.613	22.161	2.236	-	1.161	-	69	31.397
1974		3.094	2.286	17.713	1.693	-	1.035	-	35	25.913
France										
1972	1.354		3.683	803	326	-	80	-	5	6.251
1973	1.236		2.438	717	211	-	247	-	-	4.849
1974	1.176		1.400	731	270	-	257	0	0	3.5[illegible]
Italy										
1972	111	526		70	48	-	110	-	-	865
1973	71	562		104	106	-	63	0	19	925
1974	109	209		168	59	-	141	-	-	686
Netherlands										
1972	1.528	477	1.450		1.081	-	1.053	20	74	5.623
1973	997	989	1.001		1.487	-	1.010	-	30	5.5[illegible]
1974	1.017	561	1.028		1.423	-	2.095	-	5	6.129
Belgium										
1972	240	540	334	3.269		-	334	-	-	4.717
1973	247	942	269	4.236		5	261	-	-	5.980
1974	350	417	488	4.048		5	311	-	0	5.619
Luxembourg										
1972	160	133	-	168	1.017		-	-	-	1.483
1973	121	132	-	214	1.211		-	-	-	1.678
1974	274	71	-	15	1.202		-	-	-	1.562
United Kingdom										
1972	586	1.413	2.928	9.036	1.858	-		603	57	16.521
1973	259	1.464	1.913	7.145	2.001	-		493	52	13.327
1974	365	702	1.401	6.223	1.005	-		425	24	10.145
Ireland										
1972	23	-	19	109	33	-	2.478		-	2.662
1973	11	48	16	39	55	-	3.048		32	3.249
1974 (estimation)	(11)	(48)	(16)	(39)	(55)	-	(3.048)		(32)	(3.249)
Denmark										
1972	272	41	785	1.750	945	-	3.715	-		7.508
1973	225	185	462	2.503	1.146	-	4.111	-		8.632
1974	673	144	636	2.709	858	-	3.017	-		8.067
Community										
1972	4.274	6.293	11.441	33.774	7.624	-	9.487	623	242	73.756
1973	3.167	7.459	8.712	37.119	8.453	5	9.921	493	223	72.657
1974	3.975	5.246	7.263	31.646	6.595	5	9.988	425	99	65.242

TABLE 15 (b)

Imports by country of origin as a percentage of Community imports of oil products 1972, 1973 and 1974

Importing country	Exporting country									
	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	Community
Germany										
1972		11,3	8,2	66,0	8,2	-	6,1	-	0,2	100
1973		10,0	8,3	70,6	7,1	-	3,7	-	0,3	100
1974		11,9	6,8	63,4	6,5	-	4,2	-	0,2	100
France										
1972	21,7		53,9	12,8	5,2	-	1,3	-	0,1	100
1973	25,5		50,3	11,8	4,3	-	5,1	-	-	100
1974	30,4		35,3	18,9	7,0	-	7,4	0	0	100
Italy										
1972	12,8	60,8		8,1	5,6	-	12,7	-	-	100
1973	7,7	60,8		11,2	11,4	-	6,8	0	2,1	100
1974	15,9	30,4		24,5	8,6	-	20,6	-	-	100
Netherlands										
1972	27,2	8,3	24,9		19,2	-	18,7	0,4	1,3	100
1973	16,1	17,9	10,1		26,9	-	28,[illegible]	-	0,7	100
1974	15,6	9,1	17,8		23,2	-	34,2	-	0,1	100
Belgium										
1972	5,1	11,4	7,1	69,3		-	7,1	-	-	100
1973	4,1	15,8	4,5	70,8		0,1	4,7	-	-	100
1974	6,2	7,4	8,7	72,1		0,1	5,5	-	0	100
Luxembourg										
1972	10,8	9,3	-	11,3	68,6		-	-	-	100
1973	7,2	7,9	-	12,7	72,2		-	-	-	100
1974	17,5	4,5	-	1,0	77,0		-	-	-	100
United Kingdom										
1972	3,5	6,6	17,7	57,7	11,2	-		3,7	0,6	100
1973	1,9	11,0	14,4	53,6	15,0	-		3,7	0,4	100
1974	3,6	6,9	13,8	61,3	9,9	-		4,2	0,3	100
Ireland										
1972	0,9	-	0,7	4,1	1,2	-	93,1		-	100
1973	0,3	1,5	0,5	1,2	1,7	-	93,8		1,0	100
1974 (estimation)	(0,3)	(1,5)	(0,5)	(1,2)	(1,7)	-	(93,8)		(1,0)	100
Denmark										
1972	3,6	0,5	10,5	23,3	12,6	-	49,5	-		100
1973	2,6	2,1	5,4	29,0	13,3	-	47,6	-		100
1974	8,3	1,8	7,9	33,6	11,0	-	37,4	-		100
Community										
1972	5,8	8,5	15,5	45,8	10,3	-	12,9	0,9	0,3	100
1973	4,2	9,9	11,5	49,1	11,2	0	13,1	0,7	0,3	100
1974	6,1	8,0	11,1	48,5	10,1	0	15,3	0,7	0,2	100

If we compare the percentages of each member state of total intra-Community exchanges, we will see that they remained much the same.

Changes have occured, however, in the sources of supply of a number of countries which import oil products.

In 1974, Germany imported slightly less from the Netherlands and a little more from France and Italy. On the other hand, the crisis resulted in a reduction of French imports from Italy. These imports had previously been affected to a large extent by independent French companies, which, at the behest of the French Government, changed their sources of supply and started buying from refineries in France.

On the other hand, Dutch exports to Italy rose at the expense of French exports.

The crisis modified trade in oil products between the two sides of the Channel: there was an increase first in Dutch imports from the United Kingdom and then in British imports from the Netherlands.

However, the crisis did not have a significant effect on the most voluminous and most consistent trade flow, exports from Rotterdam to Germany, despite the slight increase in German imports from Italy and France.

Quite a pronounced increase was seen in Danish imports from Germany, marking the new links now being forged between the Danish and German markets.

Lastly, the crisis resulted in a permanent diminution in the volume of intra-Community trade of about 5 % (1972 as compared with the average for 1973 and1974).

(h) The Rotterdam free market

The role played by Rotterdam in intra-Community trade and in trade between the Community and the rest of the world merits some special observations.

The Rotterdam market, supplied predominantly by local refineries belonging to the major companies, is the source of most intra-Community trade - nearly 50 % in 1973 (see Table 15 b).

The market is important not only because of the volume of transactions made there, but also because of the nature of the market.

In 1973, Dutch exports of oil products totalled nearly 42 million tonnes. A substantial part of these exports is sold on the free market.

This free market can be defined as the market in oil products exported from the Netherlands which are not the subject of transfers within the same company or of trade in kind between companies, but which require the services of a jobber. Forty percent of this market is accounted for by products refined outside the Netherlands (Italy, Belgium, France, Germany, United Kingdom, USSR) and sixty percent is accounted for by Dutch-refined products.

Although the volume of sales from this market to destinations in countries of the Community is not really considerable since it represents only approximately 3 % of the total Community consumption of oil products, it nevertheless assumes in a period of market pressure, a special importance despite its marginal character.

If the term "free market" is defined as set forth above, then 20 million tonnes of petroleum products were sold on the free market of Rotterdam in 1973. Out of these 20 million tonnes, more than 50 % (over 10 million tonnes) was exported to Germany (about one third of German imports from the Community). Of the rest, between 5 and 6 million tonnes were exported to non-member countries (mainly to USA, Switzerland and Sweden) and between 4 and 5 million tonnes went to other common market countries.

Initially, these latter exports may seem surprising because they were, at least in part, to countries where maximum price were in force. However, although it would appear that the importing companies had incurred a loss, these marginal imports nevertheless enabled the companies to solve the problem of a shortage of certain products (e.g. gas oil and diesel fuel), which are not obtained in sufficient quantities in the refineries, and to avoid producing products for which there would have been no market if additional quantities of crude oil had been refined.

The following approximate picture emerges from a breakdown of the products handled on the Rotterdam free market :

Gas oil, diesel fuel, light fuel oil (middle distillates)	70 %
Residual fuel oils	20 %
Petrol	10 %
Total	100 %

A substantial proportion of the middle distillates is exported from the Netherlands by way of the Rotterdam free market.

B - Prices

(a) Posted price

As a basis for the calculation of tax and royalty payments due to a producing country from the oil companies, a price is determined for concession crude oil which is known as the "posted price". This posted price is a reference value determined purely for accounting purposes and may or may not correspond to the market price of the crude oil.

The part played by the "posted price" and its relation to the actual costs, including taxes paid to the producing country ("tax paid costs"), incurred by an oil company in making a barrel of concession oil available for shipment to its refineries can be summarized as follows.

1. A "posted price" per barrel of concession crude oil is declared by the producing country as a basis for the calculation of tax and royalty payments.

2. From this posted price are deducted:

- the production costs of the oil company, including transport costs to the point of loading ; and
- royalties due from the oil company to the producing country in respect of concession oil: these royalties, based on long-standing agreements between the oil companies and the producing countries in which they operate, amount to 12.5% of the posted price of a barrel of crude oil.

3. The sum remaining after this deduction of production costs and royalty payments from the posted price is used as the base sum for calculating the taxes due from the oil company to the producing country: they amount to 55% of this base sum.

4. By this stage in the calculation, three items have been deducted from the posted price - production costs, royalties and taxes. The total of these three items constitutes the "tax paid cost" to the oil company concerned of one barrel of concession crude oil.

In the following example (Table 16), a comparison is made between the posted price and the corresponding tax paid costs of one oil company in October 1973 and January 1974.

Table 16

Tax paid cost price of concession crude oil of the type "Arabian Light"

$/bbl

	October 1973		January 1974	
Posted price (Item 1 above)		5,12		11,65
Costs of production (Item 2 above)	0,10		0,10	
Royalties (12,5% of posted price: Item 2)	0,64 0,74	- 0,74	1,46 1,56	- 1,56
Base sum for calculation of taxes (Item 3)		4,38		10,09
Taxes (55% of base sum above: Item 3)	2,41		5,55	
Total tax paid costs	3.15		7.11	

(b) Cost of access to crude oil of the large companies

The cost of access is a weighted average of the prices paid by the companies depending on the type of crude oil.

In the case of concession crude oil the cost is calculated, as above, from the posted price.

The price at which participation oil can be bought back by the oil companies is also related to the posted price, but in a period of short supply it might be above the price of concession oil.

The posted price was initially increased by about 75% about mid-October 1973, and with effect from 1 January 1974 it was raised again, by 130%. This resulted in the cost of crude oil being multiplied almost fivefold in the course of a year: in fact the average price of crude oil from the Middle East, which was $ 2 per barrel during the third quarter of 1973, had already increased to $ 9,43 per barrel by the first quarter of 1974.

The average cost of crude oil per barrel is determined on the basis of the proportions of concession oil and participation oil fixed by the participation agreement with the producing country concerned. This average cost is normally used by the oil companies in determining the price at which crude oil is made available to companies in their group.

In the view of the Commission, the complexities surrounding the application of the various concepts of participation oil and concession oil at the basic stage in the commercial operations introduce a factor of uncertainty. It would appear that the average cost determined in this way, on the basis of fixed proportions of concession oil and participation oil, may not always correspond to the true average cost, as these proportions may not always correspond to the actual proportions of participation oil and concession oil taken by the oil companies. It will thus be seen that if a company includes in a given period a higher proportion of lower-priced concession oil than of participation oil which has been bought back at higher prices, its average costs will be correspondingly lower.

The following tables (Tables 17 a to 17 e) relate to a major international company. They give the costs of concession oil and buyback prices for participation oil in respect of various types of crude oil during the period from the first quarter of 1973 to the first quarter of 1974. Tables 18 a and 18 b show, for eleven types of crude oil acquired by this company, a comparison of the average costs per barrel with the prices at which the company transferred crude oil to its refineries.

TABLE 17 (a)

1st QUARTER 1973 : Cost of crude oil to a major international company

Type of crude	Equity cost	Buyback prices		Equity/ buyback ratio (b)	Average cost
		Bridging (a)	Phase-in (a)		
	$/bbl	$/bbl	$/bbl	%	$/bbl
1	1,54	1,94	1,88		1,63
2	1,61	2,05	1,97	75%	1,71
3	1,58	1,99	1,91	- equity	1,67
4	1,83	2,22	2,13	18.75%	1,92
5	1,80	2,13	2,04	- bridging	1,87
6	1,72	2,30	2,24	3.75%	1,85
7	1,74	2,18	2,09	- phase-in	1,84
8	1,63	-	-		1,73
Average 1-8 (c)	1,60	2,02	1,95		1,70
9	2,37				2,37
10	2,27	NA	NA	NA	2,27
11	2,32				2,32
Average 9-11 (c)	2,33	-	-		2,33
Average 1-11 (c)	1,69	-	-		1,78

(a) Defined on page 58

(b) This company bought no state oil

(c) Weighted for quantities bought; see pp. 77-78.

TABLE 17 (b)

2nd QUARTER 1973

Cost of crude oil to a major international company

Type of crude	Equity cost	Buyback prices		Equity/ buyback ratio	
		Bridging[a]	Phase-in[a]		
	$/bbl	$/bbl	$/bbl	%	$/bbl
1	1,65	2,08	1,99		1,75
2	1,73	2,20	2,09		1,83
3	1,70	2,12	2,03	75% - equity	1,79
4	1,96	2,37	2,26		2,05
5	1,92	2,28	2,17	18.75% - bridging	2,00
6	1,85	2,45	2,37		1,99
7	1,87	2,33	2,22	3.75% - phase-in	1,97
8	1,75	-	-		1,85
Average 1 - 8[b]	1,72	2,17	2,07		1,82
		Buyback	Option[c]		
9	2,55	3,30	3,50	65/33	2,81
10	2,44	3,13	3,33	65/35	2,70
11	2,50	3,19	3,39	65/34	2,15
Average 9 - 11[b]	2,51	3,21	3,41		2,76
Average 1 - 11[b]	1,83	-	-		1,95

(a) Defined on page 58.

(b) Weighted for quantities bought; see pp. 77-78.

(c) Quantities buyable in excess of contract.

TABLE 17 (c)

3rd QUARTER 1973

Cost of crude oil to a major international company

Type of crude	Equity cost	Buyback prices Bridging[a]	Buyback prices Phase-in[a]	93% PP[b]	Equity/ buyback ratio	Average cost
	$/bbl	$/bbl	$/bbl	$/bbl	%	$/bbl
		July/August		September		
1	1,79	2,23	2,12	2,74	75% - equity	1,93
2	1,89	2,35	2,23	2,83		2,03
3	1,84	2,27	2,16	2,78	18.75% - bridging	1,97
4	2,12	2,52	2,40	3,02		2,24
5	2,09	2,43	2,31	2,96	3.75% - phase-in	2,21
6	2,01	2,60	2,52	2,98		2,17
7	2,03	2,48	2,37	3,00		2,17
8	1,89	-	-	-		2,02
Average (c) 1 - 8	1,86	2,21	2,10	2,80		2,00
		Buyback	Option[d]			
9	2,79	3,54	3,74	-	65/33	3,05
10	2,67	3,36	3,56	-	65/34	2,93
11	2,73	3,42	3,62	-	65/35	2,98
Average 9 - 11(c)	2,74	3,45	3,65	-		2,92
Average 1 - 11(c)	1,98	-	-	-		2,13

a) Defined on page 58.

b) In September 1973, the producing countries set the buyback price at 93% of the posted price, abandoning the bridging/phase-in method of calculation used hitherto.

c) Weighted for quantities bought; see pp. 77-78.

d) Quantities buyable in excess of contract.

TABLE 17 (d)

4th QUARTER 1973

Cost of crude oil to a major international company

Type of crude	Equity cost	Buyback prices 93% PP[a]		Equity buyback ratio	Average cost
	$/bbl	$/bbl		%	$/bbl
1	2,80	4,25		75% - equity / 22,5% - buyback	3,13
2	3,06	4,60			3,42
3	2,89	4,35			3,23
4	3,52	5,12			3,89
5	3,31	4,79			3,65
6	3,45	5,17			3,85
7	3,39	5,03			3,77
8	2,95	4,37			3,28
Average 1 - 8[b]	2,97	4,46			3,31
		Buyback	Option[c]		
9	4,78	5,53	5,73	65/33	5,04
10	4,61	5,36	5,56	65/35	4,89
11	4,72	5,42	5,62	65/34	4,97
Average 9 - 11[b]	4,72	5,45	5,64		4,98
Average 1 - 11[b]	3,24	4,62	-		3,57

(a) In September 1973, the producing countries set the buyback price at 93% of the posted price, abandoning the bridging/phase-in method of calculation used hitherto.

(b) Weighted for quantities bought; see pp. 77-78.

(c) Quantities buyable in excess of contract.

TABLE 17 (e)

1st QUARTER 1974

Cost of crude oil to a major international company

Type of crude	Tax paid cost(a)	Buyback price 94% PP	Equity/ buyback ratio	Average cost
	$/bbl	$/bbl	%	$/bbl
1	7,04	10,86	40/52,3	9,20
2	7,25	11,16	40/55,2	9,52
3	7,11	10,94	40/55,3	9,33
4	7,80	11,86	40/54	10,13
5	7,51	11,41	40/53,1	9,74
6	7,74	11,92	40/54,5	10,15
7	7,80	11,63	40/60	10,10
8	7,23	10,93	40/60	9,45
Average 1 - 8 (b)	7,20	11,06		9,43
9	9,26	12,15	65/32,6	10,22
10	8,99	11,99	65/35	10,04
11	9,08	12,07	65/33,5	10,09
Average 9 - 11 (b)	9,13	12,09		10,13
Average 1 - 11 (b)	7,49	11,22		9,53

(a) Defined on page 77.

(b) Weighted for quantities bought; see pp. 77-78.

(c) Transfer prices of crude oil

Supplies of crude oil obtained by the oil companies are distributed between associated refining companies and a price is attributed to such supplies for accounting purposes between the companies concerned. This price is known as the " transfer price " of crude oil. It is usually settled on the basis of the fob cost price plus a transfer margin (Tables 18 (a) and (b)). This transfer margin represents an allowance made by the company at the outset which is subsequently reflected at all stages in the price of oil products. It is intended, in theory, to cover part of the company's costs, but, in fact, it is internal to the group concerned and it is difficult to say what its precise function is. Thus the transfer price is essentially a price fixed by an oil company on the basis of its own mechanisms for use within its own group of companies, but it constitutes for the refineries a significant factor in their costs.

The Commission has compared the monthly weighted average fob transfer prices of eleven companies with respect to their refineries in the Community for two types of crude oil, Arabian Light 34° API and Iranian Light 34° API [1]. It generally noted that price levels vary from group to group and that the average prices for some international groups (those with adequate or surplus supplies of crude oil) are lower. This is explained by the higher proportion of cheaper concession crude oil in their cost calculations. Among the large international groups, the variations between their respective price levels are relatively slight and are attributable either to the sources of the crude oil or to a policy of differentiating the transfer prices according to destinations.

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1) On grounds of confidentiality the figures are not included in this report.

TABLE 18 (a)

Average cost, margin and transfer price of a major international company

Type of crude	1st QUARTER 1973			2nd QUARTER 1973			3rd QUARTER 1973		
	Average cost (a) $/bbl	Margin $/bbl	Transfer price $/bbl	Average cost (a) $/bbl	Margin $/bbl	Transfer price $/bbl	Average cost (a) $/bbl	Margin $/bbl	Transfer price $/bbl
1	1.63	+.34	1.97	1.75	+.35	2.10	1.93	+.47	2.40
2	1.71	+.39	2.10	1.83	+.42	2.25	2.03	+.55	2.58
3	1.67	+.37	2.04	1.79	+.38	2.17	1.97	+.52	2.49
4	1.92	+.29	2.21	2.05	+.34	2.39	2.24	+.53	2.77
5	1.87	+.27	2.14	2.00	+.30	2.30	2.21	+.45	2.66
6	1.85	+.49	2.34	1.99	+.51	2.50	2.17	+.71	2.88
7	1.84	+.37	2.21	1.97	+.37	2.34	2.17	+.55	2.72
8	1.73	+.28	2.01	1.85	+.31	2.16	2.02	+.47	2.49
Average 1 - 8	1.70	+.36	2.06	1.82	+.38	2.20	2.00	+.51	2.51
9	2.37	+.75	3.12	2.81	+.51	3.32	3.05	+.82	3.87
10	2.27	+.80	3.07	2.70	+.57	3.27	2.93	+.88	3.81
11	2.32	+.80	3.12	2.75	+.57	3.32	2.98	+.89	3.87
Average 9 - 11	2.33	+.78	3.11	2.76	+.55	3.31	2.99	+.87	3.86
Average 1 - 11	1.78	+.41	2.19	1.95	+.40	2.35	2.13	+.57	2.70

(a) See last column of Tables 17 a - c.

TABLE 18 (b)

Type of crude	4th QUARTER 1973 Average cost[a] $/bbl	Margin $/bbl	Transfer price $/bbl	1st QUARTER 1974 Average cost[a] $/bbl	Margin $/bbl	Transfer price $/bbl
1	3.13	+.23	3.36	9.20	-.35	8.85
2	3.42	+.24	3.66	9.52	-.40	9.12
3	3.23	+.20	3.43	9.33	-.39	8.94
4	3.89	+.18	4.07	10.13	-.42	9.71
5	3.65	+.14	3.79	9.74	-.36	9.38
6	3.85	+.29	4.14	10.15	-.42	9.73
7	3.77	+.15	3.92	10.10	-.47	9.63
8	3.28	+.20	3.48	9.45	-.42	9.03
Average 1 - 8	3.31	+.22	3.53	9.43	-.39	9.04
9	5.04	+.71	5.75	10.22	+ 1.16	11.38
10	4.89	+.68	5.57	10.04	+ 1.02	11.06
11	4.97	+.73	5.70	10.09	+ 1.08	11.17
Average 9 - 11	4.98	+.72	5.70	10.13	+ 1.01	11.23
Average 1 - 11	3.57	+.30	3.87	9.53	-.16	9.37

a) See last column of Tables 17 d - e.

Analysing the Community countries individually, it will be observed that the prices of two of the majors were the same whatever the destination of their crude within the Community. The prices of another three display differences from one country to another which are due to overlapping of the prices applied during each month.

The prices of one of the large international companies differed substantially between the countries of the common market. According to the company concerned, the reasons for these differences relate primarily to the prevailing conditions on the various markets.

The prices paid by two European companies, which have inadequate supplies of crude oil under their own control, were, on an average, 10-20% higher than those paid by large international companies. The differences were sometimes even greater : Arabian Light, February 1974, Germany, a 36 % difference; March 1974, Italy, a 31 % difference.

Overall, with respect to the two types of crude studied, price differences between groups and between countries reflect both differences in the companies' supplies of crude oil and certain differences between conditions existing in the various countries.

These differences between transfer prices are in a way arbitrary and do not reveal strategies being practised by each group. Nevertheless, the transfer price system does permit some apportionment of income from one country to another or from one continent to another in pursuance of the policies of the groups.

(d) <u>Crude oil prices for certain European companies with inadequate supplies of crude oil.</u>

The supplies of European companies which are short of crude oil were studied in more detail for three companies in Belgium and Italy.

In Belgium, an independent company obtained its supplies from a large international company under a basic contract which set prices by reference to the latter's production costs plus a profit margin.

The invoiced prices paid by the independent company were lower than those invoiced to the subsidiaries of the large international company.

In Italy, no system of transfer pricing for crude oil is in operation by the large companies which operate refineries but which do not belong to any of the large international oil companies. To afford some comparison with the transfer prices applied by the large international companies, some information is given below on the import prices for crude oil in Italy.

The import prices for crude oil paid by two Italian companies were based on the monthly notifications in the"Istituto Centrale di Statistica" ("Arrivi di Materie, Prime e Prodotti Petroliferi"), in which the fob costs of each type of crude oil were also quoted. However, these do not refer to the day of loading but are based on an average of all quantities imported in the course of a month, so that these prices cannot be compared exactly with the transfer prices charged by other companies. It can nevertheless be seen that the two companies paid higher prices than the major international companies, especially as they bought more on the free market.

A comparison of the average prices of these two Italian companies for two of their main types of imported crude oil shows that up to July 1973, the crude oil prices of the companies varied only minimally between each other, although one of the companies showed average prices which tended to be somewhat higher than those of the other company.

From September 1973, however, the prices paid by the first company were, in general, significantly greater than those paid by the second, and the reason for this may be associated with the differing commercial motivations of the two companies. One company operates the more usual commercial policy of a large integrated oil company, that is, purchasing crude oil with the intention of producing from it a large range of oil products for distribution through its own networks. The other company, on the other hand, purchases supplies of crude oil primarily for the production of basic material for further processing in the chemical plants of its own group.

The first company, whose refinery capacity greatly exceeds that of the second company, concluded supply contracts on a long-term basis in an attempt to ensure adequate supplies of crude oil for its refinery programme, and the operation of the price escalation clauses in such contracts resulted in the application of the significantly higher prices from September 1973. On the other hand, the second company did not rely on long-term contracts but tended to purchase its supplies of crude oil in smaller quantities and at times when it could obtain them at a lower price; it therefore avoided the effect of price escalation clauses in contracts.

(e) Prices for oil products

The previous sections of this part of the report dealt with the pricing of crude oil. This section considers prices at subsequent stages in the chain of production and distribution of oil products. It will deal with the factors which are taken into account in determining transfer prices for refined products and will analyse the application of these factors in the method adopted by some major oil companies for the calculation of prices.

Oil products are distributed by oil companies mainly along three routes:

- consumption on the domestic market of the country in which the refinery is situated;

- distribution to companies in the same oil group in other countries

- sale to third parties in other countries.

1. Prices on domestic markets

So far as the first route is concerned, the introduction of price control in several countries of the EEC meant that the prices of refined products on the domestic market were no longer subject to the normal market forces during the period of the oil crisis. In some member states (in the Netherlands, for example) only the price to the customer was controlled, but in other countries (for example, France) the controlling regulations extended to the ex-refinery prices of products as well as to the prices to the consumer. One of the aims of this latter form of price control was to permit a viable margin to the independent distributors of oil products, and, whilst the extent of the margin thus available to distributors was frequently criticized, nevertheless it helped to reduce the severe difficulties which were encountered by independent distributors.

Imposition of maximum prices for the consumer proved effective in controlling the upward spiral in the costs of oil products during the oil crisis but also injected a degree of unreality into the market for oil products in those countries. Thus the prices fixed for certain oil products often bore no relation to the actual costs of their production, given the increases in the prices of crude oil.

Direct comparison of prices between the different countries of the Community is difficult because prices are quoted in the different currencies of the countries concerned and parity of currency changed several times during the period under review. In addition, no uniform unit of quantity is used. It is nevertheless possible to describe the domestic price situation in the various countries of the Community.

Netherlands

So far as the sale of oil products on the domestic market is concerned, maximum prices were authorized by the Ministry of Economic Affairs on the basis of proposals submitted by the oil companies acting through the Olie Contact Commissie. The Ministry had the right, if it was of the opinion that certain price increases seemed excessive or were otherwise unacceptable, to request the oil companies to modify their proposals for price adjustment. The regulation concerning prices for oil products was issued on 22 January 1974.

Maximum prices were proposed by oil companies on the basis of the following factors:

- fob price of the product on the international free market compiled from Platt's Oilgram (see page 114) in the following proportions:
  - 25% Gulf of Mexico: spot cargoes all ports
  - 25% cargoes fob Italy
  - 25% barges fob Rotterdam
  - 25% AFM/Rotterdam/Amsterdam (see page 113)

These percentages may sometimes vary, depending on the product.

- price of sea transport, based on the AFRA tariff; *

- transport insurance and transport losses;

- taxes;

- margins of profit for importers, distributors and retailers.

Table 21 shows, for three products, the market prices which were in operation, compared with the maximum prices authorized by the Dutch Government; prices are expressed in Dutch guilders.

Table 19

Product	Price on the Rotterdam free market			Maximum price			Difference		
Date	15.11. 1973	22.01. 1974	04.02. 1974	15.11. 1973	22.01. 1974	04.02 1974	15.11. 1973	22.01. 1974	04.02 1974
	Hfl/100 litres								
Superpetrol	94.24	103.50	105.26	83.50	88.70	88.70	10.74	14.80	16.56
HBO I(light heating oil)	46.03	37.13	35.55	26.50	26.50	26.50	19.53	10.63	9.05
	Hfl/1.000 kg								
Heavy fuel oil 3500	163.28	278.52	273.69	90.40	90.40	90.40	72.88	188.12	183.29

The difference between the market price and maximum price was, in previous years, generally small. However, on 15 November 1973, the difference for heavy fuel oil was already 72.88 guilders per tonne and it reached its maximum level on 22 January 1974, when it was 188.12 guilders per tonne. These figures show how prices soared on the Rotterdam free market during the crisis months.

The dealers' margin for sales from filling stations of petrol and diesel fuels was also determined by representatives of the oil industry in cooperation with BOVAG (Bond van Automobiel-en Garagenbedrijven) and accepted by the Government. On the other hand, no fixed margins of profits existed for light and heavy fuel oil.

* Average Freight Rate Assessments (see Page 113)

As, in the Netherlands, maximum prices were fixed by the Government only at the level of the consumer, no controls applied to the ex-refinery prices. Distribution margins for the retailer for petrol and diesel fuels were fixed as a result of agreements reached between the oil companies and the trade organizations. They were therefore accepted rather than approved by the Dutch Government. Two results emerged from this absence of controlled prices at the refinery level. Firstly, there was a considerable variation between the ex-refinery prices operated by the oil companies due in particular to the different markets to which the products were destined. A further result was the difficulty encountered by independent wholesale dealers, who operated exclusively in the Netherlands, when certain oil companies fixed their ex-refinery prices so close to the maximum prices that the margins to the wholesalers were excessively reduced.

Belgium

The calculation of prices in order to fix maximum prices at the consumer level was based on the price structure drawn up by the Belgian Oil Federation (Fédération Pétrolière Belge - FPB). Maximum prices were fixed for oil products by a ministerial regulation dated 29th June 1973.

	net price ex-refinery
+	tax on oil products
	gross price ex-refinery
+	margin
+	additional zone charge
-	rebates
+	VAT
	market price to the consumer

The net price ex-refinery was obtained by assuming that the product had been imported as a final product - the system described as 'import parity'. This system takes into account the following cost items:

- minimum price fob Carribbean Sea or Gulf of Mexico, according to quotations in Platt's Oilgram (see page 174);

- sea freight, based on AFRA, by "medium-range" tanker for the distance Aruba/Curaçao-Antwerp;

- insurance against damage and losses in transit;

- charges for duty and inspection.

The margin must cover the cost of distribution and delivery to the consumer. When sales are made without intermediaries the margin is retained by the oil company.

The additional zone charge is necessary to cover the transport cost from refinery to the dispatch depot. There are three zones:

- zone 0 covers an area of 15 km around Antwerp;
- zone I comprises the rest of the province of Antwerp, East Flanders, Brabant and Tessenderlo;
- zone II is the rest of the country.

The investigations confirmed that during the crisis, the maximum prices were respected and that the tariffs operated by the oil companies corresponded to these maximum prices, including the trade margins.

It was noted that, from 1972 to the middle of 1974, the margins of the distributors became progressively smaller. In the middle of 1974, they were equal to the margins fixed by regulation, so that it was no longer possible to offer rebates.

France

The regulation of 30 June 1945 (Ordonnance No. 45-1483) empowered the public authorities to fix prices for goods and services. Besides petrol and gas oil, since 1973 light and heavy fuel oil for domestic and industrial use were also subject to the price system called "régime de cadre de prix" imposed by the Government. The intermediary trade does not establish its own price list and sales conditions but sells on the basis of the price lists of the trading associations, which are obliged to submit the price lists for each category of product to the appropriate authorities so as to enable the authorities, if they wish to raise an objection, to defer their entry into effect.

Formulation of the price lists is complex and is based on strict provisions. The price determination starts with the ex-refinery price, which is fixed by the refineries, under Government supervision, taking account of the following items:

- international quotations for oil products on certain markets (prices fob Carribbean according to Platt's Oilgram);

- sea transport, based on AFRA;

- cost of insurance and port dues.

Except for this common base, the pattern of pricing is different for each category of product even though the same elements of the market price for consumers remain the same (trade margins, taxes including the fee to the French Petrol Institute (IFP) which is in the nature of a levy, and rebates). The French market is split into zones, which involves local extra charges and predetermined transport costs from the nearest refinery.

Spot-checks of invoices for domestic sales confirmed that the invoiced prices were in conformity with the maximum prices laid down by law and that rebates became increasingly smaller towards the end of 1973 and the beginning of 1974.

Italy

The law introducing a new method of calculating official maximum prices in connection with the new system of taxation was introduced retroactively from 1 January 1973. The former system of 'import parity' was replaced by the concept of costs of production. Three levels of these costs can be distinguished - cost of raw material, refining costs and cost of distribution. The cost of raw material is the average fob price of the imported crude oil plus the average transport cost. This price is apportioned between the final products according to a system based on the API scale for viscosity of the crude oil. Typical refining costs for refineries with full cycle are apportioned between the different oil products. The maximum price as fixed by the Comitato Interministeriale Prezzi (CIP maximum price) is applicable for the whole country without regard to the location of the refinery or depot and includes the processing tax (imposta di fabbricazione) as well as the profit margin for the retail trade.

The transport costs are fixed by the Comitato Interministeriale Prezzi and applied by regional price committees (Comitati Provinciali Prezzi, CPP) within the limits fixed by the Comitato Interministeriale Prezzi.

It may be mentioned in this connection that all the oil companies protested against what they claimed was a totally unrealistic price situation lasting for several months owing to the fact that during the crisis there was a time lag between the fixing of new maximum prices for oil products and the impact of price increases for crude oil.

Luxembourg

Because of the Belgian-Luxembourg Economic Union and the fact that the great majority of petroleum products comes from Belgian refineries, the regulations in these two countries are largely the same.

The Law of 30 June 1961 empowers the Minister of Economic Affairs to determine prices which must not be exceeded under penalty of sanctions. A price office is entrusted with supervision and may, if necessary, examine the bookkeeping and invoices. As in Belgium, any price increase may be proposed by the oil companies on the basis of the "import parity" system.

For a long time - in fact, up to the start of 1970 - these provisions hardly applied, since the market prices were always below the maximum prices. At the end of 1970, however, the Minister rejected the proposals of the oil companies and froze the maximum prices in the belief that the proposed increases could be made up for by dispensing with the discounts previously granted to customers.

Denmark

The oil market in Denmark is supplied by private enterprises, mainly the Danish subsidiaries of international oil concerns. Their predominance is more evident on the market for light products than on the market for residual oils, where independent suppliers and a few major consumers make up an appreciable portion of the market.

The prices of oil products are subject to the legal provisions governing prices in general, i.e. the Monopolies and Restrictive Practices Control Act and the Prices and Profits Act, 1974. Both acts are enforced by the Monopolies Control Authority.

Until October 1970, control was based on the Monopolies Act in the form of a standard calculation system set up under an agreement between the Monopolies Control Authority and the three largest oil companies in the Danish market. The calculation system did not include heavy fuel oil.

From October 1970, prices of oil products came within the provisions of the Price Stabilization Act and from April 1971 those of the Prices and Profits Act, 1971. The standard calculation rules of the Prices and Profits Act resulted in lower selling prices for oil products in Denmark than in most other Western European countries.

In November 1973, the oil companies were granted an exemption from the Prices and Profits Act in order to reduce the negative effects that the relatively low selling prices in Denmark might have on the supply of oil products. By the terms of this exemption, the oil companies were permitted to calculate their selling prices on the basis of current replacement costs for crude oil or imported products instead of the costs actually incurred. This arrangement is maintained under the new Prices and Profits Act 1974.

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Ireland

As Ireland is completely dependent on imports, whether crude oil or refined products, prices are basically determined by the prices on the international markets.

Since imports, refining and distribution are handled by private enterprises, these devise their own **pricing policies and** set their sales prices without direct state intervention.

However, price increases have to be approved by the Department of Industry and Commerce, after applications have been examined by the National Prices Commission. This latter body, which includes a member appointed by the Association of Irish Housewives to represent consumers, makes recommendations to the Department of Industry and Commerce after each application for a price increase. The examinations are based on the following criterion: the increase must not exceed the amount of the unavoidable and permanent rise in costs incurred by the applicant company. At the end of 1973, the Department decided, at the suggestion of the National Prices Commission, that no wholesale price without tax for oil products would be permitted to exceed the corresponding price charged by the subsidiary or associated company in the "outer zones" of the United Kingdom. In the absence of a subsidiary or associated company, the limit would be the standard wholesale price posted for the "outer zones" of the United Kingdom.

United Kingdom

Up to 1973 the prices for oil products were determined solely by the oil companies. In spite of its holding in British Petroleum, the state took no action in this area.

The market, therefore, was a free one, but three large international oil companies, accounting for over 60% of total sales, exert a strong influence on the trend of prices. Consumers played only a marginal role and **then only** in negotiating individual contracts.

There was no official tariff, nor was there any obligation to publish prices. The oil companies did, however, compile price lists at regular intervals and these were published in the specialised journals. Discounts were given on the listed prices. The size of the discount varied with the size of the order, terms of delivery and the market situation.

From 1973. before any price increase for oil products can have effect, the oil companies are obliged to obtain authorization from the Price Commission which pays particular attention to the margins. From December 1973 to December 1974, maximum retail prices were fixed for motor fuel. For other oil products the system of prior approval by the Price Commission remained in force.

By reason of the very structure of supply, it can be said that this is a homogeneous market where price differences are slight given similar conditions of consumption.

Germany

In Germany, the only market on which a large number of suppliers actively competed with each other, prices varied considerably between suppliers, from one region to another and from one period to another.

These differences are illustrated in Tables 20a to 20e.

Even for a homogeneous product like petrol, which is also homogeneous from the distribution and utilization point of view, the prices of the large international oil companies to their distributors varied from 140 to 240 DM/m3 in December 1973 and from 230 to 330 DM/m3 in March 1974.

Price differences for other oil products were less striking but nonetheless appreciable. It is also interesting to note that while prices to independent dealers allowed them a substantial margin in October 1973, this was gradually eroded over the crisis period to become negative on many occasions in March 1974, at least for light fuel oils.

Emerging from this review of the domestic prices for oil products is the fact that in those countries which introduced maximum price regulations during the oil crisis, varying degrees of concertation existed between oil companies in so far as they participated through their trade associations in the fixing of maximum prices for oil products on their national market or even in the submission of proposals to the public authorities concerning

There are in addition, with the possible exception of Italy, certain factors used in the determination of prices, such as Platt's Oilgram quotations and, in the case of Belgium, the Aruba/Curaçao-Antwerp freight rate, which are not realistic in so far as they reflect **notional** rather than the actual costs involved in the production of oil products.

Tables 10 a and b of Part II of the report list consumer prices, both inclusive and exclusive of taxes, and reveal that one of the main consequences of the disparity between the price policies of the member states was the extreme difference between the prices practised in the countries of the Community. This necessarily distorted competition, although it is impossible, over the short period of the crisis to assess the real effect of this on production and trade.

On 23 November 1973, the domestic price for heating oil, inclusive of taxes, was $31/m3 in Italy and $98 (over 300% higher) in the Netherlands.

On 31 April 1974, the domestic price for gas oil was $150/m3 in Denmark and $360 (230% higher)in Germany.

REGULAR PETROL

Sales prices in Germany (exclusive of taxes)

DM/m^3

Table 20 a

Distribution channels	Year/month		Company A	B	C (a)	E (b)	F	H	I	J	K
Distributors under own brand name	'73	Oct.	157,00	140,80	162,90	186,00	145,06	207,30	202,00	127,82	207,30
		Nov.	171,00	149,70	180,35	204,90	166,78	220,70	218,10	140,16	220,70
		Dec.	192,00	166,10	202,09	226,40	181,71	244,70	241,30	142,41	242,20
	'74	Janv.	191,00	169,50	195,33	240,40	192,57	243,00	238,20	156,55	256,00
		Feb.	279,00	259,20	257,40	311,50	264,65	332,10	326,00	222,48	312,40
		March	277,00	259,50	263,60	311,30	263,14	328,90	323,20	235,02	327,30
Independent dealers	'73	Oct.	120,00	132,96	139,15	160,83	130,33	-	138,00	134,06	126,40
		Nov.	144,00	142,57	185,81	176,64	143,21	-	152,30	153,14	143,00
		Dec.	155,00	159,70	183,32	202,42	159,46	-	160,30	164,19	155,10
	'74	Janv.	155,00	160,74	189,39	220,45	168,79	-	160,00	177,58	160,50
		Feb.	245,00	260,58	255,88	284,79	250,66	-	250,00	251,51	244,50
		March	247,00	258,23	258,61	285,56	251,70	-	250,00	252,83	246,10
Major consumers	'73	Oct.	152,00	147,50	149,09	134,66	228,59	-	154,60	137,15	153,20
		Nov.	155,00	162,20	202,07	176,73	200,33	-	170,70	142,49	165,90
		Dec.	159,00	174,60	219,79	205,79	210,23	-	196,20	171,38	180,30
	'74	Janv.	157,00	185,50	196,70	202,84	228,41	-	183,50	179,91	196,70
		Feb.	247,00	270,40	262,07	296,69	308,82	-	273,50	254,85	273,20
		March	257,00	264,80	269,41	271,68	282,39	-	268,90	262,60	271,80

(a) Average price : Düsseldorf & Mannheim

(b) Average price : Karlsruhe, Duisburg & Ingolstadt

SUPER PETROL

Sales prices in Germany (exclusive of taxes)

DM/m^3

Table 20 b

Distribution channels	Year/month	Company A	B	C	E	F	H	I	J	K
				(a)	(b)					
Distributors under own brand name	'73 Oct.	214,00	196,30	184,68	214,06	210,91	273,20	267,00	173,79	273,20
	Nov	233,00	205,60	229,61	268,90	231,90	285,90	286,30	199,37	285,90
	Dec.	256,00	218,50	261,82	292,20	245,86	308,60	308,60	203,02	307,70
	'74 Jan.	252,00	227,30	256,10	303,30	258,92	307,50	304,20	214,00	321,90
	Feb.	344,00	316,70	347,69	374,30	331,63	397,80	391,50	287,15	382,00
	March	340,00	313,70	338,15	373,30	328,79	395,10	388,10	295,65	393,70
Independent dealers	'73 Oct.	179,00	180,08	177,17	218,79	179,47	–	188,00	173,06	169,40
	Nov.	192,00	193,11	239,10	228,44	190,98	–	205,60	196,76	202,70
	Dec.	208,00	213,80	254,19	260,83	203,72	–	219,30	210,46	204,10
	'74 Jan.	208,00	215,03	249,20	276,86	218,71	–	219,00	217,03	217,40
	Feb.	298,00	314,87	306,57	357,47	296,52	–	309,00	299,08	301,00
	March	302,00	313,20	309,98	350,71	298,41	–	305,00	296,94	304,30
Major consumers	'73 Oct.	200,00	203,50	194,54	175,94	208,21	–	213,10	184,01	212,20
	Nov.	215,00	216,40	258,61	243,90	227,06	–	230,70	204,55	226,20
	Dec.	219,00	228,90	283,74	278,80	242,82	–	256,20	217,96	240,40
	'74 Jan.	217,00	242,50	264,10	301,60	261,38	–	243,50	231,78	263,80
	Feb.	307,00	325,20	316,98	358,70	342,30	–	333,50	305,73	334,80
	March	317,00	321,60	321,84	363,60	335,50	–	328,90	309,20	335,70

(a)Average price: Düsseldorf & Mannheim

(b)Average price: Karlsruhe, Duisburg & Ingolstadt

DIESEL FUEL/ GAS OIL

Table 20 c

Sales prices in Germany (exclusive of taxes)

DM/m3

Distribution channels	Year/month		Company										
			A	B	C	D	E	F	G	H	I	J	K
					(a)		(b)						
Distributors under own brand name	'73	Oct.	210,00	162,10	177,09	177,00	236,80	172,79	–	173,20	248,40	165,47	251,00
		Nov.	224,00	197,00	240,09	226,00	271,40	206,36	–	207,80	269,50	205,22	268,20
		Dec.	246,00	224,80	272,63	256,00	306,30	228,49	–	230,30	293,60	205,94	280,80
	'74	Jan	255,00	226,60	246,52	266,00	329,10	237,20	–	250,02	305,60	232,40	310,30
		Feb.	350,00	270,90	265,31	310,00	386,20	310,61	–	313,00	382,80	286,80	361,90
		March	340,00	261,80	244,25	290,00	391,10	286,18	–	286,00	383,00	246,71	391,80
Independent dealers	'73	Oct.	157,00	151,87	174,02	177,00	191,46	153,33	–	–	173,40	159,08	152,70
		Nov.	195,00	189,90	266,80	224,00	234,20	178,87	–	–	186,70	186,42	189,40
		Dec.	208,00	204,39	266,02	261,00	303,79	199,17	–	–	202,20	202,06	204,40
	'74	Jan.	220,00	212,83	249,21	273,00	305,08	212,16	–	–	216,40	213,37	222,60
		Feb.	305,00	268,35	259,98	271,00	396,34	286,26	–	–	299,40	288,56	254,10
		March	270,00	249,80	259,18	257,00	257,02	272,65	–	–	259,40	251,30	243,10
Major consumers	'73	Oct.	182,00	168,10	203,35	184,00	188,54	174,44	170,80	–	196,20	159,42	173,20
		Nov.	206,00	214,40	280,33	211,00	247,02	204,44	–	–	199,50	183,69	207,80
		Dec.	214,00	229,60	303,34	170,00	284,29	220,97	243,50	–	207,40	198,23	230,30
	'74	Jan	224,00	240,00	275,87	221,00	250,47	241,84	–	–	220,40	223,28	244,60
		Feb.	302,00	290,10	279,33	261,00	296,36	316,89	333,30	–	301,10	295,69	312,70
		March	270,00	273,00	261,75	291,00	257,86	290,71	342,80	–	264,90	278,50	292,10

(a) Average price Düsseldorf & Mannheim

(b) Average price Karlsruhe, Duisburg & Ingolstadt

LIGHT FUEL OIL

Sales prices in Germany (exclusive of taxes)

DM/m^3

Table 20 d

Distribution channels	Year/month		A	B	C (a)	D	E (b)	F	H	I	J	K
Distributors under own brand name	'73	Oct.		184,10	188,52	200,00		180,71	185,04	196,60	177,46	187,29
		Nov.		219,00	259,88	252,00		207,89	222,43	201,80	209,16	235,62
		Dec.		230,60	266,48	256,00		214,56	242,92	205,90	213,43	253,42
	'74	Jan.		227,40	253,88	255,00		233,40	250,02	222,80	233,16	257,67
		Feb.		232,50	248,03	253,00		301,57	266,51	289,50	270,73	245,79
		March		244,30	239,36	243,00		255,30	244,95	245,50	238,23	238,17
Independent dealers	'73	Oct.	174,00	178,54	223,58	197,00	191,22	169,78	–	208,30	176,27	191,99
		Nov.	198,00	207,42	268,91	269,00	265,62	189,36	–	212,30	215,62	243,58
		Dec.	202,00	228,81	296,98	278,00	309,02	195,37	–	207,60	213,95	265,10
	'74	Jan.	210,00	222,35	255,84	273,00	278,51	210,39	–	224,40	231,14	263,47
		Feb.	265,00	246,55	254,26	226,00	259,22	276,63	–	291,40	270,72	240,98
		March	243,00	240,10	242,43	249,00	237,77	285,79	–	246,70	237,05	237,40
Major consumers	'73	Oct.		206,50	240,71	210,00	208,77	174,60	165,71	204,20	175,89	183,14
		Nov.		243,20	305,82	270,00	253,98	189,19	225,34	207,70	200,83	260,49
		Dec.		247,90	309,42	260,00	290,62	204,17	263,68	217,20	214,27	282,35
	'74	Jan		245,90	327,71	265,00	285,66	228,18	258,77	249,30	222,98	267,20
		Feb.		289,70	276,43	270,00	278,86	303,69	283,86	312,00	286,84	244,91
		March		261,20	249,52	252,00	251,20	257,93	260,61	260,60	248,66	236,71

(a) **Average price** : Düsseldorf & Mannheim

(b) **Average price** : Karlsruhe, Duisburg & Ingolstadt

HEAVY FUEL (ca. 2 % S)

Sales prices in Germany (exclusive of taxes)

DM/t

Table 20 e

Distribution channels	Year/month		Company A	B	C (a)	D	E (b)	F	G	H	I	J	K
Distributors under own brand name	'73	Oct.		–		58,00		70,86	–	–	–	82,08	56,26
		Nov.		–		77,00		96,80	–	–	–	83,38	72,31
		Dec.		–		114,00		126,92	–	–	–	102,32	102,11
	'74	Jan.		–		133,00		139,42	–	–	–	136,20	144,81
		Feb.		–		173,00		194,56	–	–	–	187,57	176,91
		March		–		176,00		194,21	–	–	–	183,28	175,57
Independent dealers	'73	Oct.		54,61	66,83	53,00	47,22	–	–	56,99	78,00	56,54	54,33
		Nov.		77,76	90,46	69,00	73,87	–	–	66,94	82,00	70,97	74,94
		Dec.		109,63	121,26	106,00	109,69	–	–	107,62	109,00	107,16	111,18
	'74	Jan.		135,99	126,26	129,00	143,81	–	–	126,23	129,00	132,70	154,08
		Feb.		175,56	180,02	177,00	178,36	–	–	170,39	179,00	177,15	187,57
		March		173,01	177,74	178,00	173,29	–	–	168,85	179,00	171,06	176,96
Major consumers	'73	Oct.	70,00	56,01	67,32	61,00	55,80	66,46	83,97	62,90	79,00	60,54	57,86
		Nov.	80,00	84,27	101,36	84,00	73,48	86,50	–	88,23	83,00	88,46	67,49
		Dec.	101,00	119,62	127,82	126,00	110,55	107,75	89,22	110,98	110,00	102,24	87,78
	'74	Jan.	128,00	144,41	143,97	138,00	145,07	134,96	–	137,73	130,00	116,00	111,88
		Feb.	174,00	182,35	186,80	183,00	179,70	188,71	183,93	175,70	180,00	156,98	158,53
		March	174,00	179,68	189,23	180,00	172,45	184,05	189,21	183,05	180,00	154,99	166,83

(a) Average price: Düsseldorf & Mannheim
(b) Average price: Karlsruhe, Duisburg & Ingolstadt

2) Transfer prices for oil products

The impact of transfer prices charged by a company for oil products on the price at which those products are actually sold on the market in the country of destination should not be overestimated. Whilst it would undoubtedly be preferable for the procedures for the calculation of transfer prices to be more readily seen to bear a relationship with the actual costs incurred by an oil company, these procedures remain essentially domestic to each oil group and, more particularly, to the accounting procedures between the various companies involved within that group. They were not seen to have a direct relationship with the final selling price for oil products by any company in any country of the Community, even Germany, where no controls on the prices of oil products were imposed by the Government. Indeed, as will be noted later, the transfer prices for petrol of one company to an associated company in Germany were above the prices at which that company sold petrol on the German market.

The system of determining the prices at which oil products are transferred between companies within the same oil group in different countries varies considerably from one group to another : some oil companies vary their own system further, according to geographical areas within their field of operations.

One major international company investigated (Company I) bases its transfer prices on prices known as "supply prices" which are used for all products covered by the enquiry with the exception of naphtha. These "supply prices" are partly calculated by reference to the relevant quotations in Platt's Oilgram (see later) but also take into account the costs of crude oil, freight charges and refining costs.

Another company (Company F) referred to its transfer prices in Europe as "Channel zone" prices until January 1973 and based their calculation exclusively on the relevant quotations contained in Platt's Oilgram. From January 1973, a system known as "mixed export parity price" (MEP) replaced that of Channel zone prices and was applied to all transfers of oil products to companies in the oil group of Company F, with the exception of certain deliveries to Belgium and to the German armed forces. The MEP can be described as a "composite price" since 25 % of it was based on the Platt's Oilgram quotation for that product and the remaining 75 % was related to yet another factor called the "term price". This term price was itself drawn from several cost items such as the price of crude oil, freight, refining costs and costs of storage.

In the case of Company A, the transfer prices for the zone of operations from Bordeaux to Hamburg were known as North-West Europe (NWE) prices. Here again, in the determination of the NWE prices, reference was made to Platt's Oilgram quotations and to costs of crude oil, transport and insurance costs and costs of refining.

An impression of the complexity of the calculations applied to obtain the transfer price may be gained from the following example, which sets out the procedure of one international company (company I)[1)]

In the case of this company, the supply prices are agreed monthly and apply to deliveries made on and after the first day of each calendar month. They are derived from an agreed percentage of an all-in cost price plus a percentage of a spot price.

"The all-in cost price is arrived at by :

(A) calculating the fob cost of one tonne of Arabian Light crude oil by multiplying the fob price of one barrel of Arabian Light crude oil (as agreed between Company I and its European affiliated companies as being the fair and commercial price ruling on the twenty-third of the preceding month [2)] by the appropriate barrel/tonne factor, which unless otherwise agreed is 7.38;

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1) In the text which follows, some types of crude oil, names of ports and products have been replaced by numbers, for reasons of confidentiality.

2) The term "preceding" month as used in this procedure is interpreted as being the calendar month prior to that for which the supply price is being calculated.

(B) adding to the fob cost of one tonne of Arabian Light crude the appropriate freight from Port of loading 1 to Rotterdam, thus arriving at C & F cost of the crude at Rotterdam. The appropriate freight is that for VLCCs (Very Large Crude Carriers);

C) calculating the fob cost of one tonne of Type 2 crude oil by multiplying the fob price of one barrel of Type 2 crude oil as agreed between the companies as being the fair and commercial price ruling on the twenty-third of the preceding month by the appropriate barrel/tonne factor, which unless otherwise agreed is 7.47;

(D) adding to the fob cost of one tonne of Type 2 crude the appropriate freight from Port of loading 2 to Rotterdam, thus arriving at a C and F cost of the crude at Rotterdam. The appropriate freight is the AFRA rate for LR (Long Range) vessels applicable during the preceding month;

(E) calculating the C and F cost of a representative **tonne of crude oil at** Rotterdam by adding 70% of the C and F cost of Arabian Light crude (as calculated in B) to 30% of the C and F cost of Type 2 crude oil (as calculated in D);

(F) calculating the all-in cost of the product yields (derived from distillation/platforming) of a representative **tonne of crude oil at Rotterdam by adding** \$4.50 (as representing the cost of processing plus a reasonable return on capital) per **tonne** to the C and F cost of a representative **tonne of crude** oil as set out in E.

The product yields referred to are :

1.	7.7% by weight
2.	3.3% " "
3.	5.5% " "
4.	35.5% " "
5.	28.0% " "
6.	15.0% " "
Refinery fuel & loss	5.0% " " ;

(G) calculate the all-in cost per tonne of each of the individual products by :

1. multiplying the percentage yields set out in F by the appropriate Platt's Rotterdam Low quotation effective the ultimo of the preceding month;
2. adding together the result values, thus arriving at the value (calculated at Platt's Rotterdam Lows) of 0.95 **tonne** of products derived from 1.0 **tonne of crude oil;**
3. the so-called list prices are arrived at by multiplying the Platt's Low of each product by the ratio of all-in crude cost (as under F)/value of yield (as mentioned under G.2.).

The Spot prices are the appropriate Platt's Rotterdam Low quotations effective per the ultimo of the preceding month (see C.1) ".

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Freight rates

The value to be used for the freight rates factor is generally based on the indications of the costs of shipments of oil known as Average Freight Rate Assessments (AFRA). These indices are established monthly by a group of shipping brokers operating from London who take into account the freight costs, on both a long and a short-term basis, effective during the previous month. Spot purchases as well as fixed term contracts are taken into consideration as are the costs of shipment by tankers operated by the oil companies themselves. The AFRA freight indices are grouped according to the classification of the vessels.

An example of the use of AFRA freight indices has been given above in the internal procedure of Company I for determining its supply prices. This stipulates that "the appropriate freight rate shall be the AFRA rate for LR 2 vessels applicable during the preceding month". (LR 2 = long range vessels class 2).

The AFRA scale is expressed in US dollars per long ton.

AFM quotations

The AFM prices for diesel fuel and petrol are established by the Aussenhandelsverband für Mineralöl, a group of independent importers based in Hamburg. Quotations are published by AFM weekly on the basis of the range of prices at which its members have concluded transactions for various types of diesel fuel and petrol. Although the AFM quotations are published in Platt's Oilgram (see below), they are perhaps less accepted for use by the major oil companies. Unlike Platt's own quotations, which are subject to daily cross-checks, the AFM quotations, being compiled weekly from a smaller number of transactions, tend to be less representative.

Platt's Oilgram quotations

Platt's Oilgram is a daily oil price recording and reporting service by McGraw-Hill Publications, whose main office is in New York but which has agencies and associated companies throughout Europe and the rest of the world. Among its daily topics are, for example, the prices at which transactions in oil products have been made, including, so far as Europe is concerned, bulk prices for cargoes fob Italy and for barges fob Rotterdam, for a range of oil products.

Unlike other world-wide commodities, such as copper or sugar, the prices of oil products are not quoted on any international exchange, and the Platt's Oilgram quotations, although unofficial, have acquires some significance as a market indicator. They are used extensively by oil companies in determining their transfer and sale prices. Governments have also taken the quotations into consideration when determining their prices for oil products.

The basis of the pricing service consists of the acquisition of information about transactions not only of the major oil companies but also of independent dealers and brokers in principal oil centres. It has been assessed that the majority of the information is obtained from major oil companies. In Europe, the Platt's Oilgram Pricing Service has an office in Brussels from which, each week, contact is made with a number of oil firms, dealers and brokers in the Netherlands to obtain recent prices for transactions in oil products together with some impression of market trends. The information thus collected is transmitted weekly to New York. Every day the coordinator of the information in New York telephones to some ten oil companies and dealers in the Rotterdam area to ensure that the information is as up to date as possible. A similar collecting service for information about oil transactions operates from London. Information about transactions in Italy is obtained in a similar fashion.

Apart from quotations collected from their own sources, Platt's Oilgram publishes the AFM prices for petrol and diesel fuel.

As has already been seen, one of the steps in the determination by Company I of its transfer prices requires the percentage yields of certain oil products to be multiplied "by the appropriate Platt's Rotterdam Low quotation effective the ultimo of the preceding month", and 25% of the MEP price operated by Company F was based on quotations in Platt's Oilgram. Company A decided to include, from July 1973, Platt's Oilgram quotations in calculating the base costs from which the NWE price was determined (see p.109), and this had the clear effect of increasing these base costs and accordingly the NWE price. Thus the base costs in December 1973, bearing the influence of Platt's Oilgram quotations, were almost 15% higher than they would otherwise have been.

Tables 21 and 22 show the breakdown of the base costs of Company A and Company I, together with the effect on these costs of the use of Platt's Oilgram quotations.

Comparison of transfer prices for oil products

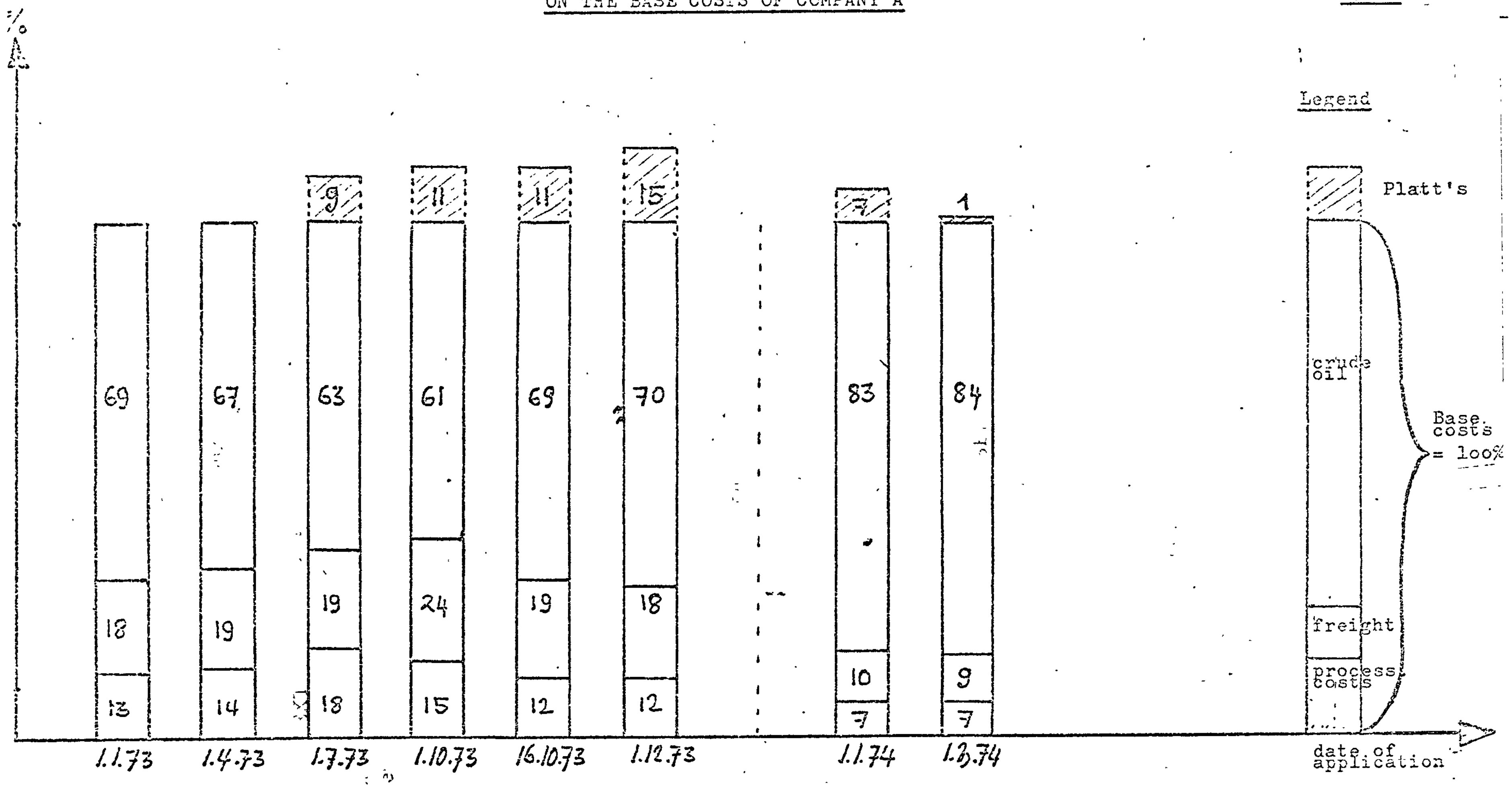
In the course of the enquiries, the Commission requested from oil companies the average monthly prices at which they exported oil products to their associated companies in other countries of the Community.

For super petrol (see Table 23), whilst very slight variation is to be found between the transfer prices charged by Company F, for example, other companies show a tendency to apply prices which are distinctly higher for certain countries than for others.

In the case of Germany, the transfer prices charged by one company for super and regular petrol were higher than the prices charged by its subsidiary on the German market.

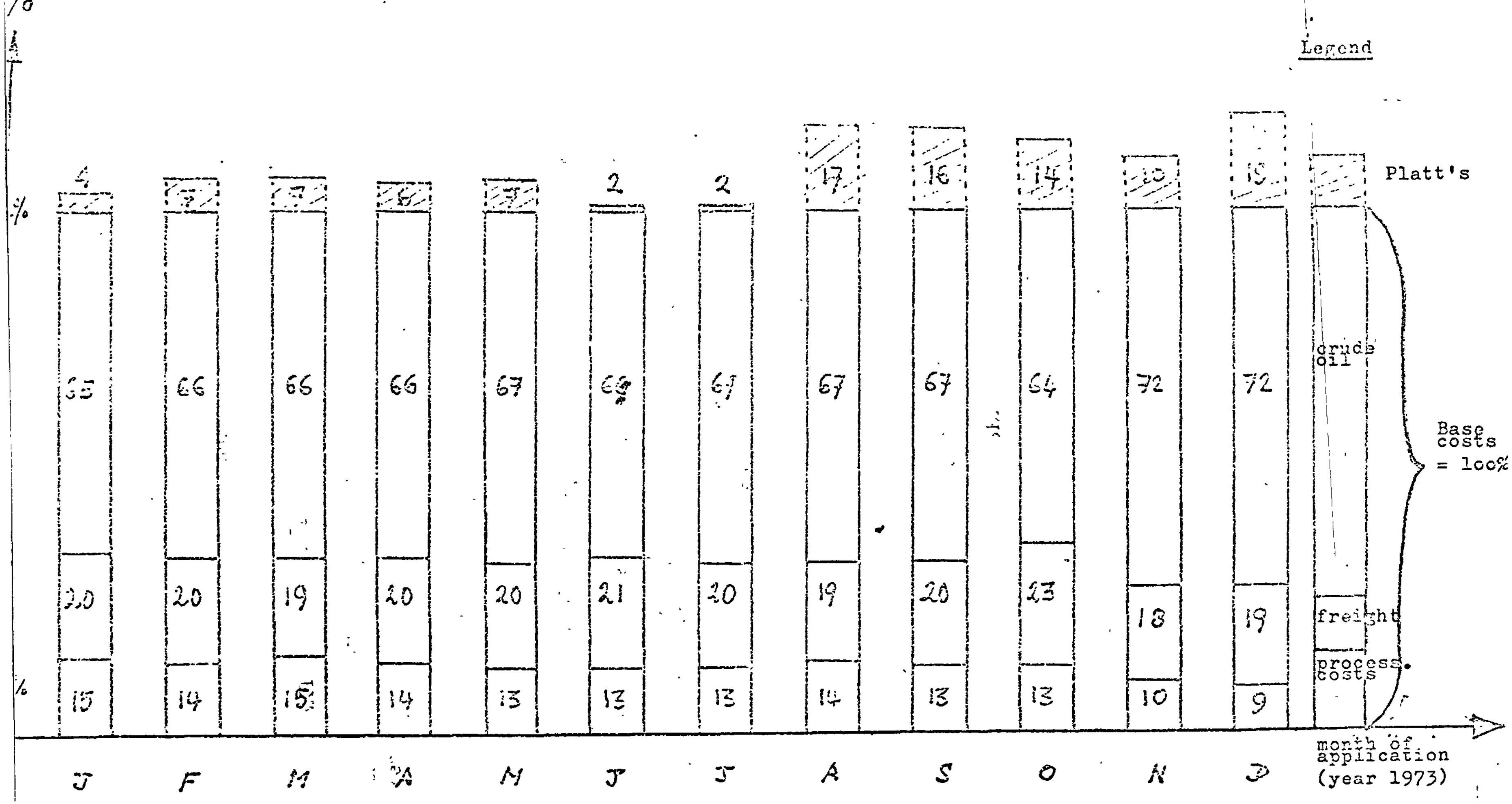
Table 21

INFLUENCE OF PLATT'S OILGRAM QUOTATIONS
ON THE BASE COSTS OF COMPANY A



INFLUENCE OF PLATT'S OILGRAM QUOTATIONS
ON THE BASE COSTS OF COMPANY I

Table 22



Product: Petrol-super **Transfer prices (group internal deliveries)** **Table 23**

$ per tonne ex-refinery

Supplying country	Country of destination	Company B	Company C	Company D	Company F	Company G	Company I	Company J
Oct.1973								
Netherlands	Germany		73,40					91,38
	Belgium	57,92	65,25				60,75	
	United Kingdom	66,37						86,24
	Denmark	60,45						
Belgium	Netherlands			48,-		79,35		
	Luxembourg	85,27			65,-	79,77	63,8[illegible]	
	Denmark	59,10						
United Kingdom	Ireland				62,-			80,12
Nov.1973								
Netherlands	Germany							97,95
	Belgium		79,-/81,-				67,-	
	United Kingdom	63,66						93,24
	Denmark	72,02						
Belgium	Netherlands			55,-		79,56		
	Luxembourg	83,16			77,-	88,92	69,85	
	United Kingdom	65,66						
United Kingdom					75,-			8[illegible],[illegible]2
Dec.1973								
Netherlands	Germany		125,-					110,93
	Belgium		81,-				70,24	
Belgium	Netherlands			60,-		91,72		
	Luxembourg	85,18			95,-	95,33	73,08	
United Kingdom	Ireland				92,80			
Jan.1974								
Netherlands	Germany	81,90	77,-					149,58
Belgium	Netherlands			159,-				
	Luxembourg	85,29			110,-	96,57	81,32	
	United Kingdom	80,65						
United Kingdom	Ireland				110,90			175,97
Feb.1974								
Netherlands	Germany	115,66						170,81
	Belgium					112,-		
	United Kingdom	121,40						
Belgium	Germany	108,21						
	Netherlands			159,-		139,42		
	Luxembourg	117,75			119,-	134,49	66,62	
United Kingdom	Ireland				109,40			
Mar.1974								
Netherlands	Germany		115,-					194,82
	United Kingdom	139,52						
	Denmark	139,45						
Belgium	Netherlands			159,-		162,94		
	Luxembourg	135,07			126,-	157,46	136,77	
United Kingdom	Ireland				118,20			142,41

NB.: These are monthly average prices, so the raising of transfer prices during the course of a month could explain slight differences among common market countries.

As regards the transfer price of gas oils and light fuel oils (which have not been tabulated because the variety of definitions from country to country makes comparison difficult), a consistently higher price to Germany was noticeable for most oil companies in respect of comparable qualities : B in October and November 1973, C in November 1973, F, G, H and J all offer examples.

In respect of aircraft fuel, in his review in September 1974 of the state of the world air transport industry, the Director General of the International Air Transport Association (IATA) said that until 1973, the costs of fuel had represented about 12% of the total costs of the airline industry but that this percentage had risen by July 1974 to over 25%. By that time the cost of aircraft fuel had increased over threefold from its level before the crisis, and because of the huge quantity of fuel consumed by aircraft, the airlines' total operating costs had soared as a result of the escalation in fuel prices. He went on to suggest that aircraft fuel had been priced at a higher level than was necessary, particularly as compared with other oil products. The Commission noted this situation and observations which had been made elsewhere expressing concern at the effect on the airlines, particularly on their prices. No formal complaints, however, had been made to the Commission by individual airlines about their situation concerning supplies of aircraft fuel. Contact was made with the European Airlines Research Bureau, the organization representing the collective interest of European based airlines, in the hope that it would make a representative comment to the Commission on behalf of its member airlines on any problems which European airlines were experiencing from the point of view of supplies or prices, but it did not do so.

The Commission subsequently decided to include aviation fuel among the products covered by the supplementary questionnaire which was sent out to oil companies during the course of the inquiry. Besides confirming a steep increase of price during the oil crisis, the resulting data shows a considerable disparity between the prices at which aircraft fuel was sold: this difference applies not only between companies but also between countries of destination. Thus, in November 1973, whilst deliveries were being made by Company F to Germany at a price of $74.15 per tonne, the prices charged by Companies H and J were $138 per tonne and $101.61 per tonne respectively. Again, in December 1973, deliveries were made by Company I to Germany from a refinery in the Netherlands at the then particularly low price of $40.11 per tonne, whilst deliveries to the same destination from refineries in the Netherlands were made by Company H at $185 per tonne and by Company J at $113.83 per tonne. On several occasions during the oil crisis, Denmark appears to have received aircraft fuel at prices which were significantly lower than the prices charged by the same oil group to destinations in other member states. In December 1973, for example, Company I delivered supplies to Denmark at $47 per tonne whilst its charges to Belgium and the United Kingdom were $94.19 and $91.62 per tonne respectively. And again, in February 1974, the same company provided aircraft fuel to Denmark at a price of $84.99 per tonne whilst its deliveries to Germany, Belgium and the United Kingdom were invoiced at $94.80 per tonne, $94.33 per tonne and $114.24 per tonne respectively.

Commenting in September 1975 on the effects of oil price increases on the operations of international airlines, the President of the International Air Transport Association accused the oil companies of being unfair to airlines and indicated that studies commissioned by IATA had shown that the increases imposed by oil companies on the prices of jet fuel had been about 10% higher than the increases for other oil products. The contracting and supply arrangements between airlines and the oil companies are themselves sufficiently complex to constitute the grounds for a separate inquiry, and this and further discussions with the parties concerned would be necessary before any firm conclusion can be based on the differences noted.

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It is difficult to offer general conclusions about the systems of calculating transfer prices which the Commission encountered during its inquiries, because of the variety of procedures involved. Some companies, notably Companies A and I, operated a system of transfer prices which was based on a standard price applicable to all countries in the Community and to which differentials were applied to reflect particular market situations. Company A applied differentials to take account of transport costs to destinations outside the zone to which its basic transfer prices related. Other companies recognized that some account was taken of the market situation in the country of destination, and this would explain, at least partially, the higher transfer prices to Germany, which, apart from being deficient in refining capacity, had introduced no price controls for oil products.

The accusation of absence of reality can be levelled at several aspects of the system of calculating transfer prices. The product yield used in the procedure of Company I for the calculation of its supply prices does not necessarily relate to the percentages of each product produced from 1 tonne of crude oil by that company but to the average yield expected from a typical refinery with an average capacity of 180,000 barrels per stream day (that is, about 9 million tonnes per year). Company A,at one stage in the calculation of its transfer prices, uses a yield of nine products from 1 tonne of crude oil which is representative of the European consumption of those products rather than of its own sales or of the yield actually obtained in its own refineries. Similarly, for freight costs, in the calculations AFRA quotations take the place of the actual shipping costs incurred by a company.

The inclusion of quotations from Platt's Oilgram is another factor in the calculation of transfer prices which does not relate to a company's own situation. In fact, during the oil crisis the prices given by Platt's quotations largely reflected the conditions on the international market since the oil market of Rotterdam (from which, as has been mentioned earlier, much of the data for the compilation of Platt's Oilgram appears to be obtained) is geared to the export trade. The absence of maximum price legislation in Germany during the oil crisis meant that high prices could be achieved for transactions, and these were reflected ultimately in Platt's Oilgram quotations, which themselves were used as the basis for further transactions.

It is understood that the prices passed to the Platt's Oilgram organization may include prices in respect of transactions which are expected but not yet concluded. Moreover, it is not known to what extent the data passed by the oil companies concern transactions within their own group, but in this connection it is worth noting that even the major oil companies often use intermediaries for their transactions and thus the exact nature of some of the prices passed to the Platt's Oilgram organization may not be known.

Every effort is undoubtedly made to ensure that the data used in the compilation of Platt's Oilgram quotations are absolutely up to date, but the actual criteria for interpreting the data given and the means of determining the daily quotations are unknown, as indeed are the sources of the information themselves.

It seems likely that the ultimate decision as to the level at which the daily quotations are to be fixed rests with the coordinator in New York, who doubtless takes account of market trends when applying his judgment to the interpretation of the data.

It might be said, of course, that the Platt's Oilgram quotation is regarded only as a guide in concluding contracts in respect of oil products and that the final prices are determined on a basis of mutual agreement between the parties, taking account of the state of the market and the transaction concerned. Nevertheless, there remains no doubt that throughout the studies undertaken by the Commission into the oil sector in Europe, extensive references were found to the use of, if not actual reliance on, the quotations contained in Platt's Oilgram and that such frequent reference to this publication raises some real problems concerning the correctness of prices.

3. Sales to third parties in other countries

The sales by oil companies to third parties consisted mainly of bulk sales to other companies in the market and to large independent jobbers which were made either on the basis of a firm contract or as spot purchases at the market prices.

Because of the special nature of the German market with its inadequate domestic production of heating oil distillates and prices which were not subject to official regulation, exports to Germany of gas oil are of particular interest.

In view of this, Table 24 compares the following:

- prices charged by two independent Dutch dealers (Companies N and O) for deliveries to Germany;

- the prices charged by Company A (an international company), for deliveries to a dealer selling to the German market. The price is described by Company A as "Average Platt's low (Platt's mean) Rotterdam for 30 days prior to the 15th of the month prior to the month of loading plus 35 cents";

- the transfer prices which Company A charged its own German refining subsidiary;

- the Platts' Oilgram quotations.

As the table shows, Companies N and O were the first to increase their prices when the crisis began, by approximately 40% between September and October 1973, broadly in line with Platt's, whereas Company A raised its prices much less.

Table 24

GAS OIL

Exports to Germany

	Company N		Company O		Company A		Price charged by Company A to group companies in Germany	Platt's Rotterdam
	Quantity (tonnes)	Price ($/tonne)	Quantity (tonnes)	Price ($/tonne)	Quantity (tonnes)	Price ($/tonne)		($/tonne)
1973								
July	5 900	76.54	1 887	72.35	29 400	60.14	51.60	70.96
August	18 253	67.04	4 626	65.19	30 400	67.82		70.18
September	15 848	80.65	2 411	73.95	36 800	71.56		77.67
October	18 637	114.34	5 643	104.65	29 200	73.12	1/10–76.60. 16/10 81.60	117.68
November	23 109	126.45	8 522	155.08	25 000	86.39		181.70
December	8 093	148.62	1 704	175.46	24 500	141.18	99.0	175.84
1974								
January	23 668	126.28	8 794	115.58	24 600	204.80	118.0	125.61
February	11 234	108.67	3 599	108.92	24 600	152.56		100.64
March	9 094	105.45	3 847	106.25	25 000	108.77	94.0	98.94

These differences between prices charged by Company A to a dealer selling on the German market, on the one hand, and those of Platt's and the independent dealers, on the other, were due to the interval related to the date of the Platt's Oilgram quotation specified in the supply contract between Company A and the dealers selling to the German market.

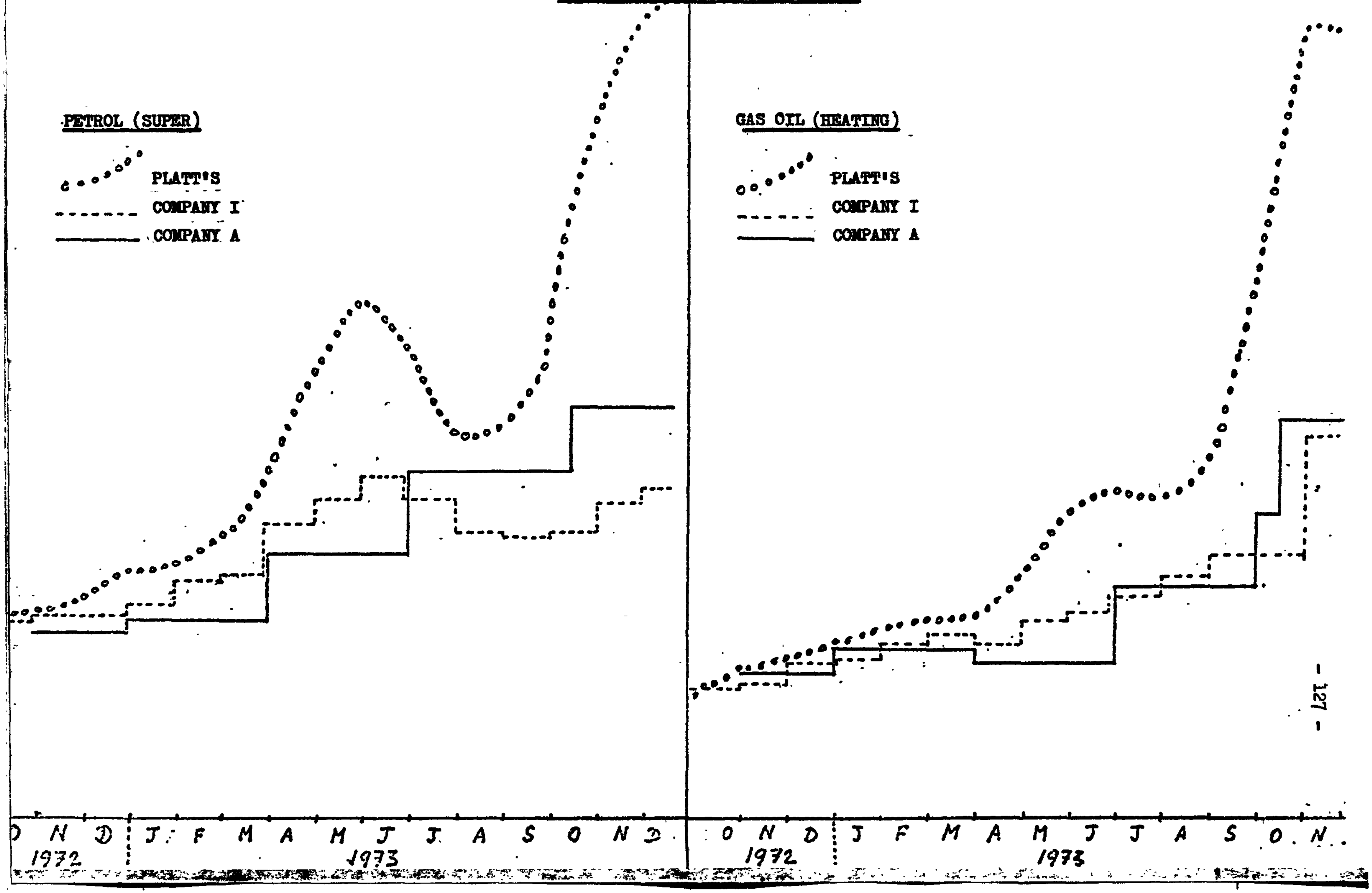
The differences between Company A's transfer price and what it charged to a dealer selling to Germany were due to the different manner in which Platt's Oilgram quotations enter into the calculation of the two prices: the price to the dealer selling to the German market is related almost entirely to Platt's Oilgram quotations, whereas Platt's influence on transfer pricing is, as we have seen, much less.

Table 25 illustrates, in respect of super petrol and heating gas oil, the disparity between two companies' (A's and I's) transfer prices and Platt's Oilgram (mean) Rotterdam quotations.

It will be observed that the transfer prices were always below Platt's and that the gap widened during the months covered.

Table 25

COMPARISON OF TRANSFER PRICES OF COMPANIES A AND I
WITH PLATT'S OILGRAM (AVERAGE) QUOTATION (ROTTERDAM)
OCTOBER 1972 TO DECEMBER 1973



From the information and trends set out above, it can be seen that the transfer prices of crude oil or of oil products had virtually no effect on market prices at the time of the crisis.

Where there are price controls, the result of a market crisis is that market prices tend to align themselves on the maximum controlled prices.

Where the market remains free of controls, prices tend to float up to the level of world market prices. They tend to follow the pattern of the highest prices, which are those either of the more or less marginal quantities of crude bought at higher prices or of refined products purchased on the world market.

Variations or differences in transfer prices in each of these two situations have no effect, except on the balance sheets of the international subsidiaries of the companies.

Ultimately, it is in the terms under which the various companies supplying the market obtain their supplies that the factors governing price levels in times of crisis, as in times of market stability, are to be found.

As regards crude oil, the major companies, which for a long time have had an almost exclusive control of Middle East oil, have established very close relationships with the producer countries and, despite the gradual disappearance of concession oil, still benefit directly or indirectly from privileged purchasing conditions in countries where production costs are in any case the lowest. With respect to crude oil then, the other companies are subject from the outset to a handicap which is felt at all stages right up to the finished product.

The result is that when there is pressure on the market, companies other than the majors exert as much upward pressure on prices as the majors themselves.

Since these are also companies which are partly state owned and whose market position the state therefore has an interest in strengthening, government price controls inevitably take account of their situation and preserve conditions in which they can continue to operate profitably.

In some ways, the resulting price levels help to provide the large international companies with higher profits then they would attain in a real market economy.

As regards refined products, as soon as the market begins to become restricted, the fact that dealers seek to acquire marginal quantities at world prices also has the effect of forcing prices higher.

To sum up, in times of crisis, prices tend to rise to the highest level without any apparent relation to the internal transfer prices of the companies.

The German market, the only one in which supplies and prices remained genuinely free during the crisis, provides a good illustration of what we have just said and enables a number of comments to be made.

Estimate of origin of supplies on the German domestic market (1973)[1]

Origin	Percentage	
German refineries of the large international companies	35%	70% refined in Germany
German refineries of non-German European companies and American independents	4%	
German refineries of German companies	31%	
Oil companies refining in the Netherlands	9%	
Rotterdam free market	7%	
Imports from other Community countries (excluding Netherlands)	7%	
Imports from non-member countries	7%	
	100%	

1) Total consumption of oil products in 1973: 137 million tonnes

One particular feature of Germany's supplies of oil products is that only 70% is covered from refineries in Germany, the rest being imported.

These imports came from the following four sources in somewhat similar proportions: the large international companies refining in the Netherlands who transferred oil supplies to their German subsidiaries, the Rotterdam free market, refineries elsewhere in the Community and non-member countries.

This supply structure also explains the way prices are formed on the German market.

As soon as the market experiences pressure, these prices inevitably have to fall somewhere between the cost of products refined in Germany by the large international companies and the cost of imported products paid for at the higher world market price.

It can be assumed that approximately 20% of German supplies are obtained at prices fairly close to the world price. These products, handled mostly by dealers, are sold at this high price on a market where actual or feared shortfalls provoke customers into buying regardless of price.

These quantities, marginal in terms of volume, in fact determine the market price since other sellers or intermediaries naturally aim to profit from the same price in their sales.

Hence, at times of crisis, German market prices have tended to be similar to world prices. But the movement of prices is not uniform: there are exceptions in individual regions, and this explains the significant price differences throughout the crisis recorded in Table 20.

The German example thus shows that transfer prices are economically meaningful and reflect product costs only when the market is in a state of long-term equilibrium.

It is this disparity between real costs and transfer prices which gave rise to accusations against the oil companies that they were operating price systems which were so complex that they could cover up any form of manipulation. Indeed all the systems which they operate certainly do lack clarity and logic, permitting uncheckable calculations to be made.

If in one way or another transfer prices were to determine selling prices, and in certain circumstances and on certain markets they could be a contributory factor, the way they are formed would have to become much clearer.

It is equally regrettable that when national authorities are determining prices, the bases of their calculations are not more closely related to reality instead of appearing to bear little relation to real costs at the various stages of production and distribution.

PART V

PART V

THE INDEPENDENTS

As the introduction to this report recalls, the press release announcing the Commission's decision to inquire into the conduct of the oil companies explicitly referred to difficulties facing the independents.

Part II of the report referred to the Commission's classification of the oil companies into three categories:

(a) the large integrated companies operating on a worldwide scale;

(b) the integrated oil companies of which the activities tend to be concentrated in one or several member states;

(c) smaller companies importing and distributing oil products and in some cases owning refineries.

This classification does not make it clear what the Commission meant when it referred in 1973 to the "independents".

The Commission's preoccupation at that time was the survival of small and medium sized firms, most of whose turnover depended on oil products and which were independent as regards supplies, distribution and prices.

However, this definition is both academic and inadequate. Large numbers of enterprises have long-term contracts covering varying proportions of their requirements with this or that large international company. Are these enterprises independent or not? In concluding these contracts are they not giving up their freedom of source of supply by the very act whereby they seek to secure their supplies?

Moreover, this definition takes no account of the vital differences between an importer/wholesaler and a retailer. There are probably some 60,000 dealers in oil products at all stages in the Community, yet only a few hundred of these are importers/wholesalers.

Unlike API in Italy, most of the independent companies have neither their own refinery nor direct access to refining capacities. Others specialize in manufacturing or regenerating lubricants. Some, such as Bulk Oil, actually operate as jobbers, importing and selling oil products. But the vast majority of the independent dealers simply sell industrial and domestic fuel oils and sometimes petrol.

It goes without saying that the interests of these dealers vary just as widely as their size, line of business and sales volume, which can range from several million tonnes in several countries to a few thousand tonnes in a single area or city.

Nevertheless, although these independent dealers generally hold rather modest market shares, taken together they account for approximately 20% of the distribution of oil products.

The situation varies from one country to another. Apart from France, where precise statistics exist, it is difficult to obtain an accurate picture of sales by the independents.

This being said, the trade associations estimate that in those countries where the independents do a sizable volume of business[1] they accounted for the following market shares in 1973:

<u>BELGIUM</u>

Diesel fuel and heating oil		5%
Heavy fuel oils		50%
Petrol	at least	6%

<u>NETHERLANDS</u>

Diesel fuel and heating oil	8%
Heavy fuel oils	10%
Petrol	8%

[1] Excluding Germany, for which the Commission has no figures showing the independents' market share.

FRANCE

Domestic fuel oil	22%
Heavy fuel oil, excluding supplies to Electricité de France (EDF) and Société Nationale des Chemins de Fer Français (SNCF)	10%
Petrol	9%

ITALY

Domestic fuel oil	90%

The role of the independents

Before 1971, supply of oil products exceeded demand on the world market. Prices were depressed. The large and medium-sized independent companies absorbed the surplus and helped to keep supply and demand in equilibrium. In order to dispose of their surpluses, the refineries were willing to sell to the independents at relatively low prices.

Their lower costs and their ability to obtain products on favourable terms enabled them to compete actively with the large companies.

Hence, over the last twenty years or so, the independents were able to set up distribution networks in parallel with those of the large companies, to build up stocks and to acquire their own means of transport. They were well adjusted to the requirements of light industry and domestic consumers.

The independent manufacturers of lubricants launched new brands, thus stimulating competition on this market.

At the various stages of distribution the independents carved themselves out a substantial share of the market, side by side with the large companies.

This is not to say that the independents had no problems before the crisis.

Owing to their relatively modest size the independents feel the effect of regional,weather or economic variations more than the large companies, and likewise competition from other energy sources. They also suffer from the burden and cost of compliance with national or other regulations which are felt less by companies which are financially and administratively more substantial (controls of all kinds, compulsory storage, anti-pollution regulations, technical barriers to trade, etc.).

From 1972 up to early 1974 demand was beginning to exceed supply. Countries with inadequate refinery capacity, such as Germany and the Scandinavian countries, became obliged to pay higher prices for their supplies. Refineries no longer had the slightest problem in disposing of their output.

This was when the independents began to run into difficulties. Only a small minority of them were able to take advantage of the rise in prices by making profitable export deals from Community refineries. For most of them the problem was to supply their distribution networks on competitive terms in order to defend them against their larger competitors.

The crisis only exacerbated this situation - sometimes to an extreme degree. In Belgium,the independents - particularly those depending heavily on imports - were in serious trouble, with only 50% of their requirements supplied.

Those which had their principal market in Belgium were offered products at prices higher than the maximum Belgian prices. Several of them managed to obtain supplies, particularly in March and April 1974, only as a result of government requisition orders.

One of the big independent companies operating in Belgium, where it had crude oil refined and sold its products, also had very serious problems owing to the high prices it was obliged to pay for crude oil and to refining costs which were increased because of under-utilization of hired capacity.

The situation in the Netherlands was similar to that in Belgium, though aggravated to an extent because distribution margins were not, as in Belgium, fixed by the authorities at the same time as maximum prices. The action taken by the Rijksbureau was not enough to put right in all cases the precarious situations in which the independents found themselves.

Certain independent companies which were exporters,however, made substantial profits. For example, light fuel oil bought by an independent in December 1973 from one of the large international companies at Fl. 28.39 per 100 l. was sold to Germany at Fl. 47.57. Opportunities such as that resulted in some of these exporters increasing their storage capacity in the Netherlands above the level corresponding to real requirements in normal circumstances. The resulting burden of finance charges was too heavy, and the large international companies acquired some of this capacity.

In France certain independents which were normally importers had problems in November 1973. A circular distributed in November 1973 assigned to the Union des Chambres Syndicales des Industries du Pétrole (UCSIP) the task of preparing a plan for supplying those companies which now found it impossible to import. The plan fixed the level of supplies to these independents at 75% of reference levels. The result of this system was that during the crisis the companies' market shares were frozen, as were those of their distributors. This system ceased operating in 1974 and the independents were urged to secure their supplies by negotiating contracts direct with companies having refining operations in France; such contracts would be less uncertain than some import contracts which were sensitive to price fluctuations on the world market.

An Italian ministerial circular dated 8 October 1973 laid down that supplies of heating oil were to be held at 80 % of their 1972 level and furnished by the same distribution networks. The oil companies opposed this. Provincial committees (official bodies headed by the prefects) were set up to organize the distribution of these products. A ministerial instruction of 23 November 1973 announced the decision to grant distribution rights only to companies nominated by refiners. The reason for this was that the previous arrangements had given rise to some disorder on the oil product market by compelling refiners to make supplies available to dealers whose traditional sources of supply lay outside Italy. Naturally enough, the Italian oil companies favoured the distribution networks which were linked to them and which sometimes received more supplies than they could normally handle; on the other hand, certain independents received little or nothing. Normal channels of distribution were consequently disrupted. Some consumers were not supplied, and there even sprang up a black market in heating oil.

There was no attempt to regulate supplies on the petrol market, and companies refused to sell petrol to the independents, resulting in the temporary closure of hundreds of petrol stations.

Moreover, the reduction in distribution margins fixed by the Comitato Interministeriale Prezzi (CIP) both for petrol and heating oils affected the independents more seriously than the integrated distribution networks.

Distribution margins

	1 January 1973	20 February 1974
Heating oils	3 %	1.1 %
Light fuel oil	2.6 %	1.1 %
Heavy fuel oil	3.6 %	1.4 %

Another result of the limitation of the prices of oil products by the CIP was to reduce the trade margins of the coastal depots from which the independents obtain their supplies. The function of these depots is to import oil products, mainly from the USSR and France, to regulate these imports by means of their storage capacity and thus help to keep the market in balance. During the crisis they found it difficult to cover their operating costs. This made it even harder for the independents to obtain supplies.

The Commission will continue its examination of the conduct of the companies within the provincial committee system and its effects on supplies to independents during the crisis.

Generally speaking, wherever price controls existed the independents found survival difficult during the crisis. The reduced margin between prices invoiced by refineries and maximum prices often failed to cover distribution costs fully, and in view of the price levels prevailing at home it was not practical to obtain supplies from abroad.

It is impossible to establish accurately how the structure of the trade was changed by the crisis. One estimate is that the number of enterprises which went out of business, including those which became bankrupt and those which were taken over by another company, was no higher than a few hundred in all categories for the whole Community (only one per cent of all the companies). In the end, given market trends in recent years, the number of importer/wholesalers which are truly independent cannot be more than one out of two.

PART VI

CONCLUSIONS

The enquiry announced by the Commission on 21st December 1973 covered the period from October 1973 to March 1974- the period marked by the oil crisis stemming from the armed conflict which broke out in the Middle East on 6th October 1973. The enquiry's findings and conclusions as to the behaviour of oil companies during this period do not necessarily apply to the situation which obtained before or after the crisis.

The purpose of the enquiry was to examine the behaviour of oil companies in the Community and assess it with regard to the rules on competition set out in the Treaty of Rome. The Commission's investigative powers extend to all member countries, but the enquiry has also produced important information relevant to matters outside the Community, notably the formation of crude oil prices in producer countries and also the transfer prices charged by oil companies in respect of crude oil sold to their refineries and refined products sold to their distributing subsidiaries.

The sudden pressure on the market for oil products, its impact on the price of these products and the uncertainty as to the gravity and duration of the crisis, rapidly produced within the Community a supply situation in respect of oil products which obliged the Commission to ensure, by the means of direct action available to it, that the situation was not being exploited by the oil companies in violation of the Treaty's rules on competition.

The Commission's apprehension was justified because of the specific structure of the market in oil products, which is controlled by a small number of large international companies distributing a limited number of homogeneous products obtained from the same raw material to which they have privileged access. In proportions which may vary, all these companies purchase their oil from the same sources, often from enterprises in which they have a joint interest, at prices which are broadly similar for a given supply point. They load the oil at the same ports and ship it to the same destinations, where they manufacture the same products under the same conditions and, at the same refineries.

Whether in the case of actual joint ventures, exchanges of refining capacities or transfers of products, the large companies are linked by an extensive network of relationships which, even if there are good historical and economic reasons for them, constitute none the less a factor in strengthening their solidarity and consolidating their position.

The Commission will remain alert to the possibility that, by forging more and more of these links, the companies might create together a situation which would limit the scope for effective competition.

Alongside these large international companies, there is a smaller number of integrated companies, also with refineries in the Community, which, to a varying extent, depending on their requirements, have access to supplies of crude oil, but at generally higher prices.

Finally, as regards the supply of oil products, there are the independent wholesalers, who, in normal circumstances, are able to play an active and effective role, in that they are in a position to obtain supplies from the cheapest sources and to ask lower prices, thereby introducing a significant element of competition.

During the crisis, not only did the large oil companies continue to enjoy access to sources of supply on better terms than their competitors but their market position was reinforced by the relative scarcity of supply and even more so by the fear of real shortage. This situation harboured increased risks of restrictive practices involving supplies or prices, notably market sharing, abusive price policies or the elimination of less well placed competitors or independent dealers. These were, incidentally, risks which the authorities in member states were concerned to limit by measures appropriate to the national markets.

Once the threat of a shortage appeared, the conditions of supply were serious affected not only by the onset of the crisis but also by the attitude adopted by governments towards this threat.

In most member countries the refining capacities cover requirements. The authorities in those countries took steps to control price increases and to restrict exports of refined products. However, for reasons stemming both from its economic tenets and from an appreciable shortfall in refining capacities in Germany, the Government of that country chose to rely to a large extent on the free interplay of market mechanismes to make up by imports the shortfall in national refining capacity.

The varied policy approaches adopted within the Community by the several member states and the differing national measures implementing these policies affected the oil companies and explain certain facets of their behaviour in member countries.

Assessment in the light of Articles 85 and 86 of the Treaty of Rome

The Commission has examined whether the changes in the respective positions of the parties economically involved, did not, during the crisis, lead to restrictive or unfair practices by companies as regards supplies and prices or towards independent dealers and users.

Assessment of the facts was often made difficult because the authorities in most member states pursued a short-term oil policy which meant that they had to involve -either themselves or through their trade associations - the oil companies in determining or implementing national objectives.
This concertation between companies obviously resulted in practices which, although they had the blessing of the member states, could not avoid having some impact on competition and were therefore apt to fall within the relevant rules of the Treaty.

Subject to any conclusions to the contrary which the Commission may reach, when it has completed the action which it intends to take (see point 5 below), the findings of the enquiry are as follows :

(1) The dominant position of the oil companies

The whole of the report shows that the structure of supply was not fundamentally different during the oil crisis from what it had been previously but - bearing in mind the relative scarcity of oil products - insofar as certain oil companies had at their disposal the bulk of the crude oil produced, and transported and refined it, the position of the independents and even of some of the less powerful integrated companies was undermined. Nevertheless, at the same time, refiners in general saw their position strengthened to such an extent that, collectively, they acquired a dominant position on the oil market.

In view of the scarcity of oil products and since dealers and consumers were, as a result, unable to rely on other suppliers even in their own countries, each of the companies with refining capacities in a given country thus became the sole and imposed supplier of all dealers and consumers who were its traditional customers. In the context of their collective dominant position, each of the refining companies was, therefore, in a monopolistic position towards its customers.

A dominant position was created for the supplier in respect of these traditional customers, due to the collective dominant position of all refiners on the entire national market. Such a situation existed in all member states except Germany.

The definition of what constituted a company's traditional customers gives rise, of course, to some difficulty. In the context of actual problems raised by the crisis, the Commission has taken the view that a company should have considered as a traditional customer, any buyer who, in the twelve months prior to the crisis, had in some way or another been its customer.

It is on this basis that the Commission made its assessment of the companies' behaviour in this field.

(2) <u>The supply of oil products</u>

The information gathered on the overall supply of crude oil to all refineries in the common market shows that the contraction in supplies was the result of production cuts ordered by the producing countries and of their embargo directed at the Netherlands and Denmark.

The Commission's investigations did not reveal the existence of any practices forbidden under Articles 85 and 86 in the arrangements for supplying the Community with crude oil. All the oil companies experienced difficulties in their own supply systems in the oil-producing countries. Some of them, with a lesser proportion of concession oil at their disposal, experienced greater difficulties than others in supplying their refineries.

The integrated companies which had no crude oil resources of their own or whose resources were so inadequate that they had concluded supply contracts for crude oil with the large international companies, continued to be supplied on the basis of contracts.

By the same token, the Commission was unable to establish that there had been any agreement between oil companies in Europe, within the meaning of Article 85, to restrict deliveries of refined products. This does not contradict the fact that, locally, dealers or users had to face major supply problems during the most acute phase of the crisis - problems which were caused mainly by a steep rise in demand on the part of anxious customers and by interruptions in the rhythm of deliveries by the refineries and wholesalers. The national authorities did all they could to remedy this.

(3) Prices

The transfer prices charged by the large oil companies, whether for crude oil or refined products, relate to transactions between firms in the same group, that is to say, they are internal prices determined from tax, financial and economic considerations peculiar to the enterprise itself. Where such transactions are purely internal in their effect they are not caught by the rules on competition.

However, the Commission could not rule out the possibility that certain internalpractices in respect of transfer pricing might be indicative of an agreement or a concerted practice between the oil companies if they revealed coordinated behaviour . Nor could the Commission rule out the possibility that a policy of high or diversified transfer prices,applied to subsidiaries in countries where the authorities do not intervene in the market, might constitute an element of abuse through its effects on selling prices where the company in question was in a dominant position.

As a check on their behaviour among themselves, the oil companies' respective transfer prices, for both crude oil and refined products, were compared. This showed that all the oil companies had followed their own line and that the transfer prices of crude oil in particular, though differing very little from each other, nevertheless did reflect the differences between the supply situations of the various companies. They also reflected the differences between the price policies pursued by the companies, some of which charge the same transfer prices to all their refining subsidiaries throughout the Community, while others vary them to take account of conditions on national markets.

In view of the highly diversified supply arrangements in Germany and the market economy which prevails there, no oil company was able to abuse its position through the transfer prices it applied in transactions with its German subsidiaries.

An analysis of the various systems and levels of transfer prices did not reveal any concerted practices among the oil companies.

In respect of the selling price to consumers, the fact that most member states set maximum prices made concerted practices between the oil companies impossible in these countries, once the prices had been fixed.

It might have been thought that in Germany the oil companies would have come to an arrangement among themselves to increase their profits on the German market. Yet the trends taken by consumer prices on that market was the work of all the economic factors involved in making up that portion of Germany's oil requirements not covered by refineries located in that country, in particular importing dealers, who, faced with the threat of shortage and in the absence of prices fixed by the Government, accepted the level set by international demand.

Of course, the prices asked by importers and by the subsidiaries of the large oil companies in Germany were all gravitating towards this level. In a market where there is little variation between products and where prices move very swiftly, consumer prices may temporarily assume a variety of levels from one company or region to another, but different price levels for the same product cannot be expected to obtain permanently throughout the market.

In any event, the Commission discovered no agreements between companies in connection with this aspect.

It is its view, however, that as certain systems of disseminating international prices, such as Platt's Oilgram, may have an effect on price levels in Germany or on any other free market, it must give attention to the operation and effects of these systems and, in particular, check whether the information system used by Platt's Oilgram might not result in prices being published which do not correspond to the whole of the actual quotations.

An attempt may be made to estimate the excess price paid by Germany between October 1973 and April 1974 as compared with countries where the authorities set maximum prices. The Commission estimates that for those six months, the excess price might have been in the order of one thousand million dollars for a consumption of sixty-four million tonnes of oil products, i.e. an average of about fifteen dollars per tonne. This may seem a large sum, but this additional expenditure on Germany's part is more than offset by the advantages which it has traditionally derived from its position as an importer of refined products bought at cheaper prices on the world market, the periods of depression on that market having in the past been considerably longer than the periods of pressure.

(4) Independent dealers and users

During the crisis the independent companies experienced such difficulties that, in some cases, their very existence was threatened. This was particularly true where the level of maximum prices prevented the independents from buying freely and squeezed their margins to excess.

Many small and medium-sized firms, engaged solely in distribution, have tried either to cover themselves against a recurrence of the same difficulties or to sell out.

The second alternative led to the buying up of a certain number of medium-sized business by the big companies. Other firms concluded long-term supply contracts with the refiners which give them a large degree of security but deprive them at the same time of genuinely free access to the market.

Nevertheless the total of such transactions was small in relation to the total of dealers in oil products in the common market, estimated at around 60,000 wholesalers and retailers.

The crisis thus brought about structural changes in the oil business which are reflected, not in a noticeable reduction in the number of firms, but in the existence of new relationships between the oil companies and a certain number of wholesalers. Nevertheless the Commission discovered nothing in this development indicating abuse by the oil companies of their collective dominant position.

On the other hand, the Commission has examined cases of presumed abuse of an individual dominant position by certain companies in respect of independent dealers who are their customers.

The Commission takes the view that, during the crisis, all the large oil companies were in an individual dominant position, at least in respect of their traditional customers, who had no access to suppliers other than those with whom they had done business. A refusal to sell to such customers can constitute an abuse forbidden by Article 86 since it may affect trade between member states, which is certainly the case when a sizable purchaser/dealer is in danger of being squeezed out of the market, a development which would mean appreciable change in the pattern of supply for oil products in a substantial part of the common market.

The question might even be asked whether, in a crisis in which state intervention, in particular, produces a degree of fragmentation of the market, companies in a collective dominant position should not be obliged, according to their share of the market concerned, to supply in reasonable quantities and at reasonable prices to buyers who, before this fragmentation of the market, obtained their supplies from other sources. Such an obligation would have the effect of maintaining the competitive marketing structure which existed before the crisis.

(5) Further investigations decided by the Commission

Following a complaint of refusal to sell, the Commission is continuing its examination of a case which may involve an abuse of a dominant position under Article 86 of the Treaty of Rome.

The Commission ascertained, in respect of certain products, the existence of specific market situations and price differences which justify closer investigation.

This applies to kerosene and naphtha, on the markets for which there are oligopolies of both suppliers and buyers.

The Commission has decided to carry out enquiries in the following sectors under Council Regulation No. 17 :

(i) jet fuel (kerosene), with the airlines;

(ii) naphtha, with the chemical industry;

(iii) the use by oil companies of references to Platt's Oilgram quotations;

(iv) public supply contracts with electricity companies.

* * *

It also emerges from this report that during the crisis the dissimilar actions by member states were aimed at the urgent introduction of measures and gave the impression of an "every man for himself" approach,which was scarcely in the Community spirit.

During the same period, because of their international standing and experience, the oil companies made an important contribution to alleviating for the countries of the Community, the serious repercussions on their supplies of the decisions taken by the oil producing countries.

This same crisis served, in fact, to highlight how effective and indispensable their influence is, and to bring home to economic observers and to the general public the power wielded by these large companies and the limitations of any attempt at state intervention.

This power flows from their historical and privileged links with the oil-producing countries, their ownership of tanker fleets as well as most of the refineries in the world, and the integrated character of all their activities.

But the producing countries have progresively effected a transfer of power to their own advantage. The successive attempts to reduce concessions and gradually to take control of operations have seriously eroded the oil companies' position in the producing countries.

Nevertheless they retain almost exclusive control of supply routes, refining and distribution facilities.

In view of these developments, the consuming countries will require to pay more attention to both the economic and political terms attached to their oil supplies.

It is therefore essential, in the light of present and foreseeable circumstances, to achieve a better balance between the roles of the public authorities and the oil companies respectively. The companies are complex agents whose economic value is unquestioned but whose role must be better defined.

Against this background, most member states have already embarked on a systematic rationalization of their relations with the companies. This ranges from an organization on a legal basis of the French type to consultation machinery as set up in Germany. The differences between these systems are indicative of different economic approaches but also reflect specific situations. Regardless of the procedure adopted, there is not a single country which has not expressed the desire to see more clearly into the particular aspects of the oil business which affect it and, if necessary, to exercise some influence.

All the industrialised countries of the world have displayed similar concern.

Forms of international cooperation have been introduced but they do not themselves provide an answer to the Community's wish for a policy of its own, capable, should the need arise, of affirming itself independently and of counterbalancing any influence which might be contrary to its interests.

Nor does it relieve the Community of its obligation to exercise some supervision of the oil market to ensure that the rules on competition and the free movement of goods are being observed.

The oil crisis will have served to stress once more the vital necessity for the Community to develop a common oil policy.

T A B L E S