

Business and Industry Committee
For Bretton Woods
Roosevelt Hotel
New York 17, N. Y.

THE PETROLEUM INDUSTRY AND BRETTON WOODS

The Bretton Woods program is essential to the establishment of stability and order in international economic relationships and for the promotion of a larger volume of international trade and investment in the post-war period. The Bretton Woods proposals are, therefore, of special significance to the American petroleum industry.

Few industries have a greater stake in foreign trade than the American petroleum industry. The United States is both an important exporter and importer of petroleum products. Our exports of petroleum products during 1938 amounted to about \$390 million and our imports amounted to about one-tenth this amount. Our petroleum imports consist largely of crude oil while the bulk of our exports are processed products such as gasoline, kerosene and lubricating oils. In 1938 exports of kerosene amounted to 11 per cent of our domestic production; exports of lubricating oil amounted to 30 per cent; and exports of gasoline and other motor fuels amounted to 8 per cent of our domestic production of these products, respectively.

Americans also have large investments in oil fields, refineries, and distribution facilities abroad. Our foreign oil investments are not only important from the standpoint of the economic interests of the American owners, but they have far-reaching political and military implications as well. The future economic well-being and security of this country depend upon our having adequate petroleum resources both here and abroad.

Our existing petroleum reserves are now about 20 billion barrels and currently withdrawals amount to about 1.6 billion barrels per year. Recently we have been producing about 60 per cent of the world's petroleum, while our estimated share of the world's oil reserves is less than 35 per cent. Although

the question of how soon our petroleum reserves will be exhausted is a debatable one, no one will deny that we should insure against a possible depletion of this indispensable resource.

In the future, as in the past, petroleum exports will fluctuate with total exports. Unless there is a high level of international trade we will not be able to sell our surplus petroleum products in foreign markets, and output and employment in our refineries and processing plants will be reduced.

A considerable portion of the output of American-owned oil fields and refineries abroad is sold in other countries. Unless we can sell the output of these foreign properties in world markets, we will not be able to maintain and increase our foreign investments in petroleum reserves and production facilities.

Because petroleum is an international commodity sold in world markets, prices in terms of dollars depend in part upon the values of foreign currencies. Unstable prices caused by fluctuating exchange rates add to the burden of risks in international trade and tend to discourage foreign investment. It is therefore to the interest of the petroleum industry, both as an importer and exporter of petroleum products and as a foreign investor, that we have the maximum amount of stability in the values of the world's currencies.

Even more important from the standpoint of the foreign trader and foreign investor is the elimination of exchange controls and discriminatory exchange practices of all kinds. In the past American petroleum exports have often been the victim of restrictive and discriminatory practices on the part of other countries. Foreign exchange regulations have also prevented American-owned companies from converting their profits into dollars, with the result that such profits have lain idle for years in foreign blocked accounts. In the Middle East and elsewhere, American refineries

must sell their output in countries which are in the Sterling Area. Unless these currencies are convertible into dollars, it will be impossible for American companies to pay their expenses or to pay a return on their investment. The inter-convertibility of the world's currencies is vital to the success of the American petroleum industry at home and abroad.

What is the Bretton Woods program and how will it help to provide the kind of international economic environment which the petroleum industry requires?

The proposals drawn up at Bretton Woods look toward the establishment of two postwar financial agencies that are designed to promote an expansion of international trade and productive international investment. One is to be known as the International Monetary Fund, the other as the International Bank for Reconstruction and Development. Both agencies will be supported and managed cooperatively by all the countries now joined together to win the war. Because we are the richest country in the world, we will be the largest single stockholder. Both institutions will be located in the United States, and in the management of both we will control more votes than any other country.

The Fund will perform several functions essential to international trade. It will be empowered to stabilize the value of world currencies in terms of each other. Stability alone, if attained, would solve one of the most persistent and vexatious problems connected with international trade. It would eliminate entirely any uncertainty concerning the cost of foreign currencies needed to make a purchase abroad, or the dollar value of proceeds received from sales abroad. People who buy and sell across an international boundary line can do more business with less trouble if they know today what the exchange rate between the two countries will be tomorrow, next month, and a year hence. That is the sort of stability the Fund will work for.

The Fund will also deal with other troublesome problems that have hitherto hampered trade. It will work for the speedy elimination of controls on exchange transactions and the abolition of currency devices, such as those employed by Germany, designed to limit foreign trade or to control it for the sole purpose of preparing for aggression. The object will be to reduce to a minimum the effort required to buy foreign exchange to settle obligations abroad, and to give the individual holding claims to foreign currencies complete freedom of action--freedom to sell for dollars or spend abroad as he pleases.

The International Bank for Reconstruction and Development will go about increasing trade by a longer route. Its purpose will be to open the channels of international investment and to encourage foreign lending on the part of countries with capital to export.

The need for a revival of international investment is very great. War-torn countries, like France and Belgium, have had their "seed-corn" capital destroyed. They must have help from abroad before they can help themselves. Other countries need foreign capital for developmental purposes. This is particularly true of some countries in Latin America and the Far East. They will require assistance from abroad if they are to uncover their hidden wealth and become full-fledged participants in maintaining a peaceful and prosperous world.

The Bank's primary function will be to guarantee foreign securities sold in this (or any other) country. The Bank, however, will add its guarantee only after three specific conditions are satisfied. (1) Have the borrowers exhausted all possibilities of raising the funds they require through the usual investment channels? The answer must be that the funds cannot be raised through the usual channels on reasonable terms. (2) Will the project for which a loan is sought increase the income of the country in which it is to be located? The Bank's own investigators, who will make

an on-the-spot check, will have to be convinced that it will. (3) Does the government of the country in question favor the proposed project? Very well, it will not mind assuming full responsibility for seeing that the funds are properly handled and duly repaid. It will therefore be asked to guarantee the full amount of the loan.

At this point the Bank will add its own guarantee, whereupon the borrowers will proceed to market their securities in any country that has capital to lend.

This means two things that are of great importance to the United States.

(1) When foreign securities backed by the Bank's guarantee are sold in the United States, the risks associated with the investment will not, as in the past, be borne entirely by the investor, but by the pledged credit of all the member countries that have clubbed together to make the Bank possible.

(2) Since loans sponsored by the Bank will be in addition to the foreign loans that we would otherwise make, the expenditure of the proceeds in this country will create employment, production, and exports that we would not otherwise enjoy.

The Bretton Woods proposals have recently been laid before Congress, which in a strict sense will consider only whether the United States will cooperate with other countries in setting up the Fund and Bank. But in a broader sense, Congress will act not for the United States alone but for all of the 43 other United and Associated Nations that are looking to us for leadership. If Congress approves the Bretton Woods proposals, the approval of the other governments is assured.