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94th Congress
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COMMITTEE PRINT

A STUDY OF THE RELATIONSHIPS BETWEEN THE GOVERNMENT AND THE PETROLEUM INDUSTRY IN SELECTED FOREIGN COUNTRIES

FRANCE

PREPARED BY THE

CONGRESSIONAL RESEARCH SERVICE

AT THE REQUEST OF

HENRY M. JACKSON, Chairman

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS

UNITED STATES SENATE

PURSUANT TO

S. Res. 45

THE NATIONAL FUELS AND ENERGY POLICY STUDY

Serial No. 94–24 (92–114)

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SENATE RESOLUTION 45

National Fuels and Energy Policy Study

This publication is printed for the use of Senators participating in the National Fuels and Energy Policy Study, authorized by Senate Resolution 45 of the 92d Congress.

Senate Resolution 45, introduced by Senators Jennings Randolph and Henry M. Jackson, was amended and agreed to by the Senate on May 3, 1971. The resolution authorized the Senate Committee on Interior and Insular Affairs and ex-officio members of the Committees on Commerce and Public Works and the Joint Committee on Atomic Energy to make a comprehensive study of programs and policies required to meet national energy needs.

Subsequently, the Senate approved the addition of ex-officio members from the Committees on Aeronautical and Space Sciences, on Finance, on Foreign Relations, on Government Operations, and on Labor and Public Welfare.

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MEMORANDUM OF THE CHAIRMAN

To Members and Ex Officio Members of the National Fuels and Energy Policy Study (S. Res. 45, 92d Congress), Committee on Interior and Insular Affairs:

The advent of the energy crisis has brought a vastly expanded Federal role in energy policy. The creation of the Federal Energy Administration and the Energy Research and Development Administration by the 93d Congress symbolize this fact. The close relationship between energy, economic and foreign policy and the predominant Federal ownership of energy resources are among the factors which assure a greater Federal role in energy matters in the future.

As a new Federal role emerges it is inevitable that the traditional role of private industry must also change in response to new requirements and objectives of national energy policy. Dissatisfaction with the past performance of both industry and government in meeting national energy needs has led to a number of proposals that would change the relationship between public and private sectors on energy matters. These include Federal chartering of energy corporations and the creation of a Federal Oil and Gas Corporation to develop federally owned energy resources.

As Congress considers these and other proposals, it should be useful to consider the experience of other countries. With this in mind, the Congressional Research Service of the Library of Congress was asked to examine the relationships between Government and the petroleum industry in selected foreign countries. In each case, these studies will attempt to describe the extent to which Government has assumed traditional industry functicns; the degree of regulation when such functions are still performed by the industry; the institutional mechanisms used by Government to regulate or control industry operations and the statutory basis for Government action.

I have directed that the sixth study in the series, dealing with France be published as a committee print for the use of Senators participating in the National Fuels and Energy Policy Study.* The study, completed February 28, 1975, was prepared by Pauline Mian, Analyst in European Affairs of the Congressional Research Service.

HENRY M. JACKSON, *Chairman.*

*The other reports in the series are: United Kingdom, Italy, The Netherlands, Japan, and Germany.

PREFACE

This study on France is the sixth in a projected series of country monographs intended to provide a brief narrative account of the relationships between Government and the petroleum industry in several industrialized oil consuming countries.

While there are, of course, wide variations in the practices and experiences of the various countries, each study will cover the following general topics:

Overall energy position.—As the framework for the more specific relationships with the petroleum industry, there is a brief summary of the country's energy posture, including a description of overall energy policy, energy use patterns, and the degree of dependence on petroleum, particularly on imports.

General industry-Government relationships.—The extent to which the government has assumed traditional industry functions is briefly described, including nationalization and/or special Government-industry relationships to the energy industries or to some of the energy industries.

Government relationships with the petroleum industry by sector.—With adjustments to allow for adaptation of each country's individual patterns, the relationships are described in terms of policies and practices applied at each of the steps in the oil development process: Exploration; the production of crude oil; its transportation, both within country and importing arrangements; refining; marketing; and export-import policies.

As appropriate to each activity, the measures described may include regulations, tax policies, price controls, ownership or other forms of Government participation, and normal stockpiling practices. Where there are special legislative or other innovations that seem to provide interesting illustrative precedent for the United States, these may be described at somewhat greater length.

While every attempt is made to provide as up-to-date information as possible, the studies are not intended to cover recent developments in joint consumer country planning for emergency pooling of supplies, emergency stockpiling or financial balance of payments burden sharing arrangements. The focus is intended to be on those aspects of foreign country experience which might prove useful in examining our own longer term national policies vis-a-vis domestic oil production and domestic petroleum needs.

Similarly, although environmental policies and practices clearly are affected by problems of pollution from petroleum in many forms at many levels of activities in the production cycle, none of the studies will attempt to cover this aspect of government policy in so brief a review.

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CONCLUSIONS

FRANCE AND PETROLEUM—GOVERNMENT INDUSTRY RELATIONS*

By Pauline Mian, Analyst in European Affairs, Library of Congress

I. Setting

France is heavily dependent on imported oil to meet its energy requirements. Oil currently accounts for 66% of France's energy consumption.[1] In 1973, crude oil imports amounted to 2.74 million barrels per day, and petroleum product sales averaged 2.2 million barrels per day. Domestic production of crude averaged only 26,000 barrels per day.[2]

Over three fourths of France's crude oil imports come from the Arab states of the Middle East and North Africa. About 22 per cent of France's oil imports in 1973 were supplied by Saudi Arabia alone with, as shown in the chart below, significant increases in supplies from the Persian Gulf states.

FRANCE: CRUDE OIL IMPORTS[1]

[In millions of tons]

	1966	1968	1970	1972	1973
Saudi Arabia	3.1	4.0	9.4	24.7	31.1
Iran	4.2	3.0	3.7	7.1	10.8
Iraq	10.4	15.2	12.5	14.4	18.7
Kuwait	8.4	7.3	11.0	17.2	15.8
Oman, Abu Dhabi, Qatar	4.4	7.9	7.5	13.6	19.3
Libya	7.2	10.8	17.6	9.8	6.6
Algeria	18.5	24.4	26.9	11.0	11.4
Nigeria	1.7	.1	5.3	13.3	12.7
Gabon	.7	.4	1.4	1.6	1.4
U.S.S.R	1.7	1.6	1.4	1.8	3.4
Venezuela	2.4	2.3	2.4	1.8	1.8
Others		.1	1.0	2.0	3.4
Total	62.7	77.1	100.1	118.3	136.4

[1] The Petroleum Economist, March 1974, p. 88.

[1] Le Monde, February 4, 1975. p. 37.
[2] International Petroleum Encyclopedia. 1974.

*The bulk of the information contained in this paper comes from two sources: Daniel Murat. L'intervention de l'Etat dans le secteur pétrolier en France. Paris, Editions Technip, 1969. 328 p. Assemblée Nationale. Première session ordinaire de 1974–1975. Rapport fait au nom de la commission d'enquête parlementaire sur les conditions commerciales, financières, et fiscales dans lesquelles les sociétés pétrolières operant en France approvisionnent le marché français et y assurent la distribution des différents produits pétroliers, et sur leurs rapports avee l'Etat. par M. Julien Schvartz, deputé, no. 1280, November 6, 1974, 3 vols., 418 p.

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CRUDE OIL SUPPLIES CONTROLLED BY FRENCH COMPANIES [1]

[In millions of tons]

	1972	1973		1972	1973
North Sea	0.2	0.2	Iran	12.7	14.0
Spain		.1	Abu Dhabi	14.7	18.6
Algeria	11.4	12.0	Qatar	3.0	3.2
Tunisia	.3	.3	Oman	1.3	1.4
Libya	.3	.3	Dubai	2.0	2.7
Nigeria	1.9	2.0	Canada	1.7	1.9
Gabon	4.9	6.0			
Congo	.3	1.5	Total	75.1	86.0
Iraq	20.4	21.8			

[1] The Petroleum Economist. March 1974. p. 88.

Given France's strong reliance on imported oil, especially from a politically unstable area of the world, it is not surprising that the French Government has traditionally shown great concern over stability and security of supplies and has played an active role in attempting to achieve these guarantees.

Contrary to what happened with regard to other major sources of energy, coal, gas, electricity and nuclear energy, oil was not nationalized, primarily because France did not own or control any significant oil resources. The history of French oil policies therefore is primarily the history of the Government's relationship with the oil industry. We will examine successively three facets of that relationship: the Government's regulation of the oil industry, the Government as a participant in the oil industry, and the Government by-passing the oil industry as a direct negotiator with oil-producing countries.

II. Historical Background

Despite a succession of governments and regimes, the Third Republic, the Vichy regime, the IVth Republic and now the Vth Republic, French objectives with regard to oil have remained remarkably constant: ensuring security and stability of supplies.

The means whereby these objectives were to be achieved have shifted in emphasis but the goal has been the same. French oil policies can be roughly divided into two periods, the inter-war period when Government action focused primarily on the regulation of private oil companies, and the post World War II period in which the Government has sought a more direct control over access to and production of crude through the creation of state-owned oil companies.

The importance of steady and adequate oil supplies not only to the national economy but to the national defense was first brought to the attention of the French Government during World War I. Prior to World War I, 10 private refineries, constituting a de facto cartel, imported oil and shared the French market. As the war dragged on and became more mechanized, the need for increased oil supplies grew. The inability—because of price hikes, speculation, increased maritime transportation insurance, lack of stock reserves—of the private companies to meet the armed forces' requirements in petroleum led the Government in July 1917 to establish an interministerial committee, the Comité Général du Pétrole, (General Petroleum Committee), charged with ensuring supplies. A consortium on oil imports (Consortium français d'importation de pétrole et d'essence)

was created as a result of a convention between the Government and the private companies whereby the Government assumed the responsibility of purchasing oil, which in turn it yielded to the companies for distribution, at prices determined by the Ministry of Commerce.

By the mid 1920s the multinational companies—all Anglo Saxon with the exception of Dutch Shell—were firmly implanted in France. Price warfare, fear of a complete take-over of the domestic market by foreign firms, the need to protect the infant French oil industry, prompted the French Government once more to assume control over imports.

A law passed on April 4, 1926, gave the Government a monopoly over imports of crude and finished products. The law of March 30, 1928, defined the terms under which this monopoly would be exercised. In return for specific obligations and commitments on the part of refiners and distributors the Government would grant them authorizations to import specified amounts of oil. Although it has been amended and expanded, the law of March 30, 1928 is still in force and remains the fundamental piece of legislation affecting, not only imports, but the oil industry and its operations in France. With the import authorization system, the French Government has been able to organize the domestic market, to check the growth of the French affiliates of the major international oil companies and prevent the dominance of any one company, to foster the development of national companies, to encourage the growth of a strong refining industry and a large tanker fleet, and to oblige the oil industry to pursue policies consistent with the general economic interest of the country.

Following World War II, the French Government focused its attention on developing national integrated companies. Large government subsidies were allocated to companies whose mission was to search for oil in franc-zone areas, to secure a more direct control over the sources of crude and lessen the country's dependence on the "majors" for its supplies. Franc-zone crude responded to an additional concern, that of alleviating the balance of payments. This policy met with temporary success with the discovery of large oil fields in the Sahara in the mid-1950s.

Following Algeria's nationalization of oil companies in 1971, French exploration efforts did not slacken, but the by-word became diversification. The VIth Plan (covering the years 1971–1975), called for a more intensive search for diversified sources of oil, particularly outside the Middle East and North Africa, greatly increased oil storage capacity, and more rapid development of nuclear power at home. More recently it was announced [3] that the Government would step up oil exploration, particularly off-shore, as well as accelerate the development of alternative sources of energy, in an effort to reduce petroleum consumption to 40% of France's energy requirements by 1985.

Thus France's perennial quest for independence in energy has led the Government to assume an active role as a regulator as well as a participant in the oil industry. The Government's relations with the oil industry have been characterized as alternating between intervention and cooperation. Indeed, while the Government has sought to

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[3] Le Monde, February 4, 1975, p. 37.

exert strict control over the industry it has not supplanted the companies. Rather, its policies have been premised on the active cooperation and collaboration of the companies.

III. Government Regulation of the Oil Industry

Since the March 30, 1928, legislation, successive French Governments have expanded their regulatory powers far beyond control over imports. They involve every aspect of oil industry activities, from the production of crude to the licencing of new service stations.

A. REGULATORY AND POLICYMAKING AGENCIES WITHIN THE GOVERNMENT

1. Policymaking Bodies

Directly attached to the Prime Minister's office is the Commission for Planning (Commissariat General du Plan d'Equipement et de la Productivité) which is responsible for elaborating five-year development plans for the French economy. (France's development plans serve primarily as guidelines for government policies and are not meant to be rigid in character.) Policies specifically relating to energy needs and development are formulated by the Secretary-General for Energy (Délégué général à l'Energie), who is also directly attached to the Prime Minister's office. In formulating and coordinating energy policies, the Secretary-General for Energy generally works in cooperation with advisory bodies within the Ministry of Industry, (recently renamed Ministry for Industrial and Scientific Development), such as the Advisory Committee on the Use of Energy, (Comité Consultatif de l'Utilisation de l'Energie), and with the Directors of the various energy offices under the Minister of Industry.

2. Regulatory Agencies

The Minister of Industry is responsible for mineral resources, under a law of September 27, 1939. Under the Ministry of Industry are the Advisory Committee on the use of Energy, mentioned above, and four bureaus dealing with specific sources of energy, the Bureau of Fuels, (Direction des Carburants), the Bureau for Gas, Electricity, and Coal, (Direction du Gaz, de l'Electricité et du Charbon), the Atomic Energy Commission, (Commissariat à l'Energie) and the Bureau of Mines, (Direction de la Technologie de l'Environment industriel et des Mines). The Bureau of Mines has responsibility for drafting and enforcing legislation relating to the exploration and production of mineral resources, but the Bureau with primary responsibility over petroleum and the oil industry is the Bureau of Fuels, headed by a Director.

The Bureau of Fuels was established under a decree dated March 20, 1939. A decree of July 15, 1965, defines the Bureau's current attributes and responsibilities. The Bureau is responsible for the elaboration and implementation of government policies relating to oil, for the enforcement of government regulations affecting oil and the oil industry, and of supervising the activities of the state-owned sector of the petroleum industry.

The organization of the Bureau of Fuels listed below reflects the scope of the Bureau's jurisdiction:

—General
—Central secretariat
—Administrative, social and legal section
—Information and documentation section
—Forecasting section
—International relations section
—Supplies and market section
—Exploration and production section
—Refining and utilization section
—Transportation—distribution section.

In addition, there are "external" sections, a special section for oil depots, which overseas the construction of pipelines and reserve depots, the section for "interallied" pipelines, which manages pipelines earmarked for defense purposes, and the section for the conservation of oil fields, which establishes exploration programs for French firms abroad.

Other branches of the Government intervene in certain aspects of the petroleum industry, either on a regulatory or advisory basis, such as the National Defense Ministry, the Customs Bureau, the Interministerial Committee for import authorizations, or the tanker-fleet committee.

B. EXPLORATION AND PRODUCTION

Under French law mineral resources are national resources. Legislation passed on December 16, 1922, classifies hydrocarbons as mineral resources. This means that, while exploration and exploitation of mineral resources may remain in private hands, these activities affect the public interest and are therefore subject to governmental approval and control. Laws of 1955 and 1966 give the Government the exclusive right to grant 50-year concessions to oil explorers and producers.

1. Exploration

The right to prospect for oil on French soil or off-shore requires a permit, called "permis H", which is granted by decree following a public hearing and the opinion of the Conseil général des Mines (General Mines Council) and the Conseil d'Etat (Council of State). Applicants for a "permis H" must submit a portfolio containing an outline of their work program as well as a technical and financial justification for the project. Exploration permits are valid for a maximum of five years and are renewable twice without a new inquiry, with successive reductions in the surface area to be explored. (The first reduction is 50 percent of the area and the second one is 25 percent.) The right to exploit and market the product is automatically granted to the successful explorer in return for his exploration efforts and expenditures.

2. Production

Although production of oil may remain in private hands, the Government reserves for itself the right to establish the conditions and criteria under which oil companies will operate. Companies are obliged to keep a dossier specifying their operations, and must submit a yearly

program detailing their proposed operations, their refining, marketing, transportation and stockpiling facilities, for prior governmental approval. Government departments charged with supervising the companies' activities are the Ministry of Industry and the Bureau of Fuels under it. The Service of Mines (Service des Mines) under the direction of the General Council of Mines (Conseil General des Mines) is in charge of policing mines and oil fields, for safety, health and personnel problems.

3. Financial Aid

Given the lack of private capital necessary for the pursuit of an active exploration and production policy following World War II, the French Government subsidized exploration and production activities. Government funds are provided from the Fonds de Soutien aux Hydrocarbures (literally Hydrocarbons Support Fund) which was established in 1950 as a separate category of the Treasury. The Fund is financed by a special tax on certain categories of petroleum products. (In recent years receipts from this Fund have increasingly gone into the general budget.)

FONDS DE SOUTIEN AUX HYDROCARBURES [1]

[In millions francs]

	1963	1967	1969	1970	1971 [2]
Receipts	382.3	531.5	[3] 936.4	401.9	426.9
Expenditures:					
Support for domestic oil producers	30.7	18.5	10.4	5.7	----------
Elf/ERAP subsidy [4]	200.0	363.0	288.0	250.0	200.0
Industry studies and projects [5]	30.1	35.2	30.4	13.3	20.0
Payment to general budget	130.0	108.4	614.9	132.3	200.5
Other	.2	.3	.3	.4	.4
Total	391.0	525.4	944.0	401.7	426.9

[1] Petroleum Press Service, October 1971, p. 388.
[2] Provisional.
[3] Last year in which FSH tax applied to gas oil and fuel oil domestique.
[4] Formerly BRP.
[5] Includes for example, subsidies and loans for: Studies for natural gas liquefaction and Mediterranean pipeline for Algerian LNG. Underground storage of petroleum products in salt domes. Improved drilling and exploration techniques, notably offshore, and new petrochemical manutacturing processes. Construction of Hassi Messaoud-Touggourt "baby" pipeline in Algeria.

In addition to creating state-owned investment companies, the Government has sought to encourage the investment of private capital in exploration and production companies. Fiscal and financial incentives, such as tax exemptions and state-guaranteed dividends, have been used to attract private investment. The Government, however, oversees the composition and orientation of private investment companies, to prevent a take-over by one major stockholder, and to insure the company's compliance with the Government's policies.

Thus, there exist, side by side, public investment companies, mixed companies incorporating private and public capital, and private investment companies, all three subject to government control. The role of public financing has diminished in recent years as operating companies have become increasingly self-financing.

4. Taxation of Oil Companies

Energy industries in France are normally subject to a tax of 50 percent on taxable profit, a 10 percent tax on long-term capital gains on

fixed assets, and a royalty proportional to quantities extracted. However, oil companies engaged in exploration and production activities have been granted benefits and exemptions on the grounds that it was necessary to put French companies on a competitive footing with foreign companies. French legislation regarding exemptions has been patterned on American legislation.

Depletion allowances and exploration and development expenses are treated as follows:

Depletion Allowance.—Enterprises producing oil in metropolitan France, Algeria, overseas departments and territories of the French Community, Morocco, Togo and Cameroun are entitled to a depletion allowance equal to 27.5 percent of the sales of merchantable products extracted from their wells. The maximum allowance, however, is 50 percent of the net profit from their production before the depletion allowance. In computing the maximum allowance, only taxable net profit is taken into account. The permanent grant of the allowance is conditional on the reserve constituted by it being used within five years for assets or operations required for oil exploration or development in the territories mentioned; or for the acquisition of shares or interests in Government-approved companies engaged in oil exploration or oil production in the territories mentioned, or, with specific Ministry of Finance approval, in other territories. If the reserves are not so used they are taxed in the year in which the time limit expires.

Exploration and Development Expenses.—Exploration and development expenses may generally be written off as they are incurred, or capitalised and written off over a comparatively short period, usually five years.

As a general rule applying to all companies, there is no liability to French tax (unless the company so opts) on the profits of overseas branches of French companies.[4]

C. IMPORTS, REFINING AND DISTRIBUTION

1. Legislation

A law of 1926 recognizes the Government's monopoly over oil imports and the law of March 30, 1928, (which remains the fundamental piece of legislation governing state-oil industry relations), defines the terms under which this monopoly operates. The French Government labels its monopoly a "monopole d'Etat delégué" (literally a "delegated state monopoly") whereby the Government enjoys exclusive rights over oil imports but delegates its rights to private and/or state-owned companies which in turn must meet specified obligations. Through the authorization system, which has resulted in a quota system, the French Government has been able to pursue its oil policies; check the growth of foreign companies operating on the French market, encourage the growth of national oil companies, build a strong refining industry.

2. Authorizations

There are two types of authorization quotas, one for imports of crude and the other for imports of finished products destined for sale on the French market.

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[4] House of Commons. First Report from the Committee of Public Accounts. Session 1972–73. North Sea Oil and Gas. London, HMSO, 1973. p. 60.

(*a*) *Imports of Crude.*—Import of crude requires a refining authorization, known as the A10 because it covers a 10-year period. It fixes the annual amount of crude which a company may refine from imported crude, and affects mainly gasoline and certain lubricants. Crude destined for the armed services or for the petrochemical industry is not subject to quotas. Crude destined for export in the form of finished products is also exempt from quotas. In addition to the individual A10 refining quotas for a specific tonnage, the partially state-owned CFP's refining affiliate CFP (Compagnie Française de Raffinage) is allotted a special additional quota equal to 25 percent of the total gasoline tonnage consumed in France. Only refining companies are allowed to apply for A10 authorizations, which are granted by governmental decree.

(*b*) *Import of Finished Products.*—These are called A3 distribution authorizations, and are valid for a three-year period. They establish quotas primarily for motor gasoline, (aviation and jet fuel are excluded) and fix the maximum annual tonnage of gasoline that a company can sell in France. A3 distribution authorizations are primarily granted to refining companies and only a few to distribution companies. Independent distributors are theoretically authorized to import finished products but in practice very few licenses for the purchase of foreign exchange are granted to independent companies.[5] Independents are therefore obliged to get their supplies of finished products from refineries. With the A3 authorizations, the Government has sought to limit the import of finished products. Imports of finished products are generally allowed to cover temporary shortages or to supply the domestic market with products not refined in France such as aviation fuel.

For those companies which are both refiners and distributors, the two authorizations are necessary, but A10 and A3 quotas are not cumulative. A company's maximum marketing authorization is the larger of the two. (see chart).

FRENCH GASOLINE QUOTAS [1]

[Tons per annum]

	A10 refining quotas (effective January 1971)	A3 distribution quotas (effective September 1970)
Esso	2,327,902	[2] 2,203,750
Mobil	936,704	833,125
Shell	2,754,330	2,311,250
BP	1,812,438	913,750
Fina-France		483,750
Soc. Parisienne des Essences		207,475
Antar-Petroles de l'Atlantique	1,822,048	1,338,805
Elf-UGP	1,673,584	[3] 356,900
Elf-UIP	1,261,935	34,400
Elf-Distribution		1,672,701
CFP group:		
CFR	[4] 2,593,955	
Total-CFD		4,086,076
Other companies		[5] 1,100,912
Total	15,182,896	15,542,894

[1] Petroleum Press Service, September 1970, p. 330.
[2] Assuming that Esso's previous authorization is completely unblocked to 2,050,000 tons.
[3] Assuming that Elf-UGP's previous authorization is completely unblocked to 332,000 tons.
[4] This does not include CFR's special additional quota, equal to 25 percent of the total distribution market.
[5] Of which: 450,857 tons under contract with CFR. 193,502 tons under contract with ElF. 140,395 tons under contract with Antar. 178,558 to French independents. 137,600 to other foreign companies.

[5] A10 and A3 authorizations are not to be confused with an import license, which is necessary for the purchase of foreign exchange.

(c) *Authorizations in Operation.*—The authorizations do not reflect accurately the share of the market occupied by each company. The Government feels that the quotas should only be "indicative" of the place a company should occupy on the French market. A3 quotas are calculated to take into account growing consumer demand and to allow companies a competitive margin within which they can increase their individual market shares. (See chart below for actual market shares by companies in 1971 and 1972.)

ACTUAL SHARE OF FRENCH MARKET [1]

	All products			Motor gasoline		
	1971 (percent)	1972 (percent)	Thousands of tons	1971 (percent)	1972 (percent)	Thousands of tons
CFR-Total group	26.0	24.6	21,117	24.6	25.8	3,789
Elf group	14.2	14.5	12,464	13.0	13.1	1,899
Antar group	9.4	8.1	6,985	9.9	9.4	1,369
French independents	3.2	3.4	2,914	1.9	1.9	272
Total French	52.8	50.7	43,481	49.4	50.1	7,279
Shell	16.9	17.6	15,113	16.0	15.9	2,306
BP	10.7	11.5	9,847	8.4	8.5	1,231
Esso	11.0	11.5	9,827	15.9	14.6	2,122
Mobil	4.8	5.0	4,296	2.6	7.3	1,066
Fina	2.9	2.8	2,405	3.3	3.1	450
Other	.9	1.0	847	.4	.5	68
Total non-French	47.2	49.3	42,334	50.6	49.9	7,243

[1] Petroleum Press Service, August 1973, p. 293.

A major purpose of the A10 system before the Algerian nationalization in 1971 of Saharan crude produced by French companies, was to provide a protected market for "franc-zone" crude. A distinction was made between "foreign" crude and "franc-zone" crude, and only "foreign" crude was subject to the quota system. Companies wishing to improve their position on the domestic market could do so by buying "franc-zone" petroleum which was more expensive.

Authorizations have been used to prevent the dominance of one company on the market, and to improve the position of French companies vis-a-vis the French affiliates of multinational companies. The domestic market is presently divided between French and non-French companies on a roughly fifty-fifty basis. As shown in the chart below, 1976–85 A10 refining quotas seek to improve the French share of the market to 55 percent.

A10 GASOLINE REFINING QUOTAS: 1976–85 [1 2]

	Thousand of tons per year	Percent of total authorizations	
French:			
CFR	[3] 3,823	31.2	55.7
ELF	4,672	44.8	
Antar	3,060	9.7	
Non-French:			
Shell	4,784	15.2	44.3
Esso	4,265	13.5	
BP	1,936	6.1	
Mobil	1,674	5.3	
Fina	1,001	3.2	
AGIP	295	1.0	

[1] Petroleum Press Service, August 1973. p. 292.
[2] Tonnages given are the maximum which will apply in 1980, and are intended to be generous enough to allow for competition. New quotas will be announced later for the remaining half of the 10-yr period.
[3] CFR has a special right (under a 1931 law) to supply a further 25 percent of the total market.

The decision to grant import authorizations is the task of an interministerial committee, composed of the Director of Fuels, a representative from the Prime Minister's office, and representatives from the Ministries of Finance and Economy, Foreign Affairs, National Defense and Public Works.

The government can increase or decrease by 15 percent individual authorizations during the period of time the authorization is granted.

Qualified applicants must be companies whose president, chairman of the board, a certain percentage of the members of the board, and technical, administrative and commercial staff are French nationals. A 1968 decree established that nationals from EEC countries would be assimilated to French nationals. Any change in the ownership or financial structure of a company must receive governmental approval.

3. Obligations

Applicants must fulfill certain obligations in return for the granting of an import authorization. Since the law of March 30, 1928, the number of obligations required of importers hasn't stopped growing.

(*a*) *Participation in national supplies.* (*Participation au ravitaillement national*).—

In submitting its yearly plans for purchasing supplies to the Bureau of Fuels for approval, a company must take into account government policies and agreements with other countries for the purchase of oil. The Government can thus control the source of foreign crude, as well as tonnage and price.

(*b*) *Priority for Public Utilities.* (*Fourniture priorvaire aux services publics.*).—

Companies must give priority to supplying public utilities.

(*c*) *Reserve Stocks.* (*Constitution de stocks de reserves.*)—

In the interest of guaranteeing security of supplies, companies must stock three months' worth of supplies for each product. (Decree of March 10, 1958).

(*d*) *Participation in "National Interest" Contracts.* (*Participation a l'execution de contrats d'interêt national*). (*Decree of February 27, 1963*).—"National interest" contracts involve the purchase of crude and the refining of products deemed useful to the general economy of the country. This is an important weapon in the hands of the Government. Invoking the "national interest", the Government can oblige a refiner to buy crude where it wants, under terms it deems opportune. The Government can control the way in which "national interest" contracts are fulfilled by asking to see the companies' records, including information related to the final destination of their finished products.

(*e*) *National Duty.* (*Devoir national*).—This obligation applied until the Algerian nationalization of French companies operating in the Sahara in 1971. The A10 refining authorization included an obligation to refine at least 55 percent of the products refiners supplied to the domestic market from "franc-zone" crude. This provision guaranteed an outlet for Saharan crude produced by French companies, but generally penalized French affiliates of international companies who bought their crude from the parent company at considerably less cost.

(*f*) *Sanctions.*—Finally, there are sanctions for those who fail to comply with their yearly obligations. Security deposits are required

of importers, the amount of which varies according to the company's sales on the domestic market. Sanctions for violators range from fines (which are drawn from the security deposit) to temporary suspension of the authorization, or even withdrawal of the authorization.

4. Refineries

The Government's interest in building a strong refining capacity in France has led it to exert many regulatory powers in this domain. Since 1963, construction and even expansion of a refinery must receive prior governmental approval. The Government can thus determine location, type and capacity of a refinery to be built or expanded. Governmental consideration takes account of economic criteria, regional balance, national security, hygiene, pollution, and public safety.

To ensure full production in French refineries, the Government has imposed an additional obligation on refiners-distributors whereby they must buy from French refineries at least 90 percent of all products they distribute on the domestic market.

Under the authorization-obligation system the Government has extended its control over activities which go beyond the refining and distribution of imported crude, and include storage facilities, marketing facilities, transportation facilities.

5. Exports

The law of March 30, 1928, exempts from all quotas the import of crude destined for export as finished products. (Most French exports of finished products go to Common Market countries, Switzerland, Sweden, and French-speaking African countries.) However, a decree of June 1967 has established that exporters must acquire an export license. Applications for export licenses must include the origin of the crude.

D. TRANSPORTATION

1. Maritime Transportation

The French Government has actively sought the development and modernization of the French shipping industry. Financial assistance, renovation of ports and construction sites as well as legal stipulations have contributed to the rapid development of a large tanker fleet. Among the obligations included in A10 and A3 authorizations is the one stipulating transportation of ⅔ of authorized tonnage of imported crude on French-flag ships. The actual percentage of imported crude carried on French-flag is approximately 90 percent.

In 1970 the French tanker fleet consisted of 85 vessels of an average deadweight of 60 400 tons; on 1st Janauary 1974 the fleet numbered 87 vessels of an average of 116 500 deadweight tons. Last year, 1.5 million dwt of new shipping was added to the fleet (some 1.7 million dwt was added in the peak year of 1971) but this year it is planned to bring 3.4 million dwt of new tankers into service—or the equivalent of the entire French tanker fleet in 1966.[6]

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[6] The Petroleum Economist, March 1974, p. 89.

2. Pipeline Transportation

The Government has participated directly in the construction and management of pipelines, on the grounds that they represent a public and national security interest. A law of August 2, 1949, provided for the creation of a semi-public company: TRAPIL, (Société des Transports Petroliers par Pipeline—Company for the transportation of petroleum by pipeline), whose purpose is to acquire, build and manage pipelines. The company's bylaws state that no less than 51 percent and no more than 55 percent of the company's shares will be controlled by the Government. In 1966 the Government controlled 55 percent of TRAPIL, 29.18 percent directly and 25.82 percent through companies under state control.

A law of June 7, 1951, allowed for the expropriation of private property for the construction of pipelines if they were deemed in the public or national security interest. Permits are necessary for the construction of pipelines. In turn, permit holders are bound by certain obligations. A decree of May 16, 1959, defines the obligations which the Government can impose on the permit-holder. The authorization permit outlines the itinerary of the pipeline, safety criteria which must be met, and transportation capacity of the pipeline. Tariffs and transportation for third parties are largely inspired by American legislation. No royalties for the construction of the pipeline are to be paid, but rent for operating a pipeline on public property is required. A decree of July 1966 expanded the Government's control over the operation of pipelines, by requiring the presence of Government representatives within the companies, empowered to oppose any decision deemed contrary to the Government's policies.

E. STOCKPILING

The question of stockpiling has long been a matter of concern to French authorities, insofar as it relates to economic and national security. The law of January 10, 1925, required importers to keep stocks of each category of products sold on the market amounting to a fourth of domestic consumption during the previous twelve months. This requirement was confirmed in the law of March 30, 1928. A decree of March 10, 1958, stipulates that part of these reserves can consist of crude.

The construction and location of depots are subject to numerous regulations. Depots must meet various criteria, including public health and safety, urban planning, environmental and conservation considerations, economic and national security requirements. The criteria are established by the Ministry of Industry and are included in the obligations to be met by the A10 and A3 authorization holders.

F. DISTRIBUTION; PRICES AND SALES

As seen in the above section on imports, the Government effectively determines the share of the market to be held by each company through its import authorization quotas. Government policy has favored the concentration of distributing companies by limiting the number of A3 authorizations and has sought to improve the position of French companies vis-a-vis their foreign counterparts by increasing their quotas under the A10 authorizations.

Another means of improving the market position of French companies has been intervention in the area of sales outlets. A decree of January 3, 1959 subjects the establishment of gas stations to government authorization. The Government determines the criteria—geographic, economic, safety and even aesthetic—to which new gas stations must conform.

Government pricing and fiscal policies also affect distribution and sales.

1. Prices

Until 1973 there existed three pricing systems in France for petroleum products, namely (a) a system of price guidelines, which affects major petroleum products such as motor gasoline and gas-oil. Under this system, the oil industry submits ceiling prices for government approval, the government having previously determined the components to be considered in the final price. The components include the price at the refinery, taxes and royalties, transportation and distribution costs; (b) the system of "controlled freedom", which affects mainly fuel-oils and lubricants whereby the industry has the initiative of notifying the Government of its prices on these items; (c) the system of "complete freedom" in determining prices, which concerns aviation gasoline, paraffin oil and mineral oil wax.

2. Taxation

VAT (value-added tax) is levied on energy products at a rate of 17.6 percent before VAT, i.e. 14.966 percent of the tax inclusive price. VAT on oil products is collected by Customs at their release for consumption. Up to this stage they move free of duty under the strict control of the customs. VAT on oil products is not deductible except in the case of purchases, imports and transactions concerning heavy fuel oil used as fuel, light fractions used as fuel, LPG used as fuel, or oil products when used as raw materials or in manufacturing processes.

VAT applies only to products destined for domestic consumption. Exports are exempt from VAT. Other taxes levied on oil products are an "internal" excise tax and a royalty for the Hydrocarbons Support Fund (Fonds de Soutien aux Hydrocarbures). Preferential treatment is given for fuel used for agricultural purposes, ships and airplanes, and for certain chemical synthesis processes. Only finished products are subject to customs duties, not crude, the purpose of which is to protect national refineries.

IV. Government Participation in the Oil Industry

The French Government has not limited its role to that of regulating the oil industry. In an effort to lessen its dependence on foreign oil companies and enhance its security of supplies, the French Government has sought direct access to and direct control over the production of crude through the creation of national oil companies. National oil companies were to be the instrument in carrying out government policies. The role of the Government within national oil companies has expanded since the creation of the first French company in 1924, the Compagnie Française des Petroles (French Petroleum Company).

French oil companies are hybrid organizations, combining private and public capital. Contrary to what happened with regard to coal, gas, and electricity after World War II, the Government stopped short

of outright nationalization, mainly because it did not own the sources of crude. Also, while recognizing the weakness of private investment, especially following World War II and therefore the need for massive public investment in the exploration and production of crude, it did not wish to discourage private capital, until such time as the companies could become self-financing.

The Compagnie Française des Pétroles was established in 1924, following the cession as war reparations of the Deutsche Bank's 25 percent stake in the Turkish Petroleum Company, (later the Iraq Petroleum Company). The Government chose not to enter directly in the Turkish Petroleum Company, but delegated its shares to the CFP, in agreements signed on May 7, 1924, and March 19, 1929, and ratified by Parliament on July 25, 1931.

CFP capital comes from the Government and a group of French industrialists. The Government's shares amount to 35 percent of the capital, and cannot be sold without the consent of the Government. Although the Government's share in the capital is 35 percent, it holds 40 percent of the vote and is represented on the Board of Directors by two Government commissioners. One of the Government commissioners is the Director of the Bureau of Fuels. The Government also has the right to approve the Chairman and other board members.

Today the CFP is a completely integrated oil company, with over 200 subsidiaries and affiliates in Western Europe, Africa, the Middle East, the Far East, Australia and North America. Its main subsidiaries are the Compagnie Française de Raffinage, the Compagnie Navale des Pétroles, Total Chimie. In 1972, the company produced 62 million tons of crude oil from fields around the world and refined 57 million tons of oil at 25 refineries. With sales amounting to $3 billion in 1972, CFP is France's biggest multinational company, second only to the state-owned Renault auto works. Earnings after taxes in 1973 were estimated at $200 million, compared with $116 million in 1972.[7]

Despite its mandate which was to "create a vehicle for realizing a national oil policy" [8] the CFP was regarded as too independent to be an effective tool in promoting the Government's policies. The subsequent creation of joint-stock companies under firmer government control during and after World War II denoted the Government's intention of playing a more active role in elaborating as well as implementing France's oil policies.

In 1939, the Régie autonome des Pétroles (RAP—literally Public Petroleum Corporation) was created. The Société Nationale des Pétroles d'Aquitaine (SNPA) was established in 1941, followed by the Société des Pétroles de la Garonne (SPG), and the Société Nationale des Pétroles de Languedoc-Mediterranée. The Bureau de Recherches Pétrolières (BRP—Petroleum Exploration Bureau), was created in 1945.

The RAP and the BRP were both placed under tight Government control, with the Government appointing members of the Board of Directors as well as the chairman, and the Director of the Bureau of Fuels having a right of veto over decisions made by the board. Both

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[7] Clyde H. Farnsworth, The Eighth Oil "Sister" has French accent, New York Times, Apr. 21, 1974, sec. 3, pp. 1, 4.
[8] Ibid.

received heavy government subsidies, first from the budget and after 1954 from the Fonds de Soutien aux Hydrocarbures. Both were given the task of developing active exploration policies, to be concentrated on "franc-zone" areas. BRP differed from RAP in that it was to be an investment company and was not to engage directly in industrial activities.

Both companies developed rapidly into integrated companies through the minority or majority acquisition of privately and publicly-owned subsidiaries. The BRP took over control of the SNPA (Société Nationale des Pétroles d'Aquitaine), then of the Société des Pétroles Languedoc-Mediterranée. It acquired a majority interest in companies established in Madagascar, Cameroun, Gabon, and the Sahara, and even outside the "franc-zone" area, such as Canada, as well as minority interest in private companies. The RAP developed in a similar fashion. It acquired half of the stock of the Société des Pétroles de Garonne and concentrated on exploration in the Sahara with the help of BRP. In an effort to become integrated companies the two diversified their subsidiaries' activities, often acting together. In 1960, the Union Générale des Pétroles, (UGP—General Petroleum Union) was created, to refine and distribute Algerian crude. Both RAP and BRP, through subsidiaries, had stock in the UGP.

In an attempt to reinforce the public petroleum sector the Government decided to merge BRP and RAP which had, in effect, developed along similar lines. A decree of December 17, 1965, established Elf-Erap, which is a state-owned company. Elf-Erap's twofold task today is to diversify France's sources of supply (since the Algerian nationalization of Saharan oil in 1971 France has abandoned the concentration of its exploration efforts in the franc-zone areas, and would also like to lessen its dependence on Middle Eastern oil), and on the domestic front, to streamline and regroup its numerous subsidiaries.

V. Bilateral "Oil-For-Industry" Agreement With Oil-Producing Countries

In a speech made in early December 1973, then Prime Minister Pierre Messmer suggested that oil may be too important to be left in the hands of the oil companies. As quoted in the *New York Times* Messmer said: "What interests the oil producing countries is to earn the most possible to carry on their industrialization programs . . . . One wonders whether this industrialization effort, which calls for a high degree of cooperation, does not make it necessary to forge agreements between (producer and consumer) nations rather than between the producer nations and the companies." [9]

Pierre Messmer's speech expressed his government's intention of pursuing yet another course in its quest for security of supplies. Despite all its efforts at controlling the oil industry and developing France's own sources of crude, times of crisis—such as the Suez crisis of 1956 or the October 1973 Mideast war—have revealed the country's continuing dependence, on and in the eyes of the Government the unreliability of, the oil companies. (Although France had been exempted from the OAPEC oil embargo in the aftermath of the October Mideast war the international companies told the French

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[9] Clyde H. Farnsworth, Oil debate in France, New York Times, Dec. 13, 1973, pp. 63, 69.

Government they would only be able to meet 90% of their commitments for supplies).

The October 1973 Mideast War accelerated a trend toward "oil-for-industry" agreements. Following the initial cutbacks in Arab oil supplies, France, along with a number of other affected countries, sought bilateral agreements with producing countries to safeguard future supplies. As the oil supply situation eased, the monetary and balance-of-payments implications of the sharply increased price of oil became the main focus of concern, and oil-consuming countries concentrated on reaching wide-ranging economic cooperation agreements as a means of offsetting these effects. Governments were in a position to make broad economic and industrial commitments whereas oil companies were not. Also, in the French view trade, development and cooperation agreements which promote French exports are preferable to Arab investment in French industry as a means of recycling petro dollars.

Among the major "oil-for-industry" agreements concluded by France in 1974 is an estimated $7 billion agreement with Iran. The major elements of the agreement include two nuclear energy plants of 900 megawatts, Teheran subway construction, sale of the French color-television process Secam, 26 turbo-trains and railroad equipment, a fleet of ships to carry liquefied natural gas; a Renault automobile factory to be operated jointly; an ammonia plant; oil refinery equipment; gas exploration and telecommunications.

These agreements are what the French call "framework agreements". They outline mutually accepted plans for cooperation, investment and trade with details to be worked out later. They may or not make specific reference to oil. Specific oil agreements concern either the purchase of oil and/or the granting of exploration rights to French companies, or joint ventures with national Arab companies.

VI. Evaluation of Government-Oil Industry Relations by the French National Assembly[10]

In November 1974 the French National Assembly published a report by an investigating committee whose mandate was to inquire into "the commercial, financial and fiscal conditions under which oil companies operating in France supply the French market, ensure the distribution of petroleum products, and on their relations with the Government."

The report concludes that de facto ententes have existed among the oil companies—including the French ones—on market-sharing, price-fixing, contract renewals with major customers, and that the Government has done little to stop such practices.

In seeking to explain why the Government, with an arsenal of regulatory powers at its disposal, has exerted so little control over the oil industry, the report isolates several factors. One, according to the report, is the very structure of the oil industry itself, integrated, diversified, and multinational, which makes it difficult for a national government to control its multifaceted activities. The report also finds that equitable pricing and fiscal policies are difficult to establish

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[10] Assemblée Nationale, Première session ordinaire de 1974-1975 No. 1280, Nov. 6, 1974, op. cit.

when information concerning the actual cost of producing a barrel of crude at the wellhead is provided by the industry itself.

The report wonders whether the March 30, 1928, legislation governing imports has not, contrary to its authors' intent, promoted rigid cartel practices, and has therefore unwittingly sanctioned such practices at the expense of the consumer.

The report also criticizes the Government for its failure to exert its authority. The difficulty, according to the report, is that the Government is both an arbiter and a partner in the oil industry. Under the guise of regulating the oil industry, the Government has enacted legislation designed to enhance the position of its own national companies.

The confusion between the public interest and oil industry interests is further aggravated by the "revolving-door" practice whereby Bureau of Fuels directors assume board memberships on national companies and government energy posts are staffed with members of the industry. The report also finds that the Government commissioners within the national companies too often assume the role of mere observers.

The report comments on the seeming lack of coordination within the Government among the various ministries and bureaus responsible for oil policies. It notes that a state of permanent conflict seems to prevail between the Ministry of Finance and the Bureau of Fuels, and that other agencies confine themselves to their limited roles. The report cites the case of the Customs Bureau which does not centralize the information at its disposal concerning the origin of imported crude.

"Under the circumstances," the report states, "control over the companies becomes practically impossible and the formulation of oil policies is the result of negotiations between various interests, the public interest supposedly coming out triumphant from the battles."

A remedy to this state of affairs, suggested by the report, would be the creation of an autonomous bureau, responsible for the elaboration of and control of the Government's oil policies, directly attached to the office of the Prime Minister and, given this power and responsibility, headed by a politician with ministerial rank.

The Committee report thus cast doubts on the efficacy in practice of the control which the French Government has exercised over the oil industry. But without making judgments about the question of implementation, it may be said that the French system itself represents one of the most comprehensive mechanisms for subjecting private oil companies to national policy now in existence in the Free World.

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