Report on the current situation in the oil market by the Directorate-General for the Economy and Energy (Luxembourg, 30 November 1960)

Caption: On 30 November 1960, the European Commission's Directorate-General for Energy and Economic Affairs publishes a report on the situation of the world and European oil markets and on the increase in the supply of oil-based products.

Source: Archives historiques des Communautés européennes, Florence, Villa Il Poggiolo. Versement des Institutions communautaires, EC. Fonds versés par les Archives de la Commission européenne, COM. Haute Autorité de la Communauté européenne du charbon et de l'acier, CEAB. CEAB 9/2270.

URL:
http://www.cvce.eu/obj/report_on_the_current_situation_in_the_oil_market_by_the_directorate_general_for_the_economy_and_energy_luxembourg_30_november_1960-en-7981a2d6-dab2-4a5d-af1f-942b4d252e08.html

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The current situation in the oil market

Current excess crude oil production capacity in the world (installed or potential) is estimated to be in the region of 200 million tonnes a year, about one fifth of the present world production. This surplus, resulting from often conflicting factors, is partly to blame for the imbalance in the oil market that has persisted for several years.

Dominant factors in the world situation

Although all producers are agreed that there is a worldwide surplus, the expediency of or need for each party's activities seem to be justified by various considerations. For example:

— the big international companies already holding substantial reserves are pursuing an intensive research policy, particularly in certain regions where, if they were not represented, they might well be ousted from 'key positions' in the international market as a result of discoveries by competing companies;

— the governments of the producing countries are anxious both to protect prices and to increase production;

— the United States, which alone consumes 45 % of world production, is taking steps to restrict imports in order to stimulate domestic production, thereby directing the crude oil from companies with structural links to the country to other parts of the world, especially Europe;

— oil research and development is being initiated or promoted by the State in many consumer or small-scale producer countries, particularly in Europe and Latin America, in order to meet economic, financial or security requirements;

— a number of tankers have been withdrawn from service as a result of the slump in cargo shipping. However, at the same time, independent oil and shipping companies are modernising their fleets by bringing fast heavy tankers into operation, with a transport capacity equal to or exceeding that of the decommissioned vessels;

— lastly, the Russians have a substantial surplus for which there is no domestic need and are offering their oil in Europe in exchange for the purchase of the modern industrial plant required to speed up their economic development. However, since they have no refining or distribution networks, they are entering a market whose structure is not in their favour and are making serious efforts with prices geared to the benefit, nature and scale of each transaction.

The situation outlined above shows that the oil surpluses cannot be distributed uniformly across the world market. The United States and the Latin American countries are exporting massive quantities, whilst Russian exports are increasing. A large proportion of the available supply is becoming concentrated in Western Europe and on the continent in particular.

Some characteristics of the European market

The continuing shortage of coal over a number of years, the rapid increase in the fuel consumption rate and industrial productivity demands have encouraged the establishment of a strong refining industry in post-war Europe. The factors that initially contributed to the expansion of the oil industry were the rapid advance of automation and the steady development of energy-use technologies, enabling advantage to be taken of the benefits offered by the use of oil in a number of sectors of industry and in the home.

That accounts for the constant fluctuations in the pattern of energy consumption, reflected by the differences in the coal-oil balance, which is more affected than it used to be by economic viability criteria. That trend is affecting both the coal-mining areas in which industrial consumption was concentrated for decades and regions far from the mining centres, where a plentiful supply of oil from the south is radically altering the structure of the energy supply, not previously conducive to industrial development.

Rather than aiming to deprive coal of a share of its market, oil companies in Europe, faced with growing demand, have sought to establish a sound footing in the market for oil products with excellent prospects for both oil and solid fuels, coal being assumed to have reached a ceiling. Thus each company has tried to increase its own share in competition with already established firms, as well as newcomers (integrated companies or otherwise) and traders. Since then, the slump on the world crude market and the availability of cheap shipping rates have created the conditions for fierce competition. The internal situations to which this sometimes gives rise in the oil industry cannot be considered normal, and they inevitably have an impact on the coal market in the case of certain products.

All those factors explain in particular the steady growth of Europe’s refining capacity, always ahead of consumption, and the increasing efforts to reduce costs at all stages of marketing (refining, transport and distribution). The development of pipeline networks is one example.

The unitarian approach to the oil market developed and applied by the major oil companies has already made the European Community area a largely integrated market, taking into account the policies pursued by each government. That is the reason for many of the movements of oil products both within the Community and to or from third countries. The companies’ requirements in each country may be met by domestic refinery output, cross-border trade or foreign imports, the latter being mainly of marginal importance.

Overall, imports of finished products from third countries account for about 10 % of current supply. Approximately half come from the Western hemisphere, the other half from the East. They may be divided into two categories: firstly, technical or structural movements of regular supplies for the major companies and independent importers and distributors and, secondly, distinctly speculative transactions that include imports of crude oil ‘temporarily admitted’ to a Common Market country for re-export after refining. Although the total volume of transactions in the second category appears relatively small, it is important not to underestimate their effects on an extremely sensitive market in which supply concentrated at a few points may have far-reaching repercussions.

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Summary

The situation on the world oil market appears very unsettled. Extensive research has been going on in the world over the past few years, prompted by competition or overestimates of demand or encouraged by governments to counter political uncertainty and remedy monetary imbalances. As a result, reserves have increased substantially everywhere but in the United States. In that connection, the Suez crisis accelerated the trend; accordingly, the shipbuilding programme started at the time is seriously affecting freight rates. The United States having taken protective measures against this foreseeable situation, new European outlets are being sought for surpluses from major production sources, in competition with products from the East, the supply of which is increasing rapidly.