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In the Privy Council

ON APPEAL
FROM THE COURT OF APPEAL
OF NEW ZEALAND

BETWEEN

EUROPA OIL (N.Z.) LIMITED

Appellant

AND

THE COMMISSIONER OF INLAND REVENUE

Respondent

Record of Proceedings

VOLUME 10

MACFARLANES,
Dowgate Hill House,
London E.C.4.

Agents for:
MORISON, TAYLOR & CO.,
Wellington,
New Zealand.

Solicitors for Appellant

ALLEN & OVERY
9 Cheapside,
London.

Agents for:
CROWN LAW OFFICE,
Wellington,
New Zealand.

Solicitors for Respondent

IN THE PRIVY COUNCIL

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Appellant

A N D THE COMMISSIONER OF INLAND
REVENUE
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RECORD OF PROCEEDINGS

VOLUME 10

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EVIDENCE IN CHIEFWALTER LEWIS NEWTON

I am a consultant on economic problems relating to the petroleum industry. I gave evidence for the Commissioner in the previous case and I confirm that evidence. I wish to add the following to the papers mentioned in Vol. 2 p.1:

10 Comparative Evaluation of Crude Oils, Institute of Petroleum; November 1969 (with Dr P. H. Frankel as joint author). Locational Patterns, Growth Trends and Prospects for Oil Refining in Developing Countries

and Delivered Costs of Crude Oil to Petroleum Refineries in Developing Countries.

United Nations Inter-regional Seminar on Petroleum Refining in Developing Countries, New Delhi;

January 1973 (with Dr P. H. Frankel as joint author).

20 Throughout my evidence all references to Europa relate to the Europa group as a whole. The company structure of the group being outside my field of expertise, I do not feel myself qualified to give evidence on the legal ties between Europa Refining and Europa Oil. I shall therefore confine myself to the international oil industry and the pricing aspects involved in the case.

30 Apart from the letter variations forming Exhibits to the Case Stated there has, in the period 1 April, 1965 to 31 March, 1971 been no change in the contractual arrangements between Gulf, Paneast and Europa and the 1964 Agreements described, analysed and interpreted in detail in my brief of evidence at the 1969 hearings remained operative throughout this period.

Crude oil under the 1964 contracts:

It is convenient to repeat here what I said in evidence previously under this head (Vol. 2 p.38): "Having outlined the 1964 Agreements I should like to make the following comments:

(a) At the time these contracts were negotiated substantial discounts on the Middle East crude oils covered by the Gulf-Europa contract (Exhibit B) were available to armslength buyers. Examples of such discounts are given in Table 3. This shows that the discounts generally granted at that time were about in line with or higher than those granted to Paneast under the Gulf-Paneast arrangements (Exhibit B5). It is therefore inconceivable that Europa should have entered into a crude oil supply arrangement without a discount on the posted price at least in an indirect form. Such a discount in effect was provided by means of the Paneast arrangements and this is substantiated by the fact that when direct discounts were granted to Europa (Exhibits B1 - 4) the profit of Paneast was automatically reduced by the full extent of those direct discounts (Exhibit B6) leaving the Paneast profit to be shared between Gulf and Europa at a much reduced level."

In Appendix B attached I outline the general position of crude oil pricing over the years in dispute.

Taking the position under the 1964 contracts up to October 1970, the reported discounts to East of Suez areas, for Agha Jari crude oil, of 25¢ - 29¢ per barrel in 1965 - 1967 must be compared with the discount of 20¢ per barrel on Agha Jari crude oil granted to Europa by Gulf Exploration in the letter of March 16, 1965 (Exhibit B1/3130), with retroactive effect April 1, 1964, and the increased

discount of 25¢ per barrel granted in the subsequent letter of June 30, 1966 (Exhibit 84/3133). Corresponding discounts were applicable to the sale of crude oil by Paneast to Gulf under the terms of the Processing Contract (Exhibit 85/3134).

The important point to establish here is that until October 1970 no revision took place of these prices between Gulf and Europa, on the one hand, and Paneast and Gulf, on the other, but by 1970 reported discounts on sales of Agha Jari crude oil East of Suez had increased to 39¢ - 51¢ per barrel, i.e. 14¢ - 22¢ per barrel higher than in 1965 - 1967.

Similarly, whilst reported discounts on Gach Saran and Kuwait crude oils sold to Japanese armslength buyers were, respectively, 15¢ - 21¢ and around 15¢ per barrel in the period up to 1968, and thus in line with the discounts of 16¢ per barrel for both crude oils set out in the letter of March 16, 1965 (3130), discounts on these crude oils to Japan increased by 1970 to 25¢ - 36¢ per barrel in the case of Gach Saran and to 22¢ - 28¢ per barrel by 1970 in the case of Kuwait crude oil. Discounts on Kuwait crude oil to Indian refiners were even higher at 28¢ per barrel in 1968 and 36¢ per barrel at mid-1970. The letter of June 30, 1966 had increased the discount for Kuwait crude sold to Europa by Gulf to 18¢ per barrel, which discount also applied to the purchase of Kuwait crude oil by Gulf from Paneast. Again, no change in this price was made until October 1970.

Under the terms of Exhibit 85/3134, it will be recalled that Gulf supplies Paneast at posted price less 15%. Thus, taking a posted price for Kuwait crude oil of \$1.59 per barrel, Paneast bought Kuwait crude oil

at \$1.59 less 15%, or \$1.35, per barrel but re-sold the crude oil to Gulf at the same price as Gulf sells to Europa under Exhibit B, i.e. posted price as adjusted by the subsequent letters (Exhibits B1/3130 and B4/3133). Thus Paneast's initial profit of 24¢ per barrel (\$1.59 less \$1.35) was reduced to 8¢ per barrel and then to 6¢ per barrel.

This position remained unchanged until October 1970 despite the price trends for the Middle East crude oils in question, which are described in Appendix B. It is particularly important to bear in mind that reported discounts on crude oil persisted and indeed increased in terms of ¢ per barrel in the period 1970 and 1971 although in 1970 the competitive conditions affecting the oil industry were transformed as a result of the particular circumstances which prevailed during the second half of that year.

I now turn to the letters dated October 31, 1970 from Gulf Exploration to Europa Refining (Exhibit CS20) and from Gulf Oil to Paneastern Refining (Exhibit CS23) which eliminated the previous crude oil discounts, which had been in effect since 1966, in favour of a percentage discount (15%) off the posted prices of the three crude oils specified in the Feed Stock Supply Contract (Exhibit B/3112). Although I will proceed to analyse the effect of these letter variations upon crude prices in the 1964 contracts I should emphasise that their effect on the profit earning of Pan Eastern has been minor. In the first place the letters operate only from October 23, 1970; that is, only for the last few months of the last six fiscal years in dispute, and secondly I have been advised that during that short period, there was only one shipment of crude (shipment No. 54). Indeed it would appear that in the calendar years 1966-1970 inclusive

about 70% of the feedstock supplies to Europa were in the form of naphtha.

The effect of these letters of adjustment was to eliminate as from October 23, 1970 Paneast's profit on crude oil. Thus, the price at which Gulf buys back crude oil from Paneast was, in accordance with Clause 5.01 of the Processing Contract (Exhibit 85/3134), adjusted to equate to the price at which Gulf sells crude oil to Europa, i.e. posted price less 15%, which is also
10 the price at which from the outset of the 1964 arrangements Paneast bought crude oil from Gulf.

Had Gulf not acted by sending the letters of adjustment of October 31, 1970, the increased prices paid under the contracts, following the increase in the posted price of Kuwait crude oil to \$1.68 per barrel would have been:
\$1.50 per barrel - i.e. posted price less 18¢ per barrel
(Exhibit B4) for Kuwait crude oil sold
by Gulf to Europa.

\$1.43 per barrel - i.e. posted price less 15% (Exhibit 85)
20 for Kuwait crude oil sold to Paneast
by Gulf.

\$1.50 per barrel - i.e. the same price as paid by Europa
for Kuwait crude oil sold to Gulf by
Paneast.

In this event Paneast would have continued to make a profit and this profit would have increased to 7¢ per barrel on Kuwait crude oil, compared with 6¢ per barrel which had been the case since June 1966.

In accordance with the letters of October 31, 1970, the
30 prices paid under the contracts, following the increase in the posted price of Kuwait crude oil to \$1.68 per barrel became:

\$1.43 per barrel for Kuwait crude sold by Gulf to Europa;
\$1.43 per barrel for Kuwait crude sold by Gulf to Paneast;
\$1.43 per barrel for Kuwait crude sold by Paneast to Gulf.

In this way, the price paid by Europa for Kuwait crude oil increased by only 2¢ per barrel in the period post-November 14, 1970 compared with the price paid by Europa for Kuwait crude oil in the period from June 1966 up to October 23, 1970.

Looking back to what would have been the case if
10 Gulf had not sent the letters of adjustment of October 31, it can be seen that in that case the price paid by Europa under the Feed Stock Supply Contract would have risen from \$1.41 per barrel to \$1.50 per barrel, an increase of 9¢ per barrel corresponding to the increase in the posted price of Kuwait crude oil.

Although Gulf is unlikely to have been certain of the extent and timing of the increase in the posted price for Kuwait crude oil as at end-October 1970, the new formula was probably designed to cushion the effects of
20 the expected increase in posted price on the price of Gulf's supplies to Europa.

The fact that by letters of September 20, 1971 (Exhibits CS23 - 26), Gulf found it necessary to adjust the prices paid under the contracts with retroactive effect from November 14, 1970 can be explained by considering the increase for Europa of 2¢ per barrel under the terms of the letters of October 31, 1970 in relation to the increase in Gulf's tax-paid costs of Kuwait crude oil with effect from November 14, 1970. As is shown in
30 Table 4 and explained in Appendix B Gulf's tax paid costs of Kuwait crude oil increased by 11.5¢ per barrel, as a result of the increased tax rate together with the increase in posted prices.

As I point out in the penultimate paragraph of Appendix B, unless increases in tax-paid costs can be passed on to customers, the oil producing companies must absorb such increases themselves. With hindsight of the extent of the increases in tax-paid costs on crude oils following the increases in November 1970 and those immediately effective following the Teheran Agreement in February 1971 and foresight of the further scheduled increases in such costs set out in the Teheran Agreement, 10 it would have been surprising indeed if Gulf had not sought to readjust the contractual prices in order to cover itself in time against such tax-paid cost increases.

This would seem to me to be the explanation of the letters of September 20, 1971 from Gulf to Europa and from Gulf to Paneast respectively. In accordance with the terms of these letters, the elimination of Paneast's profit on crude oil was extended by virtue of an amendment (Exhibit CS23) to the basic terms of the 20 Processing Contract (Exhibit B5/3134) to revise the price payable by Paneast to Gulf so as to be in line with the changed circumstances and the new price terms to be applied to the sale of crude oil to Europa by Gulf and, hence, the buy-back price paid to Paneast by Gulf.

These new price terms were still expressed in relation to a discount of 15% off the respective posted prices of the crude oils but incorporated the important feature of escalation with Gulf's tax-paid costs or "OPEC cost increases". The precise formula devised by Gulf was 30 illustrated in the table attached to Exhibits CS25 and 26.

The concept of perpetuating the discounts of 15% of posted prices, but relating such discounts to the level of posted prices prior to November 14, 1970, is offset by the addition of all subsequent OPEC cost increases

adjusted by 40% of the difference between such OPEC cost increases and 85% of subsequent posted price increases. The foregoing percentages employed in this formula have presumably been arrived at on the basis of a 15% discount on the posted price (85%) and government take (royalty plus tax) of approximately 60% of profit (40%).

The effect of this formula was to increase, with effect from November 14, 1970, the price paid by Europa to Gulf by some 2¢ per barrel, i.e. from \$1.43 per barrel to \$1.451 per barrel, thus enabling Gulf to recover an additional 2¢ per barrel of its tax-paid cost increase. Since the same price applied to both Paneast's purchase and sale of crude oil there was no profit on crude oil for Paneast. This in effect meant that from Gulf's point of view, tax-paid costs of Kuwait crude oil had risen by 11.5¢ per barrel, receipts from the sale of Kuwait crude oil to Europa had risen by 4¢ per barrel and the elimination of Paneast's profit on such crude oil was a net saving of a further 6¢ per barrel, representing a net disadvantage to Gulf of 1.5¢ per barrel. Gulf thus in effect absorbed 1.5¢ per barrel of the increase in tax-paid costs of Kuwait crude.

With effect from February 14, 1971, the formula price takes account of the Teheran Agreement and the resultant increase in Gulf's tax-paid costs, thus raising Paneast's price to Gulf and Gulf's price to Europa to \$1.77 per barrel for Kuwait crude oil, or a total increase compared with the pre-October 1970 position of 36¢ per barrel which compares with an increase in Gulf's tax-paid costs, using the OPEC Cost Increases in Gulf's own table, of 41¢ per barrel.

Other Feedstocks and Petroleum Products under 1964 contracts:

As to these, I said previously (Vol. 2, p.39)

"(c) The prices, covering related costs of crude oil and processing, at which naphtha and gas oil are transferred to Paneast of \$1.46 per barrel and \$2.00 per barrel respectively are prices at which spot sales might take place or have taken place. I have no knowledge of other long-term contracts for these feedstocks being concluded at such low prices and consider it unlikely that any have
10 taken place.

(d) The arrangements for the sale of finished products under the 1964 agreements are based on a similar principle to that of the 1956 agreements. Paneast selling to Gulf and Gulf to Europa at lowest posted prices. What is not defined is the transfer price, covering costs of crude oil and processing, at which Paneast acquires the finished products from Gulf and hence the Paneast profit on these products. I would, however, consider it unlikely that Europa's share of the difference between the buying and
20 selling price of Paneast would be any different from the discount obtainable by Europa on the open market. If it were otherwise Europa would presumably exercise its option to buy these products elsewhere. Hence the profit to Paneast can be expected to be, as before, such as to allow for a certain level of discount to Europa on the prices of the products supplied by Gulf."

Appendix C outlines the general position of products prices over the period.

It will be recalled that under the 1964 Agreements,
30 the price paid by Europa to Gulf for naphtha was set at the posted price for Kuwait crude oil plus 2¢ per °API over 31 °API. In accordance with the terms of the Processing Contract (Exhibit 85/3134), Gulf pays to Paneast the same price as

Europa pays to Gulf, whilst Paneast pays Gulf \$1.46 per barrel, escalating with the posted price of Kuwait crude oil. This meant that in the initial period of the agreements the price paid by Europa, and received by Paneast, would have been \$1.59 plus 70¢, assuming 66 °API gravity for naphtha, i.e. \$2.29 per barrel. As long as there was no change in the posted price of Kuwait crude oil, Paneast's price to Gulf of \$1.46 would have given Paneast a profit of 83¢ per barrel of naphtha.

10 This profit was reduced to 54¢ per barrel in accordance with the terms of the letters of March 16, 1965 (Exhibits B2/3131 and B6/3147) which, with effect from April 1, 1964, granted a discount of 29¢ per barrel on the price of naphtha to Europa and, hence, on the price received by Paneast from Gulf.

Throughout the period April 1964 - October 1970, the naphtha price to both Paneast and Europa remained unchanged. From the data regarding naphtha cargo prices f.o.b. Persian Gulf shown in Table 6(b) it is
20 clear that the price paid by Paneast of \$1.46 per barrel, or 3½¢ per U.S. gallon, was an unreasonably low one under normal conditions and explainable only by Gulf's particular need to sell light end products. In this connection I should like to refer to my earlier evidence with regard to the 1956 contracts. Although Gulf's position is now undergoing some change this was not the case at the time the 1964 contracts were negotiated. On the other hand, the price paid by Europa to Gulf was, even allowing for the fluctuations of the spot cargo prices shown in
30 Table 6(b), rather above what one would expect the price of a long-term contract to have been in that period. This would clearly point to the fact that throughout this period Paneast constituted a vehicle to grant a price concession to Europa outside New Zealand.

So far as gas oil is concerned, the price to Paneast remained also unchanged during the period April 1965 to October 1970 at \$2.00 per barrel. In accordance with the letter of March 16, 1965 (Exhibit B3/3132) the price to Europa varied throughout this period with changes in the lowest posted price for 48/52 DI gas oil at Abadan, which in these years was in the range of \$2.65 to \$2.94 per barrel. The cargo prices shown in Table 6(d) indicate the availability of discounts on posted prices of gas oil at various levels. It would therefore have been unreasonable for a major purchaser like Europa to pay the posted price for this product and the Paneast operation again clearly proves that such a price concession was granted via Paneast. It will be noted that the selling price for gas oil from Gulf to Paneast of \$2.00 per barrel, or $4\frac{3}{4}\text{¢}$ per U.S. gallon, is well below the lowest cargo price shown in Table 6(d).

As in the case of crude oil, so also in the case of naphtha Gulf sent letters to Europa and to Paneast (Exhibits CS19 and CS21), dated October 31, 1970, adjusting the price with effect from October 23, 1970.

In accordance with the letters of October 31, 1970, Paneast's profit on naphtha was further reduced, to 34¢ per barrel, by virtue of the fact that the direct discount to Europa was increased to 41¢ per barrel, and, hence, the price received by Paneast was similarly adjusted.

Before considering the effect of the subsequent letters of September 20, 1971, it will be of interest considering what would have been the effect on the contractual price of naphtha if either the letters of October 31, 1970 had not been superseded with effect from November 14, 1970 or if the previous level of discount of 29¢ per barrel had remained in effect in conjunction with the increase in the posted price of Kuwait crude oil of 9¢ per barrel in November 1970.

In the latter case, the price paid by Gulf to Paneast and by Europa to Gulf for naphtha would have escalated in accordance with the increase of 9¢ per barrel on the posted price of Kuwait crude oil, which would have meant a naphtha price of \$1.68 plus 70¢ less 29¢, i.e. \$2.09 per barrel. The same price would have applied to the purchase of naphtha by Gulf from Paneast, whilst the price paid by Paneast would have escalated by 9¢ to \$1.55 per barrel. In this way the profit earned by Paneast would have been preserved at 54¢ per barrel.

In accordance with the letters of October 31, 1970, the increase of 9¢ per barrel in the posted price of Kuwait crude oil would have similarly affected both sides of the contractual price relationship of Paneast to preserve the latter's profit of 42¢ per barrel on naphtha. In this case, however, the price paid by Europa to Gulf for naphtha would have been \$1.97 per barrel (\$1.68 plus 70¢ less 41¢).

From this it appears that, envisaging the increase in posted prices in November 1970, Gulf granted Europa an increased direct discount on naphtha which, although it reduced the profit to Paneast, still cushioned Europa's naphtha price from the full effect of the posted price increase which would otherwise have applied.

The letters of adjustment of 20 September 1971 should be seen in the perspective of the then known increase in Gulf's tax-paid cost which occurred on November 14, 1970; January 1, 1971; February 15, 1971 and June 1, 1971 and a schedule of discounts applicable as of each of these dates was introduced to determine the naphtha price paid by Gulf to Paneast and by Europa to Gulf. The base price of \$1.46 per barrel

paid by Paneast to Gulf was amended to escalate with OPEC Cost Increases for 31.0⁰ - 31.9⁰ API Kuwait crude oil plus or minus 40% of the difference between increases in the posted price of Kuwait crude oil, above \$1.59 per barrel, and the OPEC Cost Increases. This formula, which was illustrated in the attachment to Exhibit CS26, adopted a somewhat similar approach to that applied to the pricing of crude oils. But in the case of naphtha, this formula applied only to the price paid by Paneast
10 and the effect of the price adjustments was to preserve a profit for Paneast, although at a substantially reduced level.

It seems clear that in the case of naphtha, as in the case of crude oils, the letters of adjustment of September 20, 1971 provided a mechanism whereby Europa should share the effects of Gulf's increased tax-paid costs but for naphtha the full effects of such increased costs to Gulf were not passed on to Europa even over an extended period.

20 It is perhaps relevant to point out here that at the time of the letters of September 20, 1971 the long-term outlook for naphtha prices was very uncertain. The displacement of naphtha for town-gas manufacture by natural gas in Western Europe was accompanied by a worldwide recession of the petrochemical industry, affecting the demand for naphtha for petrochemical feedstock. On the other hand, the potential demand for naphtha for the U.S. gas industry was more conjectural than probable. Similarly there was at that time some
30 uncertainty regarding the future growth rate of naphtha demand in Japan. In these circumstances, it would not have been surprising for Gulf to agree in the case of naphtha to absorb a proportion of its increased tax-paid

costs, particularly since, as pointed out in Appendix B, the allocation of such tax-paid cost increases to individual products was not reflected in uniform increases of posted prices for petroleum products at the Persian Gulf.

For gas oil there was no change to the existing contractual price relationships in the letters of October 31, 1970. This meant that as a result of the increase of the posted price of Kuwait crude oil by 9¢ per barrel on November 14, 1970 the price to Paneast for gas oil would have increased by 9¢ per barrel and the Paneast for gas oil would have increased by 9¢ per barrel and the Paneast profit would have been reduced by a corresponding amount, from 64.6¢ per barrel to 55.6¢ per barrel. The subsequent increase in the posted price of Kuwait crude oil of 40.5¢ per barrel on February 15, 1971 would similarly have applied to the Paneast price although the increase of 1.1¢ per gallon in the Abadan posted price for 48/52 DI gas oil would have applied to the price received by Paneast from Gulf and by Gulf from Europa. This would have resulted in the following:

3.108	\$ per barrel for gas oil sold by Gulf to Europa
2.495	\$ per barrel for gas oil sold by Gulf to Paneast
3.108	\$ per barrel for gas oil sold by Paneast to Gulf
0.613	\$ per barrel profit for Paneast
0.033	\$ per barrel less profit for Paneast compared with position prior to November 14, 1970
0.462	\$ per barrel increase in Europa gas oil price compared with position prior to November 14, 1970

This position was, however, adjusted by virtue of the formula price for gas oil to Paneast introduced by the letters of September 20, 1971, effective from November 14, 1970.

The effect of the formula price, calculated in the table attachment to Exhibit CS26 on similar lines to that applicable to naphtha, was to increase the price of gas oil to Paneast by 10.49¢ per barrel with effect from November 14, 1970 and by a further 0.75¢ per barrel as from January 1, 1971, thus consecutively reducing the Paneast profit by corresponding amounts. During this period, however, there was no change to the Abadan posted price for gas oil.

10 With effect from February 15, 1971, when the posted price for gas oil at Abadan increased to \$3.108 per barrel and thus Europa paid an increase of 46.2¢ per barrel, the formula price to Paneast was increased by 33.45¢ per barrel, to \$2.4469, and the profit to Paneast increased to 66.11¢ per barrel, i.e. it was not only restored to the pre-November 14, 1970 level, but in fact increased by about 1½¢ per barrel.

Appendix A is a summary of prices in relation to the letter variations of October 31, 1970 and September 20, 20 1971.

APPENDIX A

10016

KUWAIT CRUDE OILAppendix A1

I	<u>POSITION PRIOR TO GULF'S LETTERS OF OCTOBER 31ST, 1970</u>	<u>\$ per bbl.</u>
	Europa paid Gulf posted price (\$1.59) less 18¢	- 1.4100
	Paneast paid Gulf posted price (\$1.59) less 15%	- 1.3515
	Paneast received from Gulf posted price less 18¢	- 1.4100
	Therefore Paneast's margin	- 0.0585
II	<u>INTERMEDIATE POSITION</u>	
	<u>A Letters of October 31st, 1970</u>	
	<u>(i) Prior to November 14th, 1970</u>	
	Europa paid to Gulf posted price (\$1.59) less 15%	- 1.3515
	Paneast paid Gulf posted price (\$1.59) less 15%	- 1.3515
	Paneast received from Gulf posted price (\$1.59) less 15%	- 1.3515
	Therefore Paneast's margin	- Nil
	<u>(ii) From November 14th, 1970</u>	
	Europa paid Gulf posted price (\$1.68) less 15%	- 1.4280
	Paneast paid Gulf posted price (\$1.68) less 15%	- 1.4280
	Paneast received from Gulf posted price (\$1.68) less 15%	- 1.4280
	Therefore Paneast's margin	- Nil
	<u>B Variant: From November 14th, 1970 if Gulf had not sent letters of October 31st, 1970</u>	
	Europa would have paid Gulf posted price (\$1.68) less 18¢	- 1.5000
	Paneast would have paid Gulf posted price (\$1.68) less 15%	- 1.4280
	Paneast would have received from Gulf posted price (\$1.68) less 18¢	- 1.5000
	Therefore Paneast's margin would have been	- 0.0720

III	REVISED POSITION: <u>LETTERS OF SEPTEMBER 20TH, 1971</u>	10017 <u>\$ per bbl</u>
	(i) <u>From November 14th, 1970</u>	
	Europa pays Gulf formula price -	1.4510
	Paneast pays Gulf formula price -	1.4510
	Paneast receives from Gulf formula price -	1.4510
	Therefore Paneast's margin -	Nil
	(ii) <u>From January 1st, 1971</u>	
	Europa pays Gulf formula price -	1.4585
	Paneast pays Gulf formula price -	1.4585
	Paneast receives from Gulf formula price -	1.4585
	Therefore Paneast's margin	Nil
	(iii) <u>From February 15th, 1971</u>	
	Europa pays formula price (a) -	1.7682
	Paneast pays Gulf formula price -	1.7682
	Paneast, receives from Gulf formula price -	1.7682
	Therefore Paneast margin -	Nil

(a) applicable to 31° - 31.9° API gravities as per Gulf table.

NAPHTHA (66° API)

10018

I POSITION PRIOR TO
GULF'S LETTERS OF
OCTOBER 31, 1970\$ per bbl

Europa paid Gulf posted price (\$1.59) of Kuwait crude <u>plus</u> 2¢ per °API above 31° API <u>less</u> 29¢	=	\$2.00
Paneast paid Gulf \$1.46	=	1.46
Paneast received from Gulf \$1.59 + 70¢ - 29¢	=	2.00
Therefore Paneast's margin	=	0.54

II INTERMEDIATE POSITIONA Letters of October 31, 1970i) Prior to November 14, 1970

Europa paid Gulf posted price (\$1.59) of Kuwait crude <u>plus</u> 2¢ per °API above 31 °API <u>less</u> 41¢	=	1.88
Paneast paid Gulf \$1.46	=	1.46
Paneast received from Gulf \$1.59 + 70¢ - 41¢	=	1.88
Therefore Paneast's margin	=	0.42

ii) From November 14, 1970

Europa paid Gulf posted price (\$1.68) of Kuwait crude <u>plus</u> 2¢ per °API above 31 °API <u>less</u> 41¢	=	1.97
Paneast paid Gulf \$1.46 plus escalation with posted price of Kuwait crude	=	1.55
Paneast received from Gulf \$1.68 + 70¢ - 41¢	=	1.97
Therefore Paneast's margin	=	0.42

B VARIANT: FROM NOVEMBER 14, 1970
IF GULF HAD NOT SENT LETTERS OF
OCTOBER 31, 1970

Europa would have paid Gulf posted price (\$1.68) of Kuwait crude <u>plus</u> 2¢ per °API above 31 °API <u>less</u> 29¢	=	2.09
Paneast would have received from Gulf \$1.46 plus escalation with Kuwait posted price	=	1.55
Paneast would have received from Gulf \$1.68 + 60¢ - 29¢	=	2.09
Therefore Paneast's margin would have been	=	0.54

10019

\$ per bbl

III REVISÉD POSITION:
LETTERS OF SEPTEMBER 20, 1971

i) From November 14, 1970

Europa pays Gulf posted price (\$1.68) of Kuwait crude <u>plus</u> 2¢ per °API above 31 °API <u>less</u> 49¢	=	1.89
Paneast pays Gulf formula price	=	1.565
Paneast receives from Gulf \$1.68 + 70¢ - 49¢	=	1.89
Therefore Paneast's margin	=	0.325

ii) Post January 1st 1971

Europa pays Gulf posted price (\$1.68) of Kuwait crude <u>plus</u> 2¢ per °API above 31 °API <u>less</u> 47.5 ¢	=	1.905
Paneast pays Gulf formula price	=	1.5725
Paneast receives from Gulf \$1.68 + 70¢ - 47.5¢	=	1.905
Therefore Paneast's margin	=	0.3325

iii) From February 15, 1971

Europa pays Gulf posted price (\$2.0925) a) of Kuwait crude <u>plus</u> 2¢ per °API above 31 °API <u>less</u> 60.1¢	=	2.1815
Paneast pays Gulf formula price a)	=	1.9069
Paneast receives from Gulf \$2.0925 ^{a)} + 62¢ - 60.1¢	=	2.1815
Therefore Paneast's margin	=	0.2846

hick a) applicable to 31° - 31.9° API ^{gravity} grades as per Gulf table.

GAS OIL

APPENDIX A3

1000
\$ per bbl

I Position prior to
Gulf's letters of
OCTOBER 31, 1970

Europa paid Gulf lowest posted price (6.3¢ gal. 27.3.69) for 48/52 3I at Abadan	=	2.646
Paneast paid Gulf \$2.00 escalating with Kuwait crude posting.	=	2.000
Paneast received from Gulf lowest posted price for 48/52 DI at Abadan	=	2.646
Therefore Paneast's margin	=	0.646

II INTERMEDIATE POSITION

A Letters of October 31, 1970 No change

- (i) Prior to November 14, 1970 As for I above
(ii) From November 14, 1970

Europa paid Gulf lowest posted price for 48/52 DI at Abadan	=	2.646
Paneast paid Gulf \$2.00 + 9¢	=	2.090
Paneast received from Gulf lowest posted price for 48/52 DI at Abadan	=	2.646
Therefore Paneast's margin	=	0.556

III REVISED POSITION:
LETTERS OF SEPTEMBER 20, 1971

- (i) From November 14, 1970

Europa pays Gulf lowest posted price for 48/52 DI at Abadan	=	2.6460
Paneast pays Gulf formula price	=	2.1049
Paneast receives from Gulf lowest posted price for 48/52 DI at Abadan	=	2.6460
Therefore Paneast's margin	=	0.5411

- (ii) From January 1, 1970

Europa pays Gulf lowest posted price for 48/52 DI at Abadan	=	2.6460
Paneast pays Gulf formula price	=	2.1124
Paneast receives from Gulf lowest posted price for 48/52 DI at Abadan	=	2.6460
Therefore Paneast's margin	=	0.5336

- (iii) From February 15, 1971

Europa pays Gulf lowest posted price (7.4¢ gal. 15.2.71) for 48/52 DI at Abadan	=	3.1080
Paneast pays Gulf formula price	=	2.4469
Paneast receives from Gulf lowest posted price for 48/52 DI at Abadan	=	3.1080

Appendix B. Crude Oil

It was already apparent in the period prior to 1965 that posted prices for crude oil had ceased to be indicative of commercial prices and that the latter were expressed in terms of a discount off the posted prices. Posted prices had indeed already become tax-reference prices for the calculation of the producer countries' revenue since the formation of the Organisation of Petroleum Exporting Countries (OPEC) had exerted sufficient influence to "freeze" effectively the posted prices of crude oil following the reductions in posted prices in 1960.

This position was more or less maintained for a decade, with crude oils being generally available at increasing discounts off posted prices to armslength buyers and also affiliated companies. The levels of these discounts to armslength buyers of Iranian Light (Agha Jari), Iranian Heavy (Gach Saran) and Kuwait crude oils are indicated in the Tables (1 a) i), ii), iii) and 1 b) i), ii), iii)). Whilst there is sufficient published data available to provide reasonable evidence of the trend of discounts on each of the three crude oils to Japanese armslength buyers, only Agha Jari crude oil has been sold at published discounts in other East of Suez markets, namely India and Pakistan, to armslength buyers.

Published reports in Platt's Oilgram Price Service of Australian crude oil imports show f.o.b. values of crude oils by country of origin. From these it can be seen that Kuwait crude oil was being supplied to Australian refiners in 1969 and 1970 at substantial discounts (an average of about 30¢ per barrel below the then posted price of \$1.59 during the first nine months of 1970). Such imports would comprise a limited volume of armslength sales but would constitute principally sales to Australian refining affiliates of the major oil companies which would normally carry smaller discounts than sales to armslength buyers.

Before considering the levels of discount granted to Japan it should be pointed out that, particularly in the earlier years, crude oil sales to Japanese refiners were often tied in with the provision of substantial loans on favourable terms or other similar arrangements. This particular feature of crude oil sales to Japanese armslength buyers was reflected in the level of discounts on such sales which must therefore be viewed in the context of the specific Japanese circumstances.

For West of Suez markets, published data are available to indicate the trend of discounts on these three crude oils in tender offers to

South America but little published data area available to indicate levels of discounts to other West of Suez markets. It will be appreciated, however, that even where no evidence is available from published sources knowledge of the competitive conditions prevailing in the oil market in the 1960s confirms that substantial discounts on posted prices were in fact increasingly granted in crude oil sales both to third parties and also to the affiliates of the international oil companies.

The level of discounts on armslength sales of Agha Jari crude oil to Japan increased from a range of around 25¢ - 29¢ per barrel in 1965 - 1967 to 44¢ - 51¢ per barrel in 1969. In early 1970 the range narrowed to 40¢ - 43¢ per barrel and later that year discounts of 39¢ - 40¢ per barrel were reported. In the first five months of 1971 discounts of 45¢ - 47¢ per barrel were granted and these increased to 48¢ - 51¢ per barrel in the second half of the year.

A roughly similar pattern for discounts on sales of Gach Saran crude oil to Japan can be discerned, with discounts of 15¢ - 21¢ per barrel in the earlier years, rising to 27¢ - 32¢ per barrel in 1969, ranging from 25¢ - 36¢ per barrel in 1970, then increasing to 41¢ - 52¢ per barrel prior to June 1971 and to 43¢ - 57¢ per barrel in the latter half of that year.

In the case of Kuwait crude oil, Japanese buyers obtained discounts of around 15¢ per barrel in the period from 1964 to 1968. In 1969 discounts on Kuwait crude oil increased to 20¢ per barrel. In 1970 these were further increased to 22¢ - 28¢ per barrel. In the first five months of 1971 a further increase to 25¢ - 32¢ per barrel took place and the level in the second half of the year was again higher at around 35¢ per barrel.

Evidence of discounts on sales of Agha Jari crude oil to armslength buyers in India and Pakistan in 1967 - 1968 indicates discounts

in the range of 40¢ - 50¢ per barrel on an f.o.b. basis but discounts granted by major oil companies to such buyers were at the low of the range.

Published reports, in 'Platt's Pricegram*', of the discounts granted by the major oil company suppliers to their Indian refining subsidiaries in 1968 - 1969 show a range of 41¢ - 45¢ per barrel for Agha Jari crude oil and 28¢ per barrel for Kuwait crude oil. Similar levels of discounts on offers of Agha Jari crude oil by major oil companies to their affiliate, Pakistan Refinery Ltd., were reported in Petroleum Intelligence Weekly in October 1968 and a discount of 45¢ per barrel was reported** in September 1969 for the sale of Agha Jari crude oil by Phillips Petroleum to the Cochin refinery in India.

In early 1970 the discount on Agha Jari supplied by the major oil companies to their Indian refining subsidiaries was increased to 51¢ per barrel. Later in the same year the discount was reduced to 44¢ per barrel, reflecting the effect of an increase in the rate of tax, from 50% to 55%, payable to the Persian Gulf producer country governments as from end-1970. The discount on Kuwait crude oil was similarly reported to have been 36¢ per barrel at mid-1970 and 33¢ per barrel in December, reflecting again the increased rate of tax***.

From February 1971 the discount on Agha Jari crude oil to the same refiners was reported as 55¢ per barrel and in June as 59¢ per barrel, but 54¢ per barrel in July on the suppliers' contention that

* See Platt's Pricegram of 15.5.1968, 24.7.1969, 4.9.1969.

** See Platt's Pricegram of 4.9.1969.

*** See Platt's Pricegram of 3.2.1970 and Petroleum Intelligence Weekly of 7.12.1970.

the price for this crude oil was hardening*. The discount granted by Phillips Petroleum to the Cochin refinery was similarly reported to have increased to 57¢ per barrel of Agha Jari crude oil in April 1971, from 53¢ per barrel a year earlier**. For Kuwait crude oil there were no published reports of the level of discounts in 1971.

Public tenders to South American armslength buyers reveal that, calculated from a c. & f. basis, the discount on Agha Jari crude oil was from 30¢ - 53¢ per barrel for deliveries in 1965 and 36¢ - 48¢ per barrel for deliveries in the early part of 1966. Offers for supply in June - July 1966 showed discounts in the range of 32¢ - 47¢ per barrel. The level of discounts for deliveries in 1967 on an f.o.b. basis were lower, in the range of 31¢ - 39¢ per barrel. More recent offers, made in December 1968 for delivery in the period 1969 to 1973/74 and in June 1971 for delivery in the third quarter of that year, were at discounts of 48¢ and 49¢ per barrel respectively on an f.o.b. basis.

The relatively few offers of Gach Saran crude oil to South America show an increase in the discount from around 30¢ to around 40¢ per barrel between 1965 and 1970. For Kuwait crude oil, the level of discounts offered increased from 15¢ - 30¢ per barrel in 1965. In 1968 in a tender to the Uruguayan state refinery ANCAP for Kuwait crude oil for delivery 1969 - 1973/74 discounts of 29¢ - 35¢ per barrel were offered on an f.o.b. basis.*** Discounts offered to YPF Argentina were 20¢ - 28¢ per barrel in 1969, 29¢ - 34¢ per barrel in 1970 and 46¢ - 48¢ per barrel for delivery in the second half of 1971.

In the published record of hearings before the U.S. Senate Sub-Committee on Antitrust and Monopoly, in March/April 1969, evidence was given of the price at which Petrobras, the Brazilian state

* See Petroleum Intelligence Weekly 12.4.1971 and 2.8.1971.
 ** See Petroleum Intelligence Weekly 12.4.1971.
 *** The range of 29¢ - 35¢ per barrel is exclusive of credit terms offered which represented a further discount of 3¢ - 6¢ per barrel on an f.o.b. basis.

refining monopoly, purchased Middle East crude oil, including Kuwait, in 1965 and 1966. The price quoted there of \$1.30 per barrel would represent a discount of 29¢ per barrel on Kuwait crude oil*.

At the same hearings I stated in evidence in respect of discounts granted to European armslength buyers:-

"On the basis of the published and unpublished information available, it can, however, be said that for the main Middle East crude oils the development of discounts on posted prices and the resulting effective prices to European destinations in armslength sales of substantial quantities has been approximately as follows:-

We have two types of crude here, Kuwait crude and Agha Jari. The following table shows that the effective crude oil price to European buyers of Kuwait crude has gone down from \$1.65 a barrel in 1958 to in the range of \$1.24 to \$1.29 per barrel in the period 1964 - 67.

Light Iranian crude, Agha Jari, has gone down from about \$1.79 to \$1.29 - \$1.34 per barrel. These are all f.o.b. prices.

(In cents per barrel)

Year	Medium type (Kuwait)			Light type (Agha Jari)		
	Posted Price	Discount	Effective Price	Posted Price	Discount	Effective Price
1958	185	20	165	204	25	179
1959	167	20	147	186	30	156
1960-61	159	25	134	178	35	143
1962	159	25-30	129-134	178	35-40	138-143
1963	159	30	129	178	40	138
1964-67	159	30-35	124-129	ⁱ 179	45-50	129-134

ⁱ Posting transferred from Bandar Mashur to Kharg Island at end of 1965.***

* See evidence of Dr. John Blair, Chief Economist, Antitrust Sub-Committee. "Governmental Intervention in the Market Mechanism: The Petroleum Industry". U.S. Government Printing Office, Washington 1969. Page 76.

** See evidence of Mr. Walter L. Newton, Pages 58-59 in above publication.

An extension of the above table for the period 1968 - 1970

would be as follows:-

Year	¢ per barrel					
	Medium type (Kuwait)			Light type (Agha Jari)		
	Posted Price	Discount	Effective Price	Posted Price	Discount	Effective Price
1968	159	35-40	119-124	179	50	129
1969) 1st Half 1970)	159	40	119	179	50-55	124-129

The circumstances of 1970, which led to an increase in the posted prices of heavier crude oils (Iranian and Arabian Heavy, Arabian Medium and Kuwait) at the Persian Gulf in mid-November of that year and the Resolutions of the OPEC Conference at Caracas in December, which preceded what are generally referred to as the Teheran and Tripoli Agreements of 1971, resulted from a combination of factors. These are briefly enumerated ^{below} since their impact was of immense significance for the future of posted prices and government revenues for the producer countries and for the future relationship of the oil companies to these countries. It has, however, already been established that the East of Suez refiners continued to obtain substantial discounts off the posted prices, although the latter had been increased. Indeed discounts tended to increase in terms of ¢ per barrel.

At the same time it is relevant to analyse the background to the subsequent price developments of 1970 and 1971 in order to emphasise the fact that these developments were not a culmination of a general trend in prices but were rather the result of specific short- and medium-term factors affecting the political equilibrium in the relations between governments and oil companies, namely:-

- i) the interruption in early May 1970 of the important Trans Arabian Pipeline (Tapline) carrying Saudi Arabian crude oil to the Eastern Mediterranean;

- ii) the imposition of restrictions on the levels of Libyan crude oil production as from June 1970;
- iii) the unexpectedly high level of oil consumption in 1970, particularly in Western Europe and Japan;
- iv) the growing evidence of the extent of the U.S.A.'s failure to develop indigenous sources of energy to keep pace with the level of U.S. demand with the resulting need to increase substantially oil imports from the Eastern Hemisphere over the next decade;
- v) spiralling rates of inflation in the major industrial countries which affect the balance of trade of oil producing countries;
- vi) the deviation from the traditional 50:50 Agreement between producer countries and oil companies in Libya in September 1970.

Whilst it can be seen that the particular events of 1970 were more directly related to conditions West of Suez, their impact was not restricted to that area. Thus a shortage of short-haul crude oil for Western Europe means an increased demand for crude oil from the Persian Gulf, which is the only location of sufficient oil reserves to act as the buffer supplier for both East and West of Suez. With the continued closure of the Suez Canal increased demand for Persian Gulf crude oil for West of Suez substantially affected the balance of tanker demand and supply. In the particular circumstances affecting the tanker freight market in 1970 this resulted in a worldwide shortage of tankers and put a premium on short-haul crude oils.

The position in 1970 as described above was particularly favourable for the young revolutionary government in Libya to capitalise on the geographical and quality advantage of the crude oil produced there. Under the threat of further cut-backs in Libyan production,

which would have had a most serious effect on the ability of the companies to meet oil demand in the West of Suez area, the oil companies had to comply with the demands made by the Libyan Government with regard to higher posted prices. It was, however, not so much the higher posted prices for Libyan and, subsequently, other Mediterranean crude oils accepted by the oil companies in September 1970 as the increase in the tax rate above the traditional 50% level which undermined the existing arrangements between oil companies and producer countries worldwide.

It was against this background that, in the first instance, the posted prices at the Persian Gulf were increased for the heavier crude oils, for which there was strong demand owing to the worldwide shortage of residual fuel oil at the time and the posted prices of which had been considered undervalued by the producer countries for some time. At the same time, the traditional 50:50 tax arrangements in Iran and Kuwait were breached in favour of a 55% tax rate, following the precedent set by Libya in September. The agreement between the Iranian Consortium and the Government of Iran, raising the posted price of Gach Saran crude oil to \$1.72 per barrel and the tax rate to 55%, was reached on November 14, 1970. This was followed, effective from the same date, by agreement between the Kuwait Oil Company (B.P. and Gulf) and the Government of Kuwait to raise the posted price of Kuwait crude oil to \$1.68 per barrel and the tax rate to 55%.

Pressure from other producer countries to obtain increased oil revenues was inevitable and the XXI OPEC Conference at Caracas resolved:-

- i) to establish 55% as the minimum rate of taxation applicable to the net income of the oil producing companies;
- ii) to establish a uniform general increase in posted or tax reference prices and to eliminate existing disparities between such prices;
- iii) to adopt a new system of gravity differentials;

iv) to eliminate the allowances granted to the oil companies.

The allowances referred to in iv) stemmed from an agreement reached in 1965, whereby the producer country governments were able to increase their unit revenues without any adjustment of posted prices. The basic mechanism adopted was to follow the longstanding Venezuelan example of treating royalties as a deductible cost for tax purposes instead of as part of the 50% government "take" which was the way in which the 50:50 principle had, by mutual consent, been applied in the Middle East since the early 1950s. The allowances referred to were in fact a method to introduce the new system by stages and thus smooth the transition for the oil companies.

The Caracas Conference of December 1970 was followed by negotiations between the oil companies and a team representing the Persian Gulf member countries of OPEC, culminating in the Teheran Agreement of February 14, 1971. The main terms of the agreement comprised:- *

- i) guaranteed stability for oil prices and revenue payments to the six Persian Gulf producer countries for 5 years;
- ii) an immediate increase in posted prices for crude oils at the Persian Gulf of 35¢ per barrel, to be applied to 40° API crude oil, with the posted prices of other crude oils being determined in accordance with a new gravity differential system of 0.15 cents/bbl./0.1° API for crude oil of 40° API and below (with the exception of crude oils below 30° API gravity) and 0.2 cents/bbl./0.1° API for crude oils of 40.1° API and above;
- iii) an annual increase of 5¢ per barrel on crude oil posted prices coupled with a further 2½% to compensate for worldwide inflation, such increases to be effective on June 1, 1971 and January 1, for each of the years 1973, 1974 and 1975;

*to these the terms of the Geneva agreement of 20 January 1972 providing for changes in the value of the U.S. dollar in relation to certain other currencies have been added.

- iv) adjustment of posted prices for certain crude oils, including Kuwait and Gach Saran, by an additional 1¢ per barrel on the basis of disparity claims;
- v) elimination of the OPEC allowances.

An immediate result of the Teheran Agreement was an increase in the posted prices of 34.0° API Agha Jari crude oil by 38¢ per barrel (Table 2), of 31.0° API Gach Saran crude oil by 40.5¢ per barrel (Table 3), and of 31.0° API Kuwait crude oil by 40.5¢ per barrel (Table 4), with increased government revenue from Agha Jari crude oil representing 27.2¢ per barrel and from Gach Saran and Kuwait crude oils : 27.8¢ per barrel.

The earlier increase, in November 1970, of 9¢ per barrel in the posted price of Kuwait crude oil coupled with the higher tax rate had resulted in an increase in government revenue for Kuwait crude oil of 11.5¢ per barrel indicated in the penultimate line in Table 4. This increase in government revenue is reflected in the tax-paid cost of the crude oil indicated in the final line of the Table, and this is shown to be 11.5¢ per barrel, corresponding to the 11.49¢ per barrel shown in the top line, under the heading of "OPEC Cost Increases", in the table attached to Gulf's letter to Europa of September 20, 1971 (Exhibit CS25).

The term "tax-paid cost" has become generally adopted in the oil industry since the Teheran Agreement of February 1971 to describe the production cost to the oil companies, indicated in Table 4, line 6 as operating costs, plus total payments to the producer country government (Table 4, line 10). As can be readily appreciated, any increase in the tax-paid cost of a crude oil will have to be absorbed by the producing oil company to the extent that such an increase cannot be passed on to the customer. Assuming operating costs remain constant during the period between 1970 and 1975. which is believed to be a reasonable

assumption, then increases in tax-paid costs become synonymous with the OPEC Cost Increases shown in Gulf's own table (Exhibit CS25)*

There is one important qualification, however, namely that as from the introduction of the new API gravity differentials, in February 1971, the Gulf approach, taking a crude oil of 31.0° - 31.9° API gravity no longer corresponds precisely to the more standard approach of Table 4, calculated solely for a crude oil of 31.0° API gravity. It must be pointed out, however, that the Gulf approach is in accordance with the terms of Clauses 4.02 (a) and (b) of the Processing Contract (Exhibit B5/3134), which provide for escalation of the naphtha and gas oil base prices to Pancast with the posted price of Kuwait crude oil of 31.0° - 31.9° API.

* Exhibit CS25 being dated 20 September 1971 does not allow for the effect of the Geneva Agreement of 20 January 1972.

Appendix C Petroleum Products

Between 1964 and 1970 demand for petroleum products East of Suez more than doubled, from 183 million tons in 1964 to 393 million tons in 1970 (Table 5). Over the same period overall refining capacity in the East of Suez area continued to exceed demand, although the margin by which refining capacity exceeds demand has been significantly reduced since the mid-1960s. Between 1962 and 1967 refining capacity in the consuming countries East of Suez, with the exception of East and South Africa, also exceeded demand in these countries but by 1967 demand in Japan had begun to overtake refining capacity in that country.

The sustained growth of refining capacity in the Middle East has enabled the Persian Gulf to contribute an increasing volume of petroleum products exports to meet the growth of demand in the East of Suez area.

Export sales of petroleum products from the Persian Gulf totalled over 400 million barrels (over 55 million tons) in 1969 compared with 330 million barrels (over 45 million tons) in 1965. Of these totals, in 1965 over 70% remained East of Suez and the rest was exported to West of Suez destinations but in 1969 exports to West of Suez had declined to less than 39 million barrels (5.5 million tons) leaving little short of 90% of Persian Gulf exports of petroleum products for the East of Suez area.

Whereas in 1965, and 1959, the volume of Persian Gulf exports of petroleum products had been less than half of total exports from the Caribbean refineries, by 1969 Caribbean exports had declined to almost 600 million barrels (around 86 million tons) and Persian Gulf exports had increased to a level two-thirds of the volume of the Caribbean. In 1965 over 70% of total Caribbean exports of petroleum products, about 700 million barrels (around 100 million tons) had been shipped to other Western Hemisphere countries and about 20% to Europe; the corresponding

figures for 1969 were almost 90% to other Western Hemisphere countries and about 7% to Europe. Of the balance of about 6% in 1965, about half (17 million barrels) went to East of Suez destinations, including New Zealand, and in 1969 this volume was little changed.

Thus by 1969 the Caribbean export refineries were orientated almost exclusively to supplying their adjacent markets and the Persian Gulf export refineries were similarly operating for the supply of markets East of Suez.

In the period from 1965 to early 1970, posted prices for petroleum products remained relatively stable and, where fluctuations occurred, movements were confined within a comparatively narrow range (Tables 6 a), b) & c) and Graphs 7 a) - d)). Posted prices for gasoline (95 octane) at the Caribbean remained at 9.7¢ per U.S. gallon throughout the period and at the Persian Gulf there was a movement of less than 0.5¢ per U.S. gallon for this product. For naphtha there was no posted price at the Caribbean but at the Persian Gulf a posting of 4.5¢ per U.S. gallon was introduced in February 1966. Although this price rose to 4.8¢ per U.S. gallon in 1968, it had fallen back to its previous level within a year.

No. 2 fuel oil posted prices at the Caribbean fluctuated within a range of 6.3¢ - 7.3¢ per U.S. gallon, declining again to 6.5¢ per U.S. gallon in May 1969. The range of fluctuation for this product at the Persian Gulf was similar but the overall effect was a decline from 7.1¢ per U.S. gallon at the beginning of the period to 6.2¢ per U.S. gallon by March 1969.

The posted price of heavy fuel oil (Bunker C) at the Caribbean remained at \$2.00 per barrel throughout the period, whilst at the Persian Gulf it declined steadily from \$1.65 per barrel in 1965 to \$1.40 per barrel by March 1969.

With the exception of heavy fuel oil at the Persian Gulf, the trend in posted prices of petroleum products in both areas, allowing for differences in crude oil yield patterns and variations in demand factors, was one of relative stability in contrast to the marked erosion of the preceding period. At the Persian Gulf, however, most products showed an overall decline in posted prices by the end of the period but the extent of the reduction, except in the case of heavy fuel oil, was limited.

In the period from April 1970 to end-March 1971 the posted prices of most petroleum products at both the Caribbean and the Persian Gulf increased (Tables 6 a) and 6 b)). At the Persian Gulf the posted price of heavy fuel oil increased by 10¢ per barrel in October 1970 and by a further 30¢ the following February, raising the posted price to \$1.80 per barrel.

With these exceptions increases in posted prices for petroleum products at the Persian Gulf were delayed until after the Teheran Agreement in February 1971. At that time the overall level of increases in posted prices for petroleum products at the Persian Gulf, on the basis of the yield pattern of refineries in the area, was roughly in line with, or a little below, the increase in the tax-paid costs of crude oils in that area. The actual increases applied to posted prices for petroleum products varied, however, both between different products and between different oil companies. Thus the increase in the posted price for naphtha f.o.b. Ras Tanura was 29.4¢ per barrel in the case of Caltex but 42.0¢ per barrel in that of Esso, and that for kerosene was 58.8¢ per barrel in the case of Caltex but only 50.4¢ per barrel in that of Esso.

At the Caribbe posted prices of petroleum products, except heavy fuel oil (Bunker C), underwent some changes in the second half

of 1970, reflecting seasonal variations and the supply and demand situation in the Western Hemisphere.

In view of the predominant importance of the Persian Gulf area in supplying East of Suez markets it is particularly unfortunate that no regularly published data on the level of discounts on sales of petroleum products from the Persian Gulf were available prior to the introduction of Platt's quotations of Persian Gulf Cargo Prices during 1967/1968.

Until it was discontinued at the end of 1966, Platt's Channel Port Index had provided an indication of the trend of discounts on petroleum products sales to armslength buyers at the Caribbean but no corresponding indicator of Persian Gulf discounted prices was published.

Channel Port Index, which was first introduced in May 1960, was calculated on the basis of the discounted f.o.b. products prices at the Caribbean plus the spot tanker freight from the Caribbean to North West Europe. Since Platts generally indicated the reason for each change in the Index, i.e. whether it was due to a change in the level of discounts or of freight rates, it was possible to calculate backwards, by deduction of the freight element, in order to arrive at the discounted price for the particular product at any one time.

The trend of posted prices and discounted prices at the Caribbean during the period from April 1, 1965 until Channel Port Index was discontinued in 1966 is shown in the Graphs 7 a) - d).

In replacement of Channel Port Index, Platt's began in January 1967 to report regularly the discounted f.o.b. prices at the Caribbean (Caribbean Cargo Prices). The trend of these cargo prices for the various products is shown in Tables 6(a) and 6 a) i) which also relate these prices to the posted prices of the products in order to illustrate the range of the discount (or premium) on such sales. In the case of naphtha it will be appreciated that there is no posted price for this product at the Caribbean. In the case of gas oil, Caribbean Cargo Prices were only reported by Platt's with effect from November 1967.

At the Persian Gulf corresponding cargo prices were reported by Platt's for naphtha and heavy fuel oil with effect from January 1967; for kerosene with effect from December 1967; for No. 2 Fuel Oil with effect from January 1968, and for gasoline with effect from October of that year. Table 6 b) shows these Cargo Prices at the Persian Gulf on the same basis as Table 6 a) and for the Caribbean.

Since discounts on petroleum products sales are not generally publicly announced it has not proved possible to find sufficient evidence from published data to illustrate the trend of discounted prices for petroleum products to armslength buyers at the Persian Gulf in the period from April 1, 1965 to the time of the introduction of the Platt's Persian Gulf Cargo Price quotations.

This absence of data to demonstrate a trend should not, however, be taken to invalidate the conclusion that, as indicated in my 1969 brief of evidence for the period to 1965, discounts continued to be available on such sales at the Persian Gulf during the period from 1965 until the Suez Crisis of 1967 when, following the closure of the Suez Canal in June, discounts were eliminated or a small premium was payable on all distillate products at both the Caribbean and the Persian Gulf. At the Caribbean a reduced discount was still available on heavy fuel oil during the second half of 1967, but at the Persian Gulf the range of selling prices for this product included a premium. In this case, however, the closure of the Suez Canal followed closely on a reduction of the posted price of heavy fuel oil at the Persian Gulf from \$1.60 per barrel to \$1.50 per barrel in May 1967. Discounts of up to \$0.10 per barrel were obtainable in December 1967 on heavy fuel oil at the Persian Gulf and, after a period in which discounts of up to \$0.40 per barrel had been obtainable, a further reduction of the posted price to \$1.40 per barrel took place in March 1969.

In the case of naphtha, at the Persian Gulf the elimination of the discount preceded the closure of the Suez Canal and in May 1968 the posted price was raised to 4.8¢ per U.S. gallon, at which level it remained until March 1969. It was then reduced to 4.5¢ again, following the reintroduction of discounts of up to 0.3¢ per U.S. gallon.

The selling price of naphtha at the Caribbean firmed, following the Suez Crisis in 1967, to 6.5¢ per U.S. gallon. By March 1968 it was in the range of 5.5¢ - 6.5¢ per U.S. gallon, dropping to 5¢ by June the following year. The subsequent increase to up to 7¢ per U.S. gallon in the autumn of 1969 would appear to have resulted from specific circumstances affecting naphtha prices at the Caribbean and was not in line with the general trend of products prices at that time.

The particular factors which led up to the OPEC Conference in Caracas in December 1970, followed by the Teheran Agreement of February 1971, can be discerned in the levels of discounts obtainable on arms-length sales of products at the Persian Gulf and the Caribbean reported in Platt's Cargo Prices during the fiscal year of 1970. Whereas, at the Caribbean, discounts on sales of petroleum products - principally to North American markets - began to narrow or be eliminated in the second half of 1970, so that by the end of the year a premium was payable on all main products, with the exception of motor gasoline, at the Persian Gulf the level of discounts on most lighter products showed an increase of 0.4¢ - 0.5¢ per U.S. gallon during the same period, thus the discount on naphtha increased from 0.1¢ - 0.5¢ per U.S. gallon. For No. 2 Fuel Oil at the Persian Gulf a premium of 0.05¢ per U.S. gallon was payable by November 1970 and for heavy fuel oil the range of the discount narrowed to 0.20¢ per barrel or was eliminated, but no premium was reported. At the Caribbean, on the other hand, heavy fuel oil of 2.2% maximum sulphur content carried a premium of \$1.00 per barrel at end-1970 and

no discount was reported for the higher sulphur (2.8% maximum) grade.

Thus it becomes clear that the impact of the particular circumstances of 1970 was not reflected in the levels of discount for sales of petroleum products from the Persian Gulf, except in the case of fuel oils, and that lighter products, including naphtha, were unaffected. It may therefore be said that for East of Suez markets supplied from the Persian Gulf the implications of the circumstances prevailing in 1970 were of a very different order to those affecting the Caribbean. The resultant increases of posted prices of petroleum products at the Persian Gulf in February 1971 to offset the increases in the tax-paid costs of crude oil at the Persian Gulf were necessarily applicable but the existence of discounts on most major products was not eliminated for markets supplied from the Persian Gulf.

Table 1(a) i)

Examples of Armslength Sales and Offers of 34° API Iranian Light (Acha Jari) Crude Oil - East of Suez:

of Sales	Seller	Buyer	Posted Price \$ per bbl.	Selling Price f.o.b. \$ per bbl.	Discount on f.o.b. price \$ per bbl.	Selling Price C & F \$ per bbl.	Discount on C & F price \$ per bbl.	Remarks
64-1965	Gulf	Nippon Kinings	1.78	1.53	0.25	-	-	-Gulf making loan of \$15 million as part of deal
65	CFP	Daikyo Oil	1.78	1.49	0.29	-	-	-CFP making loan of \$2 million as part of deal
66	CFP	Daikyo Oil	1.78	1.50	0.28	-	-	
67	Gulf	Hippon Mining	1.79	1.54	0.25	-	-	
68	CFP	Daikyo Oil	1.79	1.43	0.36	-	-	
69(1ate)	Atreco	Daikyo Oil	1.79	1.285	0.505	-	-	
69(1ate)	Conoco	Nikko	1.79	1.28	0.51	-	-	
69(1ate)	CFP	Daikyo	1.79	1.35	0.44	-	-	
70(early)	Esso	Asia	1.79	1.39	0.40	-	-	
70	CFP	Daikyo	1.79	1.359	0.431	-	-	-CFP supplied 2.2 million bbls. between April and December.
70(1ate)	Shell	Asia	1.79	1.404	0.386	-	-	
70(1ate)	Union	Nikko	1.79	1.391	0.399	-	-	
71(Pre-Jun.)	Esso	Asia	2.17	1.697	0.473	-	-	-Increase in prices in 1971 as a result of Teheran Agreement effective Feb. 15. The posted price of Iranian Light increased by 38¢ per barrel on this date. The increase in tax-paid costs was estimated to have been of the order of 27¢.
71(Pre-Jun.)	CFP	Asia	2.17	1.717	0.453	-	-	
71(Pre-Jun.)	CFP	Daikyo Oil	2.17	1.698	0.472	-	-	
71(Post Jun)	CFP	Asia	2.274	1.76	0.514	-	-	-Increase in posted prices effective Jun. 1 in accordance with Teheran Agreement. 10.4¢ per barrel increase in posted price of Iranian Light resulted in increase in tax-paid costs of the order of 6¢ per bbl.
71(Post Jun)	CFP	Daikyo Oil	2.274	1.76	0.514	-	-	
71(Post Jun)	Esso	Asia	2.274	1.766	0.508	-	-	
71(Post Jun)	Aminoil	Kyushu	2.274	1.794	0.48	-	-	

Examples of Armslength Sales and Offers of 34° API Iranian Light (Acha Jari) Crude Oil - East of Suez

Date of Information	Country	Buyer	Seller	Posted Price		Discount		Selling Price		Discount on C & F price		Remarks
				\$ per bbl. f.o.b.	\$ per bbl.	on f.o.b. basis	\$ per bbl.	C & F	\$ per bbl.	C & F	\$ per bbl.	
20.11.67	India	Government	CFP	1.79	1.39	0.40	-	-	-	-	-	-Sale of minimum 25,000 b/d for Haldia Refinery.
20.11.67	India	Government	CFP	1.79	1.39	0.40	-	-	-	-	-	-Sale of minimum 11,000 b/d for Baurani Refinery.
20.5.68	Pakistan	Dawood Petroleum	Mobil	1.79	-	-	1.72	0.35 ¹⁾	-	-	-	-Sale of up to 15,000 b/d for 3 years 47% of total may be substituted Murban crude oil at the same price
26.10.68	Pakistan	Pakistan Refinery Ltd.,	Aziz Sons	1.79	-	-	1.485	0.485 ²⁾	-	-	-	-Offered in crude oil tender for 50,000 b/d. for 3 years. Aziz is a Pakistan company, no indications being available of actual crude oil supplier. Offer rejected
"	Pakistan	Pakistan Refinery Ltd.,	Aslo Pakistan	1.79	1.29	0.50	-	-	-	-	-	-Offered in same tender, no indications of who company is, or who supplier. Offer also rejected.
"	"	"	"	1.79	-	-	1.49	0.48 ²⁾	-	-	-	-Same tender, Pakistan company believed to be supplied by Mobil (see earlier deal). Offer not accepted.
"	Pakistan	Pakistan Refinery Ltd.,	Dawood Petroleum	1.79	-	-	1.51	0.46 ²⁾	-	-	-	-

1) Freight at Intascale -45% considered to be representative of average actual market conditions at time.
 2) Freight at Intascale -20% on basis of 3-year time charter starting 1969 given quantities involved and limitations on tanker size at Karachi. Results in freight estimated at about 18¢ per barrel.

Table 1 a) ii)

Examples of Armslength Sales and Offers of 31° API Iranian Heavy (Gach Saran) Crude Oil - East of Suez.

Year of Sales	Seller	Buyer	Posted Price		Selling Price		Discount on		Remarks
			\$ per bbl.	1.63	1.48-1.43	f.o.b. price	C & F price	f.o.b. price	
Japan 1964-1965	Esso	Asia Oil	1.63	1.63	1.48-1.43	0.15-0.20			-Deal involves Esso making loan of \$5 million to Japanese company.
1964	Gulf	Toa Oil	1.63	1.63	1.43	0.20			-Involves loan of \$10 million and also the selling of some Kuwait crude oil.
1965	B.P.	Kyushu	1.63	1.63	1.44	0.19			-Involves loan of \$20 million.
1965	Mobil	Asia Sekiyu	1.63	1.63	1.47	0.16			-Involves loan of \$11 million
1966	B.P.	Kyushu	1.63	1.63	1.42	0.21			
1966	Esso	N.A.	1.63	1.63	1.43	0.20			
1967	Gulf	N.A.	1.63	1.63	1.43	0.20			
1968	B.P.	Kyushu	1.63	1.63	1.33	0.30			
1969	Esso	Asia	1.63	1.63	1.359	0.271			-Supplied 1.8 million bbls. in second half 1969 at this price.
1969	Mobil	Daikyo	1.63	1.63	1.31	0.32			
1969	Shell	Daikyo	1.63	1.63	1.359	0.271			
1969	B.P.	Kyushu	1.63	1.63	1.31	0.32			
1969(late)	Esso	Asia	1.63	1.63	1.368	0.262			-Supplied 1.6 million bbls. in last quarter 1969 at this price.
1970(early)	Esso	Asia	1.63	1.63	1.359	0.271			-Supplied 2.7 million bbls. in first half 1970 at this price.
1970(early)	Shell	Daikyo	1.63	1.63	1.38	0.25			-Supplied 0.7 million bbls. in first quarter 1970 at this price.
1970(early)	Union	Kansai	1.63	1.63	1.273	0.357			-Supplied 1.2 million bbls. in first quarter 1970 at this price.
1970(early)	Mobil	Kyushu	1.63	1.63	1.322	0.308			
1970(mid)	Shell	Daikyo	1.63	1.63	1.359	0.271			-Supplied 1.4 million bbls. in second quarter 1970 at this price
1970(mid)	Gulf	Fuji	1.63	1.63	1.31	0.32			-Supplied 5.4 million bbls. in second and third quarters 1970 at this price.
1970(mid)	Mobil	Asia	1.63	1.63	1.361	0.269			
1970(late)	Mobil	Asia	1.63	1.63	1.379	0.251			-Supplied 1.9 million bbls. in last quarter 1970.
1970(late)	Shell	Daikyo	1.63	1.63	1.308	0.322			-Supplied 1.6 million bbls. in last quarter 1970

Examples of Armslength Sales and Offers of 31° API Iranian Heavy (Csch Saran) Crude Oil - East of Suez

Table 1 a) ii) /Contd..

of Sales	Seller	Buyer	Posted Price		Selling Price		Discount on		Selling Price		Discount on		Remarks
			\$ per bbl.	f.o.b.	\$ per bbl.	f.o.b.	\$ per bbl.	f.o.b.	\$ per bbl.	C & F	C & F price	\$ per bbl.	
ate)	Gulf	Fuji	1.63	1.362		0.268							-Supplied 2.7 million bbls. in last quarter 197 -Increase in Posted price on Nov. 14, 1970 and Feb. 15 1971 of a total of 49.5¢ per bbl. resulted in increase in tax-paid costs of estimated 40.6¢ per bbl. -Increase in Posted price on Jun. 1 of 10.3¢ per bbl. resulted in increase in tax-paid costs of about 6.2¢ per bbl.
re-Jun.)	Mobil	Daikyo	2.125	1.698		0.427							
re-Jun.)	Gulf	Fuji	2.125	1.718		0.407							
re-Jun.)	B.P.	Idemitsu	2.125	1.611		0.514							
re-Jun.)	Mobil	Kyushu	2.125	1.607		0.518							
est-Jun.)	Esso	Asia	2.228	1.74		0.488							
est-Jun.)	Mobil	Daikyo	2.228	1.72		0.508							
est-Jun.)	B.P.	Idemitsu	2.228	1.654		0.574							
est-Jun.)	Shell	Nikko	2.228	1.67		0.558							
est-Jun.)	Aminoil	Kyushu	2.228	1.794		0.434							

per East of Suez Areas

N.A.

Not available

10042

Table 1 a) ii) /Contd.

Table 1. a) iii)

Examples of Arm-length Sales and Offers of 31.0° API Kuwait Crude Oil - East of Suez

Year of Sales	Seller	Buyer	Posted Price \$ per bbl.	Selling Price f.o.b. \$ per bbl.	Discount on f.o.b. Price \$ per bbl.	Selling Price C & F \$ per bbl.	Discount on C & F Price \$ per bbl.	Remarks
1965	Gulf	Nippon Mining	1.59	1.44	0.15	-	-	-Involved loan of \$15 million also tied in with the sale of Agha Jari crude oil.
1965	Esso	Idemitsu	1.59	1.45-1.43	0.14-0.16	-	-	-Involved loan of \$6 million and a further \$20 million between 1961 and 1963.
	Gulf	Idemitsu	1.59	1.45	0.14	-	-	-Involved loan of \$30 million, part of which was believed to have been made by the Bank of America on behalf of Gulf.
1965	Gulf	Tea Oil	1.59	1.44	0.15	-	-	-Involved loan of \$10 million, also tied in with sale of Gach Saran crude oil.
	CFP	N.A.	1.59	1.43	0.16	-	-	
	Mobil	Asia Oil	1.59	1.39	0.20	-	-	
	Gulf	Idemitsu	1.59	1.39	0.20	-	-	
	Gulf	Tea Oil	1.59	1.39	0.20	-	-	
	Mobil	Asia Oil	1.59	1.373	0.217	-	-	
	Gulf	Idemitsu	1.59	1.347	0.243	-	-	
ate)	Mobil	Asia Oil	1.68	1.405	0.275	-	-	-Increase in Posted Price on Nov. 14, 1970 of 9%, together with the increase in tax-rate resulted in an estimated increase in tax-paid costs of 11.5% per bbl.
ate)	Gulf	Nikko	1.68	1.414	0.266	-	-	
re-Jun.)	Mobil	Asia Oil	2.085	1.783	0.302	-	-	-Increase in Posted Price on Feb. 15, of 40.5% resulted in an estimated increase in tax paid costs of 33% per bbl.
re-Jun.)	Gulf	Idemitsu	2.085	1.769	0.316	-	-	
re-Jun.)	Gulf	Nikko	2.085	1.838	0.247	-	-	
st-Jun.)	Mobil	Asia	2.167	1.844	0.343	-	-	-Increase in Posted Price on Jun.1 of 10.2% per bbl. resulted in estimated increase in tax-paid costs of 6.2% per bbl.
st-Jun.)	Gulf	Idemitsu	2.167	1.834	0.353	-	-	
st-Jun.)	Gulf	Nikko	2.167	1.837	0.350	-	-	

East of Suez Area

N.A.

Not available.

Examples of Armslength Sales and Offers of 34.0° API Iranian Light (Alpha Jari) Crude Oil - West of Suez.

Date of Information	Country	Buyer	Seller	Posted Price \$ per bbl.	Selling Price f.o.b. \$ per bbl.	Discount on f.o.b. basis \$ per bbl.	Selling Price C & F \$ per bbl.	Discount on C & F basis \$ per bbl.	Remarks
South America									
21.1.65	Uruguay	ANCAP	Shell	1.78	1.55	0.23	-	-	- Offer to supply 18.3 million b over 3 years.
26.4.65	Argentina	YPF	Shell	1.78	-	-	2.33	0.30 ¹⁾	- Offer 3 million bbls. for delivery June - December 1965.
"	"	"	Shell	1.78	-	-	2.00	0.39 ²⁾	- Alternative offer using larger size tankers.
"	"	"	Mobil	1.78	-	-	2.08	0.43 ³⁾	- Same tender, same quantities and delivery date. " "
"	"	"	Esso	1.78	-	-	2.19	0.32 ³⁾	- " "
22.7.65	Argentina	YPF	Mobil	1.78	-	-	2.09	0.36 ²⁾	- Offered in tender for max. 6.5 million bbls. for delivery Sept.-Dec. 1965
"	"	"	Esso	1.78	-	-	2.10	0.47 ³⁾	
"	"	"	Texaco	1.78	-	-	2.04	0.53 ⁴⁾	
"	"	"	Shell	1.78	-	-	2.00	0.48 ⁴⁾	
"	"	"	Shell	1.78	-	-	2.07	0.50 ²⁾	
28.10.65	Argentina	YPF	Esso	1.78	-	-	2.16	0.41 ³⁾	- Offered in tender for 8.5 million bbls. for delivery Jan-Apr. 1966
"	"	"	Atlas	1.78	-	-	2.07	0.41 ⁴⁾	
"	"	"	Mobil	1.78	-	-	2.09	0.36 ²⁾	- Esso's offer was for 5 million bbls. Mobil's and Shell's for 3.5 million bbls.
"	"	"	Shell	1.78	-	-	2.00	0.48 ⁴⁾	
14.3.66	Argentina	YPF.	Mobil	1.79	-	-	1.95	0.40 ⁴⁾	- Offered in tender for 4.5 million bbls. for delivery June-July 1966
"	"	"	Shell	1.79	-	-	2.06	0.32 ³⁾	
"	"	"	Atlas	1.79	-	-	1.91	0.47 ³⁾	- Shell's and Mobil's offers were for 2 million bbls.
8.12.66	Argentina	YPF	Atlas	1.79	1.40	0.39	-	-	- Offered in tender for 2.5 million bbls. for delivery Jan-Mar. 1967
"	"	"	Shell	1.79	1.48	0.31	-	-	
17.2.67	Argentina	YPF	Atlas	1.79	1.40	0.39	2.05	0.38 ³⁾	- Offers in tender for max. 4.25 million bbls. for delivery between Apr. 1967 and Jan. 1968
"	"	"	Esso	1.79	-	-	2.03	0.35 ³⁾	- Atlas's offer was for 1.5 million bbls., Esso's for 4.25 million b

Exemption of Anticorrupt Sales and Offers of 34.0° API Iranian Light (Archa Jari) Crude Oil - West of Suez

Date of Information	Country	Buyer	Seller	Posted Price \$ per bbl.	Selling Price f.o.b. \$ per bbl.	Discount on f.o.b.basis \$ per bbl.	Selling Price C & F \$ per bbl.	Discount on C & F basis \$ per bbl.	Remarks
1967	Argentina	YPF	Esso	1.79	-	-	1.91	0.475	-Offered in tender for 4.7 milli bbls. for delivery second half 1967
"	"	"	Atlas	1.79	1.40	0.39	1.91	0.475	
"	"	"	Shell	1.79	1.48	0.31	1.99	0.445	
19.11.69	Argentina	YPF	Atraco	1.79	-	-	2.47	0.476	-Offered in tender for 1.3 milli bbls.
18.6.71	Argentina	YPF	Gulf	2.252	1.77	0.486	2.57	0.467	-Offered in tender for 2.5 milli bbls. for delivery 3rd quarter 1971.

Other West of Suez Areas

N.A.

N.A. = Not available

- 1) Freight estimated at Intascale -30 for delivery in less than 21,000 dwt. tankers.
- 2) Freight estimated at Intascale -50 for delivery in tankers over 30,000 dwt.
- 3) Freight estimated at Intascale -40 for delivery in tankers up to 30,000 dwt.
- 4) Freight estimated at Intascale -42 for delivery in tankers over 30,000 dwt. but with draught restrictions.
- 5) Freight estimated at Intascale -50 for delivery in tankers up to 30,000 dwt.
- 6) Freight estimated at Worldscale 120 for delivery in tankers of 30,000 dwt.
- 7) Freight estimated at Worldscale 60 for delivery in tankers of 30,000 dwt.

Table 1 b) ii)

Examples of Armslength Sales and Offers of 31° API Iranian Heavy (Gach Saren) Crude Oil - West of Suez

<u>Source of Information</u>	<u>Country</u>	<u>Buyer</u>	<u>Seller</u>	<u>Posted Price</u>	<u>Selling Price Discount on</u>		<u>Selling Price Discount on</u>		<u>Remarks</u>
					<u>f.o.b.</u>	<u>f.o.b.basis</u>	<u>C & F</u>	<u>C & F basis</u>	
				<u>\$ per bbl.</u>	<u>\$ per bbl.</u>	<u>\$ per bbl.</u>	<u>\$ per bbl.</u>		
<u>South America</u>									
Latex Pricegram 22.7.65	Argentina	YPF	Atlantic	1.63	-	-	1.98	0.32 ¹⁾	-Offer to supply 0.5 million bbls over 3 months.
" "	"	"	Atlantic	1.63	-	-	2.10	0.32 ²⁾	
Latex Pricegram 24.3.69	Argentina	YPF	Atlas	1.63	1.33	0.30	2.25	0.223 ³⁾	-Offered in tender for 1.26 million bbls. for delivery Apr.-June.
Latex Pricegram 19.11.69	Argentina	YPF	Atreco	1.63	-	-	2.40	0.40 ⁴⁾	-Offered in tender for 1.3 million bbls. for delivery early 1970.
Latex Pricegram 25.3.70	Argentina	YPF	Gulf	1.63	1.24	0.39	2.37	0.582 ⁵⁾	-0.5 million barrels offered in tender for delivery Apr.-June.

i) Other West of Suez Areas

N.A.

N.A. = Not available.

Freight estimated at Intascale -45 for delivery in tankers over 30,000 dwt.
 Freight estimated at Intascale -35 for delivery in tankers up to 30,000 dwt.
 Freight estimated at Worldscale 60 for delivery in tankers up to 35,000 dwt.
 Freight estimated at Worldscale 120 for delivery in tankers of 30,000 dwt.
 Freight estimated at Worldscale 135 for delivery in 15,000 dwt. tankers.

Table 1 b) iii)

Examples of Armslength Sales and Offers of 31.0° API Kuwait Crude Oil - West of Suez									
Date of Information	Country	Buyer	Seller	Posted Price \$ per bbl.	Discount on Selling Price		Discount on C & F \$ per bbl.	Remarks	
					f.o.b. \$/per bbl.	f.o.b.basis \$ per bbl.			
South America									
Pricegram 21.1.65	Uruguay	AHCAP	B.P.	1.59	1.29	0.30	-	-	Offered to supply 18.3 million bbl. over 3 years
"	"	"	Gulf	1.59	1.44	0.15	-	-	
"	"	"	Southern Marine Corp.	1.59	1.43	0.16	-	-	
Pricegram 8.12.66	Argentina	YPF	Atlas	1.59	1.35	0.24	2.26	0.17 ¹⁾	Offered in tender for 2.5 million bbls. for delivery Jan-Mar. 1967
Pricegram 23.12.68	Uruguay	AHCAP	Esso	1.59	1.30	0.29	2.35	0.12 ²⁾	
"	"	"	Esso	1.59	1.30	0.29	2.11	0.20 ³⁾	
"	"	"	Esso	1.59	1.30	0.29	1.97	0.29 ⁴⁾	Offered in tender for maximum 6.2 million bbls. p.a. for delivery 1969-1973/74
"	"	"	Gulf	1.59	1.28	0.31	2.035	0.365 ⁵⁾	
"	"	"	Gulf	1.59	1.28	0.31	1.98	0.333 ⁶⁾	
"	"	"	Gulf	1.59	1.28	0.31	1.975	0.3156 ⁷⁾	
"	"	"	B.P.	1.59	1.24	0.35	2.05	0.422 ⁸⁾	
"	"	"	B.P.	1.59	1.24	0.35	1.64	0.447 ⁹⁾	
Pricegram 24.3.69	Argentina	YPF	Mobil	1.59	1.39	0.20	2.32	0.067 ¹⁰⁾	Offered in tender for 2.6 million bbls. for delivery Apr-Jun 1969
"	"	"	Atlas	1.59	1.31	0.28	2.23	0.134 ¹¹⁾	
Pricegram 20.8.69	"	"	Shell	1.59	1.28	0.31	1.98	0.7829 ¹²⁾	Offered in tender for 0.9-1.4 million bbls. for delivery Oct-Dec 1969
"	"	"	Atlas	1.59	-	-	2.10	0.6629 ¹³⁾	
Pricegram 25.3.70	Argentina	YPF	Atlas	1.59	1.25	0.34	2.53	0.316 ¹⁰⁾	Offered in tender for 0.9 million bbls. for delivery Apr-Jun 1970
"	"	"	Esso	1.59	1.25	0.34	2.54	0.31 ¹²⁾	
"	"	"	Shell	1.59	1.30	0.29	2.58	0.29 ¹¹⁾	
"	"	"	Shell	1.59	1.30	0.29	2.625	0.221 ¹¹⁾	This offer for delivery in Apr and May only.
Pricegram 18.6.71	Argentina	YPF	Esso	2.187	1.71	0.477	-	-	Offered in tender for 2.5 million bbls. for delivery Jul-Sept 1971.
"	"	"	B.P.	2.187	-	-	2.715	0.302 ¹³⁾	
"	"	"	Shell	2.187	1.73	0.457	-	-	
Pricegram 30.9.71	Argentina	YPF	B.P.	2.187	-	-	2.695	0.292 ¹⁴⁾	Offered in tender for 1.25 million bbls. for delivery in Oct-Dec. 1971
"	"	"	Shell	2.187	1.72	0.467	2.55	0.419 ¹⁴⁾	
"	"	"	Esso	2.187	1.71	0.477	2.74	0.425 ¹⁵⁾	
Pricegram 1.11.71	Argentina	YPF	Shell	2.187	1.72	0.467	2.37	0.635 ¹⁶⁾	Offered in tender for 6.9 million bbls. for delivery Jan-Mar 1972.
"	"	"	Esso	2.187	1.65	0.537	3.09	0.075 ¹⁷⁾	
"	"	"	B.P.	2.187	1.72	0.467	2.47	0.535 ¹⁶⁾	

Table 1 b) iii) Contd.

Footnotes

N.A. = Not available

- 1) Freight estimated at Intascale -30 for delivery in tankers up to 30,000 dwt.
- 2) Freight estimated at Intascale -15 for delivery in tankers of 18,000 - 24,999 dwt.
- 3) Freight estimated at Intascale -30 for delivery in tankers of 25,000 - 34,999 dwt.
- 4) Freight estimated at Intascale -35 for delivery in tankers of 35,000 - 55,000 dwt.
- 5) Freight estimated at Intascale -22 for delivery in tankers up to 27,000 dwt.
- 6) Freight estimated at Intascale -32½ for delivery in tankers up to 42,000 dwt.
- 7) Freight estimated at Intascale -52½ for delivery to proposed mooring buoy in tankers of 100,000 dwt.
- 8) Freight estimated at Worldscale 80 for delivery in tankers up to 30,000 dwt.
- 9) Freight estimated at Intascale +13½ for delivery in tankers up to 35,000 dwt.
- 10) Freight estimated at Worldscale 135 for delivery in tankers of 18,000 - 21,000 dwt.
- 11) Freight estimated at Worldscale 130 for delivery in tankers of 18,000 - 21,000 dwt.
- 12) Freight estimated at Worldscale 130 for delivery in tankers of 18,000 - 21,000 dwt.
- 13) Freight estimated at Worldscale 85 for delivery in tankers of 15,000 - 18,000 dwt.
- 14) Freight estimated at Worldscale 80 for delivery in tankers of 25,000 - 35,000 dwt.
- 15) Freight estimated at Worldscale 100 for delivery in tankers of 18,000 - 25,000 dwt.
- 16) Freight estimated at Worldscale 75 for delivery in 25,000 - 35,000 dwt. tankers.
- 17) Freight estimated at Worldscale 100 for delivery in tankers of 18,000 - 21,000 dwt.

Table 2

IRAN - CONSORTIUM

34.0° API Iranian Light Crude Oil (Acha Jari)

F.O.B. Bandar Mah Shahr 1960-1966 and F.O.B. Kharg Island thereafter

\$ per barrel

	1960		1964	1965	1966	1968	1969	1970		1971	
	Pre Aug.	Post Aug.						Pre Nov.14	Nov.14	Pre Feb.15	Feb.15 / May 31
1. Posted Price	1.86	1.78	1.78	1.78	1.78	1.79	1.79	1.79	1.79	1.79	2.17
2. Marketing Allowance	0.04	0.04	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005	-
3. OPEC Percentage Allowance	-	-	0.151	0.134	0.116	0.098	0.091	0.063	0.063	0.063	-
4. OPEC Gravity Adjustment	-	-	-	0.009	0.019	0.023	0.027	0.031	0.031	0.031	-
5. Tax Reference Price	1.82	1.74	1.624	1.632	1.64	1.664	1.677	1.691	1.691	1.714	2.17
6. Estimated Operating Costs*	0.25	0.25	0.21	0.17	0.14	0.11	0.11	0.11	0.11	0.11	0.11
7. Royalty	0.23	0.22	0.222	0.222	0.222	0.224	0.224	0.224	0.224	0.224	0.271
8. Income for Tax	1.57	1.49	1.192	1.24	1.278	1.33	1.343	1.357	1.357	1.38	1.789
9. Tax	0.785	0.745	0.595	0.62	0.639	0.665	0.672	0.679	0.679	0.745	0.984
10. Total Payments to Government	0.785	0.745	0.815	0.842	0.861	0.889	0.895	0.903	0.97	0.983	1.255
11. Tax-Paid Cost*	1.035	0.995	1.028	1.012	1.001	0.999	1.006	1.013	1.08	1.093	1.365

* Excludes 10¢ per barrel payment made by other Consortium members to B.P. as result of establishment of Iranian Consortium. This payment comes to an end in 1971.

Table 3

IRAN - CONSORTIUM
31.0° API Iranian Heavy Crude Oil (Gach Saran)
F.O.B. Kharg Island

\$ per barrel

	<u>1960</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>		<u>1971</u>	
							<u>Post Aug.</u>	<u>Pre Nov. 14</u>	<u>Nov. 14</u>	<u>Pre Feb. 15</u>
1. Posted Price	1.63**	1.63	1.63	1.63	1.63	1.63	1.63	1.72	1.72	2.125
2. Marketing Allowance	0.03	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005	-
3. OPEC Percentage Allowance	-	0.139	0.122	0.106	0.09	0.073	0.057	0.06	0.034	-
4. OPEC Gravity Adjustment	-	-	0.005	0.011	0.013	0.015	0.018	0.018	0.02	-
5. Tax Reference Price	1.60	1.486	1.498	1.508	1.522	1.537	1.55	1.637	1.661	2.125
6. Estimated Operating Costs*	0.25	0.21	0.17	0.14	0.11	0.11	0.11	0.11	0.11	0.11
7. Royalty	0.20	0.204	0.204	0.204	0.204	0.204	0.204	0.215	0.215	0.266
8. Income for Tax	1.35	1.072	1.124	1.164	1.208	1.223	1.236	1.312	1.336	1.749
9. Tax	0.675	0.536	0.562	0.582	0.604	0.612	0.618	0.722	0.735	0.962
10. Total Payments to Government	0.675	0.74	0.766	0.786	0.808	0.816	0.822	0.937	0.95	1.228
11. Tax-Paid Costs*	0.925	0.95	0.936	0.926	0.918	0.926	0.932	1.047	1.06	1.338

* Excludes 10¢ per barrel payment made by other Consortium members to B.P. as result of establishment of Iranian Consortium. This payment comes to an end in 1971.

** Initial posting August 1960.

Table 4

KUWAIT - KUWAIT OIL COMPANY (KOC)
31.0° API Kuwait Crude Oil
F.O.B. Mena-al-Ahradi

	1960		1964	1965	1966	1968	1969	1970		1971	
	Pre Aug.	Post Aug.						Pre Nov.14	Nov.14	Pre Feb.15	Feb.15/ May 31
1. Posted Price	1.67	1.59	1.59	1.59	1.59	1.59	1.59	1.59	1.68	1.68	2.085
2. Marketing Allowance	0.03	0.03	0.005	0.005	0.005	0.005	0.005	0.005	0.005	0.005	-
3. OPEC Percentage Allowance	-	-	0.135	0.119	0.103	0.087	0.072	0.056	0.059	0.034	-
4. OPEC Gravity Adjustment	-	-	-	0.005	0.011	0.013	0.015	0.018	0.018	0.02	-
5. Tax Reference Price	1.64	1.56	1.45	1.461	1.471	1.485	1.498	1.511	1.598	1.621	2.085
6. Estimated Operating Costs	0.10	0.10	0.08	0.08	0.06	0.06	0.06	0.06	0.06	0.06	0.06
7. Royalty	0.21	0.20	0.199	0.199	0.199	0.199	0.199	0.199	0.21	0.21	0.261
8. Income for Tax	1.54	1.46	1.171	1.182	1.212	1.226	1.239	1.252	1.328	1.351	1.764
9. Tax	0.77	0.73	0.585	0.591	0.606	0.613	0.62	0.626	0.73	0.743	0.97
10. Total Payments to Government	0.77	0.73	0.784	0.79	0.805	0.812	0.819	0.825	0.94	0.953	1.231
11. Tax-Paid Costs	0.87	0.83	0.864	0.87	0.865	0.872	0.879	0.885	1.00	1.013	1.291

\$ per barreil

Table 5

Development of East of Suez Demand and Refining Capacity

<u>Area</u>	<u>Million tons</u>									
	<u>1960</u>		<u>1962</u>		<u>1964</u>		<u>1967</u>		<u>1970</u>	
	<u>Demand</u>	<u>Refining Capacity</u>	<u>Demand</u>	<u>Refining Capacity</u>	<u>Demand</u>	<u>Refining Capacity</u>	<u>Demand</u>	<u>Refining Capacity</u>	<u>Demand</u>	<u>Refining Capacity</u>
Australasia	13	12.1	14	15.7	18	20.9	23	29.9	29	35.3
Refining Capacity % of Demand		93		112		116		130		122
Japan	31	34.2	48	54.9	74	92.8	118	116.9	200	183.4
Refining Capacity % of Demand		110		114		125		99		92
Other Asia (Excluding Middle East)	29	25.2	34	35.9	39	44.8	62	67.3	87	97.2
Refining Capacity % of Demand		87		106		115		109		112
East and South Africa	12	5.9	16	7.8	20	16.5	24	16.7	26	20.8
Refining Capacity % of Demand		49		49		83		70		80
Middle East	26	67.0	29	74.2	32	77.8	39	85.4	51	104.6
Refining Capacity % of Demand		258		256		243		219		205
Total East of Suez	111	144.4	141	188.5	183	252.8	266	316.2	393	441.3
Refining Capacity % of Demand		130		134		138		119		112

Caribbean Cargo Prices 1967 - End March 1971

10053

U.S. ¢ per U.S. gallon

Date (See Note)	<u>Gasoline 100 RON</u>			<u>Gasoline 95 RON</u>		
	<u>Selling Price</u>	<u>Posted Price(Low)</u>	<u>Discount</u>	<u>Selling Price</u>	<u>Posted Price(Low)</u>	<u>Discount</u>
		11.2			9.7	
17. 1.67	7.5		3.7	6.0		3.7
30. 1.67	7.8		3.4	6.2		3.5
1. 3.67	9.2		2.0	7.7		2.0
15. 3.67	9.0		2.2			
17. 5.67	9.5		1.7	8.2		1.5
18. 7.67	11.2		Nil	9.7		Nil
3. 11.67	10.2		1.0			
15. 12.67	9.7		1.5	8.7		1.0
19. 2.68	9.45		1.75	8.45		1.25
7. 10.68	9.0		2.2	8.0		1.7
20. 10.69	8.5		2.7	7.0		2.7
9. 1.70	8.5-8.75		2.45-2.7	7.0-7.25		2.45-2.7
4. 2.70	8.25-8.5		2.7-2.95	6.75-7.0		2.7-2.95
10. 7.70	7.25		3.95	6.25		3.45
6. 11.70	8.0		3.2	Lapsed		
30. 11.70					10.2	
11. 12.70	9.5		1.7			

Naphtha

<u>Date</u>	<u>Selling Price</u>	<u>Date</u>	<u>Selling Price</u>
17. 1.67	5.6-6.0	4. 2.70	4.75-5.5
18. 7.67	6.5	9. 3.70	4.75-6.2
3. 11.67	5.5-6.5	10. 7.70	5.00-6.2
15. 12.67	6.5		
11. 3.68	5.5-6.5		
22. 5.69	5.5-6.0		
30. 6.69	5.0		
19. 8.69	6.0-7.0		
20. 10.69	5.5-7.0		
11. 12.69	5.0-6.5		

<u>Date</u>	<u>Selling Price</u>	<u>Stove Oil</u>		<u>Date</u>	<u>Gas Oil (48-52 D.I.)</u>		
		<u>Posted Price(Low)</u>	<u>Discount/(Premium)</u>		<u>Selling Price</u>	<u>Posted Price(Low)</u>	<u>Discount (Premium)</u>
		7.3				7.2	
17. 1.67	7.2		0.1	3. 11.67	7.2		Nil
17. 4.67	7.0		0.3	11. 1.68	7.5		(0.3)
14. 7.67		7.5		15. 1.68		7.5	
18. 7.67	7.5		Nil	30. 1.68	8.0-8.4		(0.5-0.9)
8. 8.67		7.8		11. 3.68	8.0		(0.5)
11. 9.67	7.8		Nil	29. 4.68	7.2		0.3
9. 1.68		8.0		7. 6.68	6.8		0.7
11. 1.68	8.0		Nil	7. 10.68	6.6		0.9
30. 1.68	8.3		(0.3)	28. 10.68	6.85		0.65
29. 4.68	7.5		0.5	17. 12.68	7.0-7.1		0.4-0.5
7. 6.68	7.1		0.9	2. 1.69	6.9-7.0		0.5-0.6
28. 10.68	7.25		0.75	30. 1.69	7.2		0.3
17. 12.68	7.5		0.5	25. 3.69	6.7		0.8
2. 1.69	7.4		0.6	16. 5.69		6.7	
30. 1.69	7.5		0.5	22. 5.69	5.825		0.875
26. 3.69	7.25		0.75	30. 6.69	5.875		0.825
22. 5.69	6.5		1.5	19. 8.69	6.0		0.7
30. 6.69	7.0-7.25		0.75-1.0	20. 10.69	6.2		0.5
19. 8.69	7.5		0.5	11. 12.69	6.5		0.2
20. 10.69	7.75		0.25	4. 2.70	6.5		0.1

<u>Date</u>	<u>Selling Price</u>	<u>Posted Price(Low)</u>	<u>Discount/ (Premium)</u>	<u>Date</u>	<u>Selling Price</u>	<u>Posted Price(Low)</u>	<u>Discount (Premium)</u>
11.12.69	7.875		0.125	9. 3.70	6.5		0.2
9. 1.70	8.0		Nil				
1. 5.70	7.75		0.25	1. 5.70	6.4		0.3
10. 7.70	8.0		Nil	10. 7.70	7.375		(0.675)
17. 8.70		9.0		7. 8.70	lapsed	7.7	
25.11.70		9.3		21. 8.70		8.7	
11.12.70	9.8		(0.5)	30.11.70		9.2	
4. 1.71		9.8		4. 1.71		9.7	

Note: For posted prices, the effective date;
for market prices the date of Platt's
Pricegram reporting them.

Caribbean Cargo Prices 1967 - End March 1971

100!

U.S. ¢ per U.S. GallonNo.2 Fuel Oil (0°F Pour Pt.)

<u>Date</u>	<u>Selling Price</u>	<u>Posted Price (Low)</u>	<u>Discount/ (Premium)</u>
		6.3	
17. 1.67	6.2		0.1
30. 1.67	6.0		0.3
16. 2.67	5.8		0.5
1. 3.67	5.5-5.65		0.65-0.8
15. 3.67	5.5		0.8
17. 5.67	5.25-5.5		0.8-1.05
2. 6.67	5.0-5.5		0.8-1.3
18. 7.67	6.3-6.6		(0.3)-nil
28. 7.67		6.6	
15. 8.67		7.0	
16. 8.67	6.6-7.0		nil-0.4
11. 9.67	7.0		nil
11. 1.68	7.3		(0.3)
15. 1.68		7.3	
30. 1.68	7.8-8.2		(0.9-0.5)
11. 3.68	7.8		(0.5)
29. 4.68	7.0		0.3
7. 6.68	6.6		0.7
7.10.68	6.5		0.8
23.10.68	6.75		0.55
17.12.68	6.9		0.4
2. 1.69	6.8		0.5
30. 1.69	7.0		0.3
26. 3.69	6.5-6.625		0.675-0.8
16. 5.69		6.5	
22. 5.69	5.75		0.75
30. 6.69	5.7		0.8
19. 8.69	5.75		0.75
20.10.69	6.2		0.3
11.12.69	6.5		nil
4. 2.70	6.4		0.1
9. 3.70	6.2-6.3		0.2-0.3
1. 5.70	6.0		0.5
10. 7.70	7.25		(0.75)
7. 8.70		7.5	
21. 8.70		8.5	
6.11.70	9.0		(0.5)
30.11.70		9.0	
11.12.70	9.3		(0.3)
4. 1.71		9.5	

Heavy Fuel Oil

U.S. \$ per barrel

<u>Date</u>	<u>Posted Price</u>	<u>2.8% Sulphur max.</u>		<u>2.2% Sulphur max.</u>	
		<u>Selling Price</u>	<u>Discount/ (Premium)</u>	<u>Selling Price</u>	<u>Discount/ (Premium)</u>
17. 1.67	2.00	1.60	0.40		
30. 1.67		1.55-1.60	0.40-0.45		
16. 2.67		1.55	0.45		
15. 3.67		1.55	0.45	1.60	0.40
17. 5.67		1.50	0.50	1.55	0.45
18. 7.67		1.60	0.40	1.65	0.35
3.11.67		1.55	0.45	1.60	0.40
11. 1.68		1.50	0.50	1.55	0.45
29. 4.68		1.47-1.50	0.50-0.53	1.50-1.55	0.45-0.50
7. 6.68		1.47	0.53	1.50	0.50
7.10.68		1.35	0.65	1.40	0.60
28.10.68		1.40	0.60	1.45	0.55
17.12.68		1.35-	0.65	1.40	0.60
7. 3.69		1.35-1.40	0.60-0.65	1.40-1.45	0.55-0.60
20.10.69		1.37	0.63	lapsed	
9. 1.70		1.37-1.38	0.62-0.63		
4. 2.70		1.41	0.59		
9. 3.70		1.46	0.54		
1. 5.70		1.75-1.85	0.15-0.25		
6.11.70		lapsed		3.05	(1.05)
11.12.70				3.00	(1.00)

Note: For posted prices, the effective date;
for market prices, the date of Platt's
Pricegram reporting them.

Table 6 b)

Persian Gulf Cargo Prices 1967/8 - End March 1971

1005

U.S. ¢ per U.S. gallon

<u>Date</u> (See Note)	<u>Gasoline 95 Ron</u>		<u>Discount</u>	<u>Gasoline 83 Ron</u>		<u>Discount</u>
	<u>Selling Price</u>	<u>Posted Price (Low) (a)</u>		<u>Selling Price</u>	<u>Posted Price (Low)</u>	
7.10.68	9.0	9.9	0.9	6.0	7.3	1.3
28.10.68	9.5		0.4			
27. 3.69		9.6			7.1	
22. 5.69	9.5		0.1	6.0		1.1
10. 7.70	8.5		1.1			
6.11.70	8.0		1.6	6.5		0.6
15. 2.71		10.3				

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<u>Date</u>	<u>Selling Price</u>	<u>Posted Price (Low)</u>	<u>Discount</u>
		4.5	
30. 1.67	4.3-4.5		nil-0.2
3. 4.67	4.5		nil
29. 4.68	4.5		nil
11. 5.68		4.8	
7. 6.68	4.8		nil
26. 3.69	4.5-4.8		nil-0.3
27. 3.69		4.5	
22. 5.69	4.5		nil
19. 8.69	4.2		0.3
11.12.69	4.0-4.2		0.3-0.5
9. 1.70	4.2-4.3		0.2-0.3
4. 2.70	4.0-4.3		0.2-0.5
9. 3.70	4.3-4.5		nil-0.2
10. 7.70	4.4		0.1
6.11.70	4.0		0.5
15. 2.71		5.2	

Kerosine

<u>Date</u>	<u>Selling Price</u>	<u>Posted Price (Low)</u>	<u>Discount/</u> <u>(Premium)</u>
		8.9	
15.12.67	8.9		nil
7.10.68	8.0		0.9
17.12.68	8.9		nil
4. 2.70	8.8		0.1
10. 7.70	8.9		nil
6.11.70	8.5		0.4
15. 2.71		9.6	

No. 2 Fuel Oil

		6.4	
11. 1.68	6.4		nil
7.10.68	5.8		0.6
26. 3.69	5.6		0.8
27. 3.69		6.2	
22. 5.69	5.6		0.6
4. 2.70	5.5		0.7
9. 3.70	5.25-5.5		0.7-0.95
10. 7.70	5.6		0.6
6.11.70	6.25		(0.05)

Persian Gulf Cargo Prices 1967 - End March 1971

Table 6b)(Contd.)

10058

Heavy Fuel Oil*

U.S. \$ per barrel

<u>Date</u>	<u>Selling Price</u>	<u>Posted Price (Low)</u>	<u>Discount/ (Premium)</u>
		1.60	
30. 1.67	1.40-1.50		0.10-0.20
3. 4.67	1.35-1.50		0.10-0.25
11. 5.67		1.50	
17. 5.67	1.35-1.50		nil- 0.15
18. 7.67	1.50		nil
3.10.67	1.50-1.60		(0.10) - nil
15.12.67	1.40-1.50		nil- 0.10
19. 2.68	1.20-1.45		0.05-0.30
7. 6.68	1.10-1.20		0.50-0.40
7.10.68	1.25		0.25
28.10.68	1.20-1.30		0.20-0.30
7. 3.69	1.10-1.20		0.50-0.40
27. 3.69		1.40	
22. 5.69	1.10-1.20		0.20-0.30
30. 6.69	1.15-1.25		0.15-0.25
19. 8.69	1.05-1.10		0.30-0.35
20.10.69	1.00-1.05		0.35-0.40
9. 1.70	1.05-1.20		0.20-0.35
3. 2.70	1.00-1.20		0.20-0.40
6. 3.70	0.95-1.15		0.25-0.45
30. 4.70	1.00-1.20		0.20-0.40
10. 7.70	1.30-1.40		nil- 0.10
23.10.70		1.50	
6.11.70	1.30-1.50		nil- 0.20
15. 2.71		1.80	

* Quotation made no sulphur qualification initially. From 28th October 1968 price range covers 2.5% - 3.5% S max. material.

a) Posted prices are lowest posted at Bandar Mah-Shahr/Ras Tanura/Bahrain.

Note: For posted prices, the effective date; for market prices, the date of Platt's Pricegram reporting them.

Persian Gulf Posted Prices ^{a)}1965 - 1967/1968 ^{b)}U.S. ¢ per U.S. gallon

<u>Date</u>	<u>Gasoline 95 RON</u>	<u>Gasoline 83 RON</u>
	9.8	7.2
2.3.66	10.0	
13.4.66		7.4
11.7.67	9.9	7.3
	<u>Naphtha</u>	
23.2.66	4.5	
	<u>Kerosene</u>	
	8.6	
26.5.65	8.8	
3.3.66	9.0	
15.5.67	8.9	
	<u>No. 2 Fuel Oil</u>	
	7.1	
26.5.65	6.8	
2.3.66	7.0	
27.6.66	6.8	
15.5.67	6.4	
	<u>Heavy Fuel Oil</u>	
	1.65	
27.6.66	1.60	

U.S. \$ per barrel

- a) Lowest posted prices at Bandar Mah-Shahr/Ras Tanura/Bahrain
b) Determined in case of each product by date at which Cargo Price quotation first introduced (see Table 6 b))

Table 6 a)Lowest Posted Price Gas Oil (48/52 S.I.)
I.O.L. Sudan

(U.S. ¢ per gallon)

<u>Date</u>	<u>Postlar</u>
	7.1
10.5.65	6.7
29.5.65	6.8
2.3.66	7.0
15.6.66	6.8
9.5.67	6.5
27.5.69	6.3
15.2.71	7.4

Persian Gulf Cargo Prices Gas Oil (48/52 S.I.)

(U.S. ¢ per gallon)

<u>Date</u>	<u>Selling Price</u>	<u>Posted Price^{a)} (Low)</u>	<u>Discount/(Premium)</u>
		6.6	
7.10.68	6.0		0.6
25.3.69	5.3		0.3
22.5.69	5.6	6.4	0.8
3.2.70	5.5		0.9
6.3.70	5.25		1.15
10.7.70	5.6		0.0
6.11.70	5.25		0.15
14.1.71	6.9	7.1	0.2

a) Posted prices are lowest posted at Bandar Bah-dhahir/
Bas Tamura/Bahrain.

CHANNEL PORT INDEX DISCONTINUED

10061

POSTED PRICE

DISCOUNTED PRICE

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

1966

1965

1965

1966

1966

1966

10002

POSTED PRICE

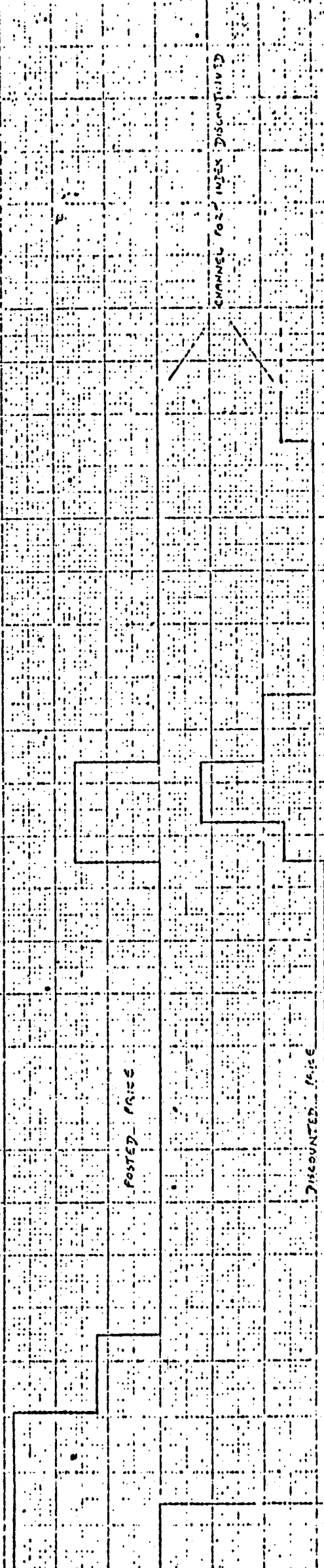
DISCOUNTED PRICE

CHANNEL PAIS INDEX DISCONTINUED

FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

1915

19003



JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

1966

1006A

CHANNEL FOOT INDEX - DISCONTINUED

POSTED PRICE

DISCOUNTED PRICE

JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

In view of the considerable discussion of freights and naphtha supplies in the course of Mr Todd's evidence I have prepared the following notes on these two topics giving the background situation during the years with which the case is concerned, as I see it.

1. Background Note on The Tanker Market 1964-1971

Only a small proportion of the tanker fleet is owned by the oil companies; in actual fact it is 35 percent. 10 The remaining 65 percent of the tanker fleet are the property principally of independent owners. It is however a fact that something like 80 percent of the tanker fleet (the exact proportion will vary slightly from time to time) is owned or is on medium or long term charter, i.e. for more than 1 year to the oil companies. For practical purposes it can be considered that the oil companies either through ownership or through medium or long term charter have operational control of about four-fifths of the fleet. The remaining 20 percent are 20 on charter for 1 year or less or are chartered on a single voyage basis. It is the last mentioned which constitutes the spot market.

Whereas the spot or short term market would tend to reflect the tanker demand and supply equilibrium in any particular loading area and at any particular point of time and would therefore show sharp fluctuations, medium and especially long term charter rates would not be greatly different from the cost of building and operating a tanker of a certain size and earning a reasonable return 30 on the capital invested. Clearly at times of high or low freight rates medium or long term charter rates would also be to some extent affected as the tanker owner could not leave his immediate earning prospects in the spot market out of account. The effect however would be marginal, and would become less the longer the charter of the ship.

As the major oil companies have the greater part of their requirements covered on a company owned and medium and long term chartered basis the effect of temporary high spot rates in their overall average freighting costs would normally be fairly marginal.

Spot and short term tanker rates are expressed in terms of certain basic freight rates for individual hauls. In the period with which the case is concerned we had first the "Intascale" rate schedule which from 15 September 10 1969 was replaced by the Worldscale schedule. The basic freight rates of the Worldscale schedule which is amended from year to year to take account of changes in port charges and bunker costs are only marginally different from those of Intascale schedule. Charter rates are then expressed as a percentage or index of basis rates. Medium and long term charter rates are expressed on a dead weight per month basis as such contracts are made on a monthly hire basis of the vessel. These are, however, easily converted into Intascale or Worldscale rates as the 20 case may be.

In order to have ^{an} average freight cost indicator for use in supply contracts the London Tanker Brokers Panel at the request of Shell ^{now} calculates monthly an Average Freight Rate Assessment (AFRA) for four size categories of ships:

- | | | | |
|----|----------------------|----------|-------------|
| 1. | General purpose AFRA | 16,500 - | 24,999 dwt |
| 2. | Medium range AFRA | 25,000 - | 44,999 dwt |
| 3. | Large range 1 AFRA | 45,000 - | 79,999 dwt |
| 4. | Large range 2 AFRA | 80,000 - | 159,999 dwt |

30 AFRA rates are a weighted average expressed in Intascale and Worldscale of all charters in operation, single voyage, short, medium and long term, with the company owner tonnage included at the average of chartered tonnage. In this way in times of high spot freight rates AFRA is generally beneficial to the oil companies as they receive higher rates at AFRA owing to the incidence of

the spot market on AFRA whereas the cost of operating their owned fleet remains unchanged. The attached Graph 8 shows that rates in the tanker market throughout the period with which the case is concerned were generally low with the exception of the second half of 1967 after the closure of the Suez Canal and the period from mid-1970 until early 1971 when the cutting off of certain Mediterranean crude oil supplies increased the demand for tankers. It should be noted that the rates in Graph 8 are expressed in sterling and therefore after November 1967 the devaluation of sterling would have raised the level of sterling rates by the extent of the devaluation in terms of dollars. Dollar rates would not of course be affected by this and this is relevant so far as Gulf freighting costs are concerned.

It is inconceivable that Gulf should have offered Europa the alternate freight without being reasonably confident of being able to cover themselves at the rate laid down, i.e. Intascale minus 45 percent. It would have been normal company practice having undertaken a commitment to supply Europa over a 10 year period to cover itself for a substantial part, probably not less than 80%, of the shipping requirement to meet this cif supply obligation. If Gulf did not do so they have really no right to complain to Europa about this and they should have had ample opportunity to make the necessary long term freight cover arrangement at low freight rates during the first three years of the contract.

2. Development of Naphtha Market 1964-71

There is no doubt that at the time the 1964 contracts were signed there existed a general surplus of naphtha at the Persian Gulf which is proved by the fact that at that time naphtha was being recycled into the reservoir in Saudi Arabia and also in other countries of the Middle East. By returning naphtha produced in their

refineries at the Persian Gulf which was surplus to their requirements into the structure of the subsoil oil companies effectively saved the payment of royalty and tax on these quantities.

From 1966 until the second half of 1969 it can be generally considered that the posted price at the Persian Gulf about reflected the actual selling price of naphtha there, i.e. about $4\frac{1}{2}\text{¢}$ per U.S. gallon or \$1.89 per barrel. In the second half of 1969 the price of naphtha at the Persian Gulf came again under pressure from a renewed surplus situation and short term supplies in cargo lots were available at discounts below the posted price.

Following the Teheran Agreement of February 1971 the posted price for naphtha was increased in order to reflect the increased tax-paid cost of crude oil. Owing to the surplus situation which however existed for that product throughout 1971 discounts granted on sales of this product increased and in August of that year the discount for spot cargo sales reached a high level of 1.7¢ per U.S. gallon giving a net price as low as 3.5¢ per U.S. gallon or \$1.47 per barrel. It is not suggested that these extremely low spot prices were ever available for longer term contracts the price of which probably never went below the \$1.68 - \$1.89 per barrel range. It is however relevant that there was never a naphtha shortage during the period with which the case is concerned and there was particularly a renewed over supply situation in 1971 which led once again in Saudi Arabia to the recycling of naphtha back into the reservoir.

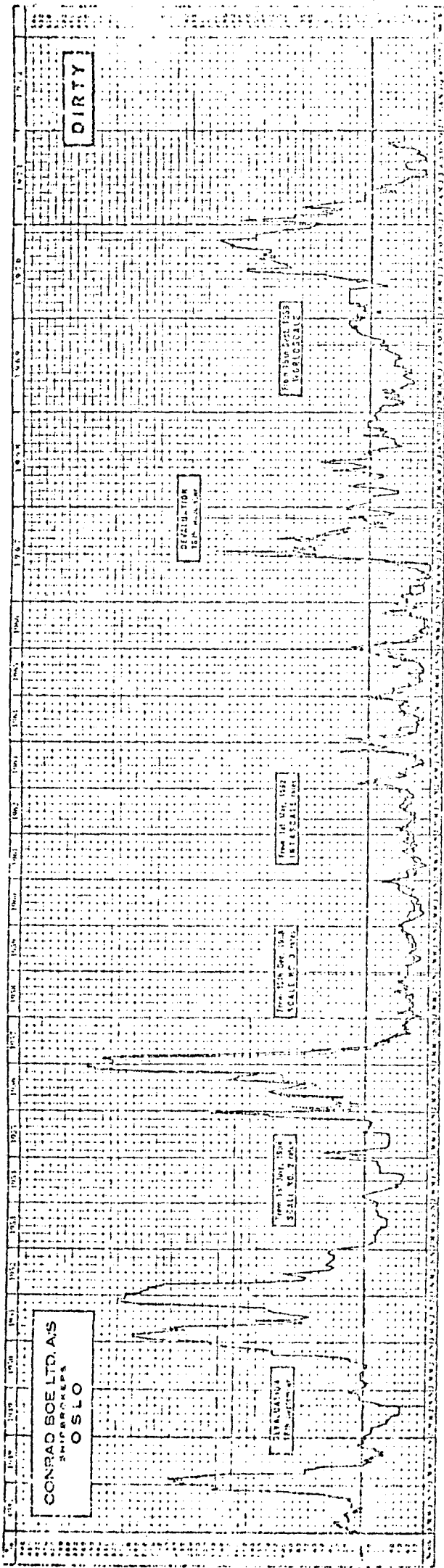
It should be pointed out that it was on 20 September 1971 that Gulf issued its letters of amendment retroactively to 15 February of that year which in the case of the amendments relating to the naphtha price are in themselves a recognition of the market trend for that feedstock at that time.

Regarding the naphtha quality for New Zealand, although I have had contact with both Government and the oil companies in New Zealand in my company's role as adviser to New Zealand Government on oil matters the question of quality of naphtha was never raised with me by either Government or any of the oil companies with whom I have had contact before 1971.

The first time I became aware of a quality problem was when Mr Todd visited me in London in the autumn of 10 1971 but this is beyond the period with which the Court is concerned in this case. The only other evidence of a supply problem with regard to the full range naphtha as compared with light naphtha was indicated by Caltex when on 30 November 1970, i.e. about 4 months from the end of six year period with which this case is concerned they posted a price of 0.2¢ per U.S. gallon less for light naphtha as distinct from full range naphtha and they maintained such a differential which was equivalent to 8.4¢ per barrel from that date until 2 January 1973.

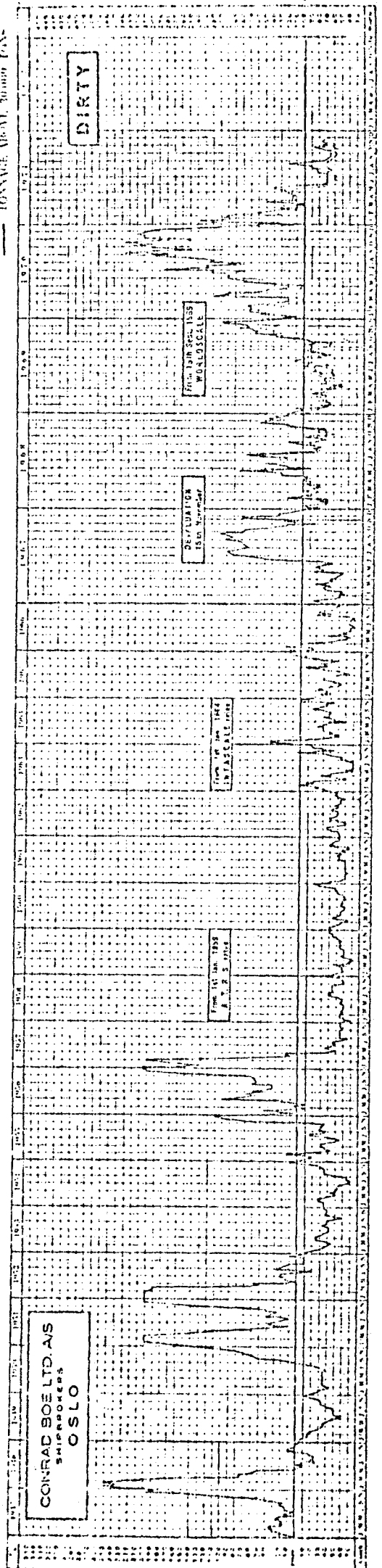
ESTIMATED TANKER MARKET RATES
SINGLE VOYAGES

PERMANENT GULF
TRANSATLANTIC



WESTERN HEMISPHERE

HANDY SIZE TONNAGE
TONNAGE 40-41, 30-ton Pan



MR RICHARDSON CALLS:

WALTER LEWIS NEWTON (Sworn)

EVIDENCE IN CHIEF READ: [pp.10001 - 10070 inc.]

1 PM COURT ADJOURNED.

2.15 COURT RESUMED

The first point of reference is in Mr Todd's brief, p.22, line 24, and p.45 line 12 as to the allocation of costs between joint products and prices for naphtha, gas oil and fuel oil? The problem of joint costs is one which has always perplexed the

10 oil industry. In the case of finished fully refined products two methods have been adopted, one is the method which has been referred to by Mr Todd in evidence of allocating the overall refining costs on the pro rata to the value of the sales prices of the different petroleum products. Another method is to attempt a breakdown of the cost, which is to some extent possible insofar as when you deal with fully refined saleable finished products certain processes can be allocated to certain products. For instance,

20 reforming and cracking processes can be allocated to motor gasoline. Desulphurisation can be allocated to middle distillates and more recently when applied also to heavy fuel oil. In the case of the products with which we are however dealing, in the case of the feedstocks supplied to Europa, these feedstocks are not saleable finished products. They are the result of a topping operation which results simply in the breakup of the crude into its three main

30 components, and in that case the topping cost would be identical for all the products which would be produced out of this operation, i.e., on the processing cost in this case 20 cents per barrel. If these 20 cents are applied to fuel oil, for

instance, on top of the cost of the crude oil, one would at the beginning...in 1965 have arrived at a price for fuel oil of \$1.55 per barrel. This, and indeed also the price for fuel oil suggested by Mr Todd of about \$1.38 per barrel, is higher than the price at which heavy fuel oil was sold on an arms length basis at the Persian Gulf for much of the period with which we are concerned.

10 Now the second point I want to ask you about, Mr Newton, begins at p.67 line 14 of Mr Todd's brief where he referred to the condition of prices in the world wide oil industry and then at p.69 line 17 referred to the transformation of the industry from a buyer's market in 1964 moving soon thereafter according to the class of oil company feedstock required to a seller's market and then he concluded "and in more recent years to a market dictated not by buyer or seller but by the producing States themselves"? In relation to that I think one can
20 say that the oil industry was in a state of crisis in its relations with the producer countries from about the Spring of 1970 onwards. With the interruption of the supply through the Trans-Arabian pipeline in May of that year and the cut back in Libyan production by Government order in the summer of 1970, there was undoubtedly a supply crisis, and this crisis continued right through the period of posted price negotiations with Libya in the autumn of 1970 through the Opec conference in December 1970
30 and the Teheran agreement in February 1971. Thereafter and especially after the re-opening of the Trans-Arabian pipeline in the early part of 1971, the crisis was over at least for the moment. There was a renewed crisis in the second half of 1972

and again in 1973 over the negotiations over participation, but this is outside the period with which we here are concerned. The closure of the Suez Canal in 1967 resulted in a temporary tanker crisis until the disposition of ships could be reorganised. There was, however, no supply crisis at that time as production in Mediterranean countries, in particular in Libya, was greatly increased in that year and into 1968. I think I can therefore conclude that

10 there was only a supply crisis and a general oil industry crisis during approximately the last six or eight months with which we here are concerned.

The next point is in Mr Todd's cross-examination p.19 line 24, and Mr Todd said he rejected a charge of discounts on gas oil in the Carribean based on Channel Port index which you had produced in the previous case, and said it was completely inapplicable to east of Suez? The reason why Channel Port index was introduced into my evidence in the previous case

20 and again on p.30 of my evidence in chief in appendix C, was that under the 1956 agreements the price applicable to supplies to Europe was the lowest price in the Carribean or at the Persian Gulf, and, indeed, I believe that some shipments did in fact come from the Carribean. It should not be forgotten that distance and freightwise New Zealand is almost equidistant from both the Persian Gulf and the Carribean. I think I should add that quite apart from the name Channel Port Index price as quoted by

30 Platts were not European ex refinery prices reflecting supply and demand in Europe. They were calculated as I have said in Appendix C of my evidence in chief on the basis of spot cargo prices in the Carribean

plus the spot tanker freight at the relevant time. Now the next point relates to Mr Snodgrass's evidence and in his brief at p.8 line 28 and again in cross-examination at p.53 line 12, Mr Snodgrass referred to arrangements at the Panama refinery? I should say that I have no detailed knowledge of the individual processing contracts at the Panama refinery. From what Mr Snodgrass has said, however, there is to my mind a major difference between operations at the

10 Panama refinery referred to by Mr Snodgrass and the Pan East contracts. The processing deals at the Panama refinery relate to a particular refinery. No doubt there are a number of companies having processing deals at that refinery and I accept that they do not necessarily get the yield which would under normal circumstances be obtained from the crude oil process. Some offtakers undoubtedly get what I call deemed yields. They may also only offtake part of the products, the remainder being the subject of exchange

20 arrangements and other adjustments. Nevertheless, in my opinion these deals are in an entirely different category from the notional Pan East arrangement. Now the next point is in relation to again Mr Snodgrass p.54 line 12 and the answer he gave to the final question from His Honour? (read)?

30 "A genuine refining arrangement might be thought to be one in which a company carries on all its processes in all its technicalities, refining it into more sophisticated products? Perhaps a genuine refining operation is an operation that refines We are talking about processing crude oil, the responsibility for which is taken by a company which can refine it in one of its refineries or hand it out to others."

I interpret Mr Snodgrass's final reply, a genuine refining deal would be either one in which a company processes at

10074 A

its own refinery or arranges for such processing to take place at a refinery owned by a third party. In my opinion neither applies to the role played by Europa in Pan Eastern.

The final point relates to the further cross-examination of Mr Todd this morning p.91 line 13, and you will recall that this was by way of comment

on your interpretation of the 1970 conditions that resulted in the better variations? Mr Todd's objections were to my interpretation of the application of the letter of 31st October 1970 with effect from 23rd October and the reason which in my opinion led Gulf to issue those letters. Mr Todd also objected to my wording that this was a new formula which cushioned the effect on Europa. What I had intended to say by the words objected to by Mr Todd was and
10 should have probably ~~have~~ been worded in that way, that the letter of 31st October constituted an amendment to the existing formula, the effect of which was to soften the price increase which was about to come, on Europa.

Mr Newton, at that time in October 1970, what were your expectations as to the future of posted prices? I think I must give a little bit more background of the conditions in the industry at the time, some of which I believe should be fairly clear from the
20 statement I made in Appendix B. We must distinguish between three different fields in crude oil price. increases in the second half of 1970 and the first quarter of 1971. We have first the Libyan insistence on posted price increases and high tax rates. The Libyan situation was settled in the first half of November 1970. At that ^{time} time there was a sharp increase in fuel oil prices, especially in the west of Suez area and in the western hemisphere. The Persian Gulf countries concerned, and in particular
30 Kuwait and Iran and also Saudi Arabia had for some time complained that the posted prices of heavy crude oil, including Kuwait crude oil, were too low and I myself together with Dr Frankel was consulted by

Iran on the comparative values of certain Persian Gulf crude oil as long ago as 1967, and we at that time came to the conclusion that in relation to the lighter Persian Gulf crude oil the price of especially Kuwait crude oil and Iranian heavy crude oil were on the low side. I am ~~not~~^{now} talking of posted prices. When in 1970 the demand for heavy fuel oil increased and consequently there was an upward trend in prices for this product which played an important role in

10 the yield pattern of Kuwait crude, the pressure especially immediately following on the success of the Libyans in increasing their posted prices for an increase in the heavier Persian Gulf crude oil prices on the part of the producer countries was increased. In my mind there can be no doubt that in October 1970 Gulf were fully aware of the fact that this was about to happen and this led me to the conclusion that they may well have taken that into account in issuing the letters of 31st October 1970. The Opec conference

20 to which Mr Todd in evidence this morning referred came after the increase in the posted prices^s for Kuwait and certain other heavier Persian Gulf crude oils in the middle of November 1970 and was the overture for the Teheran conference and the further all round increase of crude oil posted prices which resulted from it.

XXD BARTON: Mr Newton, how long have you been adviser to the New Zealand Government in oil matters? Since 1966.

30 Have your terms of reference been general or have they been specific? They have been fairly general but have been principally concerned with the negotiations with the companies relating to the

import prices of crude oil feedstocks and petroleum products. I have also been consulted on such other matters as the potential expansion of the refinery, problems relating to Maui gas, but these points were only raised from time to time.

Insofar as you advised the New Zealand Government on import prices, did that amount to tendering advice as to what are known as Bench Marks? I do not play a role in the negotiations leading to Bench Mark prices. My principal role is to provide the New Zealand Government with background information and to express an opinion on arguments in the course of the negotiations put forward by the oil companies. And are the arguments on which you are asked to express an opinion arguments relating to Bench Marks? I would say that they would relate to Bench Marks, yes, because the Bench Mark prices are the agreement resulting from the negotiations.

You use the word "agreement" but do you know that Europe at any rate asserts that there has been no agreement so far as it is concerned? The agreements which result are to the best of my knowledge and belief package deals which arise as result of prolonged negotiations with a certain amount of give and take on both sides. I am however aware that Europe has always stood a little bit aside and considered their case to be different and somewhat special from the other companies partly because of the substantial higher proportion of naphtha imports.

30 TO BENCH: You know that from within this litigation, this case, or the 1969 case, or take that stand outside this case? I have never been present at any direct meeting between the oil companies and the Government, I do however know from what I have been

told by some of the officials participating in these discussions that Europa have on occasions taken a separate line.

TO COUNSEL: What is involved in this notion of package deals in relation to Bench Marks? It is that if for one reason or another one party, in order not to create a precedent on one or other of the different feedstock prices involved, say "if you accept my price for feedstock X, I am prepared to compensate you for
10 it by an adjustment of supplies of feedstock Y". Does that also include taking into consideration freight? Over the last few years there has been to my knowledge no major issue over freight between the Government and the oil companies, the freight formula in the most recent negotiations and if I remember correctly also in the previous round having remained unchanged. The freight is based on A.F.R.A. with an agreed proportion of the different A.F.R.A. which I described in my addendum earlier this
20 afternoon agreed between Government and companies. Do you accept that freight is an element going up to make the package deal? If I may put it differently freight is an element in the import cost of feedstocks into New Zealand. I believe the freight is largely based on A.F.R.A. having regard to the sizes of ships in which feedstocks are brought or can theoretically be brought into New Zealand I would say that in recent years the package has been more on feedstock f.o.b. prices than on freight.
30 But if freight is an element of import cost and feedstocks are concerned with import costs, does it not follow that freight is an element of the package deal relating to feedstocks? It may have been in the first negotiations on Bench Mark Prices, but I

do not think it has played a role in recent negotiations because no change has been made in the freight structure.

In the course of your professional experience, have you ever been involved in actively conducting negotiations for processing arrangements? Yes...I should add that this was mainly when I was in business myself before I became a consultant when both my senior partner Dr Frankel and I negotiated a number of processing deals for companies with which we were involved.

When did you cease to be involved with this particular company and start in practice as a consultant? I have kept track of processing agreements by being involved in some negotiations indirectly which some of my clients had before conclusion of processing deals. I should add that I am also the adviser to independent refineries especially in the Mediterranean area who have a number of other companies processing at their refinery.

Was the company you were concerned with the Manchester Oil Refinery? Yes.

When did you cease with that company? 1955.

Have you been a consultant since that time? Yes.

Have you been involved with any negotiations with the Gulf company? No.

You say in evidence in chief, p.1, that you confirm the evidence that you gave at the earlier hearing? I do.

Do you confirm the answers that you gave in cross-examination? Yes, I do.

And the answer that you gave to the one question put to you in re-examination, p.85, Vol. 11, line 16

I think there that the learned Solicitor General was recapitulating a question and answer that had been put to you in cross-examination and you may not have had the opportunity of rounding off your answer? I recollect that.

Will you just read from line 15 over to p.86? I have read that.

Can we go through this point by point ...p.85 line 24

10 "Europa and Gulf form a joint subsidiary - let it be called Paneast - which enters into a refining contract, i.e. a processing agreement - with a specific refinery either of Gulf or for that matter of another oil company. The joint company purchases crude oil from Gulf at let us say the market price, posted in 1955, a discounted price, today. Whilst this oil is being processed it remains the property of the joint company and the resulting products also belong to the joint company. The joint company then sells the gasoline to Europa and the balance of the products to a Gulf subsidiary at clearly laid down prices which would vary with development in world market conditions. This could be supplemented if so desired by exchange deals between Europa and Gulf or at least for the provision of these, and possibly some kind of letter of guarantee, not as to price but as to holding Eurpoa covered for supplies by Gulf."

24

"Europa and Gulf formed a joint subsidiary", they did that did they not? They did.

"Which enters into ... processing agreement", they did that? Yes.

30 "With a specific refinery either at Gulf or for that matter of another oil company", you say they did not do that? I say they did not do that because nowhere can I find in the Pan East contract a reference to a specific refinery or even a number of specific refineries.

You do know the contract refers to Gulf refinery or a refinery to be procured by Gulf? Yes, but it does not refer to a specific refinery.

What is the magic in referring to a specific refinery?

All processing deals I know relate to processing at

a specific refinery possibly for option of offtaking products at that specific refinery or at other specific refineries.

If the parties are concerned to have crudes or feedstocks refined and they enter into an arrangement for that process, how can it matter to them where the processing takes place if in their contract they deal with their mutual rights and obligations relating to processing? To my mind any refining agreement must relate to some specific refinery because it must state where the crude oil is to be delivered and

where the products can be received from the processing of that crude.

So that you say merely to specify a Gulf refinery or refinery procured by Gulf is not enough? To my mind it is not.

Have you had an opportunity of reading the processing contract recently? Yes.

Do you suggest that it is a sham or make believe piece of paper? I think I would be very careful to
10 use the word "sham". I would prefer to use the words "it is a notional arrangement" which is not actually carried out in practice. In particular and I said this in my previous evidence I do not consider that Europa is involved in the refining business, because the crude oil is supplied by Gulf and all the products go back to Gulf before a part of them are supplied to Europa.

But does that not take place pursuant to the contract between Gulf and Pan Eastern? That is the contract
20 between Gulf and Pan Eastern. What I am saying is there is no direct operational relationship between Europa and Pan East except through the Shell.

But is it not the position that the crude oil is in fact refined and the obligation to refine it arises out of the processing contract? On paper yes, but it is an arrangement between Gulf and Pan East in which Europa is not operationally involved.

Is the crude not in fact refined? In order to obtain naphtha and gas oil the crude oil must be refined.
30 Now is that process not carried out in performance of an obligation on Gulf under the processing contract? Gulf has to process the crude.

Now still on p.85 line 28 "The joint company purchases crude oil from Gulf", just pausing there, Mr Newton,

is that what happens under the 1964 contracts? Pan East purchases the crude oil.

Now the rest of sentence "At let us say the market pricetoday", what do you say about price in relation to the 1964 contracts? I have said in my evidence that it would be unlikely that Europa would not get a discount; with regard to the discount granted to Pan East, I said at the time and I say it again today it is not a particularly high discount
10 but at that time it might just be acceptable.

Line 30 "Whilst this oil ...joint company", is that what happens under the 1964 arrangements? Yes, it is the property of Pan East.

And do the resulting products also belong to Pan East? In the first instance they do.

Line 33 "The joint company...to Europa", of course, you say that is not what happens here? Yes.

"And the balance...laid down prices", "balance of the products to a Gulf subsidiary", is that what happens
20 here? The whole products are sold to a Gulf subsidiary, all of them.

"At clearly laid down prices...world market conditions" how do you link that with what happens in the 1964 contracts? I consider that the prices at which Pan East sells to Gulf and Gulf then sold to Europa ...I refer to the Gulf group...Gulfex sold to Europa were in my opinion for prolonged periods higher than the market price.

Insofar as they varied, would it be correct to say
30 that they varied with development in world market conditions? I would say they followed the trends of world market conditions, I would not say they followed to full extent as reflected by the market.

If we are considering whether an agreement is a genuine processing agreement, why should it matter to whom the joint company that you have referred to here sells the products? In my opinion it is not in line with normal industry practice that Europa is supposed to be engaged in the refining business and yet neither supplies the crude nor directly offtakes the products.

10 We come back to my question, Mr Newton, why should it matter to whom the products are sold after processing? If it was the Gulf processing deal it would not matter.

Page 86 line 2, this is the final sentence of your re-examination, do I understand you correctly there to be adding merely a desideratum? I included this because I have a genuine sympathy for the desire of Europa to have a certain flexibility as to the feedstocks or products which they take under the supply arrangement with Gulf and, in particular, for Mr 20 Todd's desire to have security of supplies which for a company like Europa I entirely agree is absolutely essential.

Now looking at the passage beginning half way along line 4 of p.86 "possibly....by Gulf", would you agree that the 1964 arrangements in effect give a guarantee as to supplies? Yes, I do, but if I may add, in my opinion there would have been or could have been a more direct way of achieving the same result.

Now under the 1964 processing contract Pan Eastern 30 derived earnings from the purchase of crude oil, the processing of it and the sale of products? Yes.

Are those not processing arrangements? As I said before, they are processing arrangements with Gulf.

By that do you mean between Pan Eastern and Gulf? Yes.
Do you know or have you been present in Court when
evidence was given about how Gulf administers on
behalf of Pan Eastern the processing contract? I do
not recollect that evidence.

Look at EXBT AA, you see there for just one year the
papers relating to the administration of the Pan
Eastern processing contract, would you accept that
Gulf on behalf of Pan Eastern seems to be serious
10 in the documentation about the processing contract?

I have never expressed any doubts about that.

From time to time in your evidence in chief which has
been read today, you have used the word "formula",
it was accurate to use that word was it not in relation
to the 1956 set of contracts? Yes.

And do you accept that in the 1964 contracts there is
nothing in terms similar to the formula in the 1956 set
of contracts? Not except in relation to products
prices. I only referred to a formula because the way,
20 for instance, the naphtha price is calculated on the
basis of the post price of Kuwait crude oil plus a
gravity adjustment, less a discount, I would in my
experience describe it as a formula, it is a formula
in that sense.

On p.2 of your evidence in chief, you refer to a
passage from your evidence in the earlier hearing...

about 10 lines from the top the sentence beginning,

"This shows that the discounts generally granted at that
time were about in line with or higher than those granted to
Paneast under the Gulf-Paneast arrangements."

you are there referring to Table 3 I think...now I
30 want to ask you about this Table...is it suggested
that this Table covers all arms length sales and
offers or only selected examples? They include, I
believe, a wide selection of examples but, of course,

there are other transactions which have not become public knowledge. I therefore cannot say that it is a complete list.

Now would you please look at Table 3 on p.58 of Vol.2 of previous case, I would like to direct your attention to the fourth last example, that is 1964/65 Gulf the seller, Nippon etc. the buyer, and then go over to the discount column 15 cents per barrel, then the second last one 1964/67 Esso to Idemitsu 14 to 16 cents per barrel, and the last one 1965 Gulf to Idemitsu 14 cents per barrel... now would it not be the position that if these contracts would have been concluded in their own special circumstances without knowledge of what was contemporaneously being negotiated with other suppliers or other buyers?

Yes. I make an addition, these discounts there must be seen in conjunction with the very favourable large scale loans which were granted in the case of Nippon Mining for nine years, Idemitsu for 10 years, at very favourable interest rates which were well below those at which money could be borrowed in Japan at that time. If this is taken into account this would greatly increase the discounts granted.

Is that not true of most of the examples on p.58? It applied at that time to very many sales contracts to Japan. I must, however, say that where the discounts are higher, in some cases relates to Japanese refineries in which the supplier had at least a partial share interest. For instance, the highest discount were given to Toa Nenryo in which the supplying company had a 50% share interest. The level of discounts will also vary according to the type of crude oil.

4.30 EVENING ADJOURNMENT

WEDNESDAY, 21st FEBRUARY, 1973 - CASE CONTINUED

CROSS-EXAMINATION OF MR NEWTON CONTINUED:

Mr Newton, please turn to p.58 Vol. 11 of the previous case, you had indicated yesterday afternoon that where the discounts are higher in some cases that relates to Japanese refineries in which the supplier had at least a partial share interest, did the buyer in those cases also have a partial share interest in the refinery? We are talking here of a company, a
10 Japanese refining company, which is 50% owned by Japanese shareholders and in which the shareholder in Stanvac, which was the supplier, also holds a 50% interest.

Do you know whether the buyer in any of those cases, Toa Nenryo also had an interest in the refinery? The buyer had an interest in the refinery, the shareholding being as I have just stated.

If that is so, would the buyer derive a benefit by reason of his interest in the refiner's margin? The
20 jointly owned refining company buys crude oil from the supplier and resells the products to the Japanese affiliates of the supplier. The prices for crude oil supplies are agreed from time to time and the selling prices to the Japanese marketing company off the suppliers are fixed and escalate on the basis of certain escalation clauses which are related to market trend indicators.

Now, referring to the loans which are mentioned on p.58, you have indicated that these were at very
30 favourable interest rates below the rate at which money could be borrowed in Japan...is it not, however, a question of looking at the cost of the loan to the supplier? I have reason to believe that at that

time the international major oil companies could borrow money at interest rates well below those ruling in the Japanese market and certainly no higher than those granted by themselves on the loan to Japanese refineries.

Now on p.2 of your evidence in chief about line 10, you have a sentence which begins "This shows that the discounts...arrangement", now that was 24 cents a barrel, was it not? It was 15%.

10 And in cents per barrel would that be 24 cents? That would be 24 cents a barrel at that time.

Now in relation to Europa Refining, would you accept that the 120 days' credit that was available for payment approximated 4 cents to 5 cents a barrel? No, it was at that time general industry practice to grant 90 days' credit. Therefore the additional credit which Europa obtained was only 30 days' credit, which is worth approximately 1 cent per barrel.

20 Still looking at the position of Europa Refining, would you accept that the value of the alternate freight credit would be about 17.25 cents per barrel over the period with which we are concerned? There is no doubt in my mind that the alternate freight had a value for Europa. As I said in my previous evidence, I would not claim that Europa could have gone into the charter market and arranged long term freight for the transportation of its supplies at interscale less 45%.

30 Including the figure of 17.25 cents as you have quoted, I assume that this has been calculated on the basis of the difference between the A.F.R.A. freight rates and the alternate freight divided by the number of barrels supplied. Is that correct? I believe, however, and I do not challenge the

calculation which you have given, that if Gulf had made arrangements at the time the 1964 agreements were concluded for the long term charter of ships a company of the size of Gulf could have obtained transportation for the supplies to Europa, if not at interscale minus 45, at a rate not far above it, whether employing charter tonnage or tonnage owned by themselves at that time. Therefore, although on the basis of the calculation made the benefit when compared with A.F.R.A. rates was 17.25 cents per barrel, the cost to Gulf could have been considerably less.

But are we not here considering the benefits to Europa Refining? If we look at it solely from Europa Refining point of view and comparing it with A.F.R.A. then the benefit would have been as you have stated; although, however, Europa Refining could not as I said before, have chartered at interscale minus 45, I believe that even Europa Refining, although not able to charter at as good a rate as Gulf, could on a long term arrangement basis probably have done better than A.F.R.A.

But the fact of the matter is there were the workings out of the actual contractual arrangements between the parties? Yes.

Please turn to p.54 of Vol. 11, this relates to west of Suez, but the question I want to ask first is, was the actual contract price in these examples the selling price C.I.F. column? In the examples given the actual price was the C.I.F. price where given. In some cases...in the cases on that page it was the C.I.F. price and the freight rate assumed in the Table by myself is that at which for the period

of the offer in question on the basis of the freight market at the time, I believe that transportation could have been obtained.

Then using those two factors, you derive the discount on the f.o.b. price which is in the column under that heading? Yes.

Have you taken the C.I.F. cost to Europa Refining at the alternate freight rate and then deducted from that C.I.F. the A.F.R.A. rates as approved by the
10 New Zealand Government to arrive at the assumed discount to Europa Refining on an f.o.b. basis? I have not done any calculations on that basis.

Why have you not considered that necessary or helpful? Because, as I mentioned earlier, I believe that the freight concession of the alternate freight, having regard to the circumstances in the freight market at the time the deal was done, was not as great as the differential between A.F.R.A. and the alternate freight. I would have had to apply the freight rate
20 at which I believe a charter could have been made for the duration of the Europa contract on the same basis as I have done in Table on p.54 to which you have just drawn my attention.

Now in the evidence in chief which you gave yesterday, there is a Table 1 (B)(iii), is that an updated table giving the same basic heads of information as the table on p.54 we have just been looking at? Yes, it is a continuation of that table for the period with which ~~the~~^{this} case is concerned.

30 Are not many of the sales west of Suez to Government owned or controlled buyers? Yes.

What relationships do the examples of sales west of Suez to such buyers have to the situation we are concerned with in this case?

~~They~~ ^{There} are examples at which arms length buyers and whether the refineries are State owned or privately owned, they are still arms length buyers, i.e., sales taking place outside integrated oil company operations and as such these sales are representative of the arms length market at the time. They reflect the competitive state of the market as most of these purchases if not all of them have taken place as public tender.

10 Please turn to p.2 of your evidence in chief, the last line of the quoted passage

"leaving the Paneast profit to be shared between Gulf and Europa at a much reduced level."

reduced from what,

Mr Newton? The previous level before the letters of amendment were issued.

Did not the first letter variation on the 16th March 1965 establish the level of profit retroactively from 1 April 1964? Yes.

How then could there be a reduction? It was a reduced level as compared with the basic agreement as
20 originally contracted.

Well did Pan Eastern ever earn at the higher level?

Not in practice.

Then in the next short paragraph dealing with Appendix B, you deal with the general position of crude pricing, beginning at p.21, and I want to come to that now, if I may...in the first sentence on p.21, you say commercial prices "were expressed in terms of a discount off the posted prices", was it not the position that commercial prices were all expressed
30 in terms of dollars per barrel as such? Frankly I do not see the difference, but in many contracts the price to be paid was in any case a dollar price, but in many contracts the price was expressed at that

time in a cent per barrel discount off the posted price, this for the reason that at that time many of the contracts still had escalation clauses based in changes on posted prices, and this ensured that if the posted price went up or down the cent per barrel level of the discount would remain unchanged.

Now paragraph 2 on p.21, what is the relevance of the trend of discounts to Japanese arms length buyers to the Europa Refining situation? The discount level, and in particular the trend in the level of discounts, is relevant because Japanese refiner constitutes the biggest arms length market in the east of Suez area, an area in which Europa is also a buyer.

But the situation of the Japanese buyers must be very different from the situation of a New Zealand buyer? Their volume is considerably greater. Also in the case of Europa the purchase is not mainly crude oil but large quantities of naphtha, to that extent there is certainly a difference. I was therefore particularly careful to point to the relevance of the trend in discount rather than to the absolute level.

When we come in the next line or so to India and Pakistan, are we not concerned with buyers in a country where political pressures largely govern questions of price? Perhaps this is correct, in the most recent period since about 1970/71 when, for instance, the Government of India has gone so far as to lay down prices for foreign exchange purposes which did not reflect fully the increases in tax paid costs which have been passed on by the companies to refineries in other countries. Before that period however, and that is the main period in which this case is concerned, I believe that the prices in India

can be compared to Bench Mark prices in New Zealand, that is, they were basically prices negotiated between oil company and Government.

Turning to p.25 you repeat a passage of your evidence before the Senate Sub-Committee and it related to discounts to European arms length buyers, once again what is relevance of that to the New Zealand situation? It is that these discounts relate to crude oil f.o.b. Persian Gulf which are also supplied to New Zealand.

10 In practice what I believe is relevant again here is the trend in discounts rather than the absolute level.

Now reverting to the main text of your evidence in chief at p.4 I think there may be here, Mr Newton, some typographical error, but I do have some difficulty with the paragraph which begins "I now turn to the letters dated October 31", do you have the Case Stated, you see on third line you refer to C.S.23, so look at that please...now that is definitely not a letter
20 dated 31st October? No, September 20th.

Is it not C.S.19 you are talking about? Yes.

You would have no objection if the end of line 3 it is altered to C.S.19? I apologise for that error (correction made).

Coming to p.6, paragraph in the middle,

30 "Although Gulf is unlikely to have been certain of the extent and timing of the increase in the posted price for Kuwait crude oil as at end-October 1970, the new formula was probably designed to cushion the effects of the expected increase in posted price on the price of Gulf's supplies to Europa."

you know that from time to time letter variations were signed by Gulf and by Europa Refining and also by Pan Eastern, have you read Mr Todd's evidence or heard him giving evidence

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about the negotiations leading up to these various letters of amendment? Yes.

Do you not accept that these letters were the outcome of negotiations between Gulf on the one hand and Mr Todd on the other?

When I wrote my brief of evidence in London I had not yet had the opportunity to hear what Mr Todd had to say about his negotiations with Gulf at that point of time. I could, therefore, only draw my conclusions and my interpretation of these letters on the knowledge that was available to me at that time. I, of course, accept Mr Todd's evidence that he had negotiations with Gulf at that time. I however, still cannot help feeling that the reason why Gulf were prepared to issue those letters at that time and why Mr Todd's negotiations were successful at that point of time were for the reasons which I have given here and which I further analysed yesterday when questioned by counsel of the Crown.

Well, coming to p.8 about two thirds of the way down the page, the last sentence of paragraph

"Gulf thus in effect absorbed 1.5¢ per barrel of the increase in tax-paid costs of Kuwait crude."

"Gulf must

in effect absorb 1.5....Kuwait crude"? Yes.

Now would you turn to the Case Stated EXBT C.S.25, there is a table annexed to that exhibit...looking at column 6 in that Table would it be correct to say that for the period from November 14, 1970, to December 31 in that year, the amount absorbed was 1.5 cents? Yes.

And from January 1 to February 14 it was 2 cents? Correct.

But is it not also true to say that thereafter Gulf did not absorb any part of that increase? This is correct so far as Gulf's net position is concerned.

Now in relation to this period the letters of variation dated 20th September 1971 were retroactive to 14

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November 1970, were you informed or do you know
that during the period from 14 November 1970 to date
of the letter variation invoices to Europa Refining
were marked "provisional"? No. Perhaps I may add that in
that period of uncertainty as to the exact amount of
increase in tax paid costs most companies took the pre-
caution to mark their invoices as "provisional" at that
time

~~were marked "provisional" at that time.~~

So it would not surprise you if that were done here?

No.

Now talking about questions of uncertainty, I would like you to look at some material appearing in Platts Oilgram Price Service for 13 March 1969 in which under the heading "London Economist Sees Further Decline in World Wide Crude Price", you are quoted as making a projection which relates inter alia to
10 Persian Gulf crude prices, I would just like you to look at this, first page bottom right and it goes through to next page?

This relates to my evidence, indeed, it is part of it to which I made reference in Appendix B, p.25, at p.26 of my evidence in chief. The analysis made at that time was based entirely on an economic analysis and did not and could not take into account the political developments which have taken place since. It should be noted that the date of that evidence
20 was before the revolution in Libya which completely upset the political relations between oil companies and producer country Governments

Now the projection in the Platts Oilgram Service was based or subject to some assumptions which are set out there, is that correct? Yes.

One related to the Suez Canal and the other related to what is described as Pro-rationing, is that correct? I assumed at that time that there would be no measures taken to interfere with the competitive
30 forces operating in the oil industry, i.e., that there is no attempt by producer countries to pro-ration crude oil production. This is why I refer to Libya, because the Libyan revolution led to pro-ration, that is restriction of crude oil production

in that country. It has since been followed in some other producer countries, for instance, Kuwait.

Now p.9, paragraph 1, from your earlier evidence, you speak there of prices at which naphtha and gas oil are transferred to Pan East, do you accept that those prices, as you described them, are more accurately described as costs of production? Mr Todd has in his evidence now stated that they are costs of production. I, however, do not believe that this is more than a
10 fine point of difference, because as the Pan Eastern profits are doubled these are in effect the f.o.b. buying prices of Europa, after taking the Pan Eastern profit into account.

Would you look at the last sentence in that first quoted paragraph on p.9

"I have no knowledge of other long-term contracts for these feedstocks being concluded at such low prices and consider it unlikely that any have taken place."

would you not accept that
if they are at what you describe as low prices, it must be because the figure mentioned represents the cost of production? As I mentioned yesterday when
20 questioned by counsel of the Crown, on the problem of joint costs of products I considered the distribution of the processing costs of 20 cents per barrel over the three products which Gulf would obtain in breaking up the crude oil as very arbitrary and I believe that whether the \$1.46 or the \$2.00 is a true manufacturing cost is something about which oil experts and refining experts could argue about for a very considerable time.

Do you accept that from Gulf's point of view and in

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its documentation \$1.46 was apportioned or appropriated to naphtha? I have not seen the invoices of Gulf to Pan East but if, and I believe it would be very relevant how they are worded...

Would you please look at EXBT EE, Mr Smith has already given evidence and produced that document, Mr Newton, I would like you just to look in the second half of page under the heading "Product" "Naphtha" and then "Unit cost" \$1.46, would you accept that from Gulf's point of view it was treating naphtha as having a unit cost of \$1.46? It is a cost invoice, this does not prove in any way that it is manufacturing cost.

Did Pan Eastern ever pay Gulf \$1.46 for naphtha?

10 According to the contract they should have.

Didn't Gulf charge Pan Eastern for the cost of crude and the processing fee? It charges the cost of crude and the processing fee, the amount of the fee is to the best of my knowledge and belief not laid down in any of the agreements.

Do you accept it was 20 cents a barrel? From the invoice I have been shown I have no reason to assume otherwise.

20 Now, p.10, in the middle of the page ^{Here} ~~three~~ is a paragraph that begins

"Throughout the period April 1964 - October 1970, the naphtha price to both Paneast and Europa remained unchanged. From the data regarding naphtha cargo prices f.o.b. Persian Gulf shown in Table 6(b) it is clear that the price paid by Paneast of \$1.46 per barrel, or 3 $\frac{1}{2}$ ¢ per U.S. gallon, was an unreasonably low one under normal conditions and explainable only by Gulf's particular need to sell light end products."

30 now you say in the middle of that paragraph "the price paid by Pan East of \$1.46 per barrel was an unreasonably low one under normal conditions and explainable only by Gulf's particular need to sell light end products", once again I ask you, is it not explainable because the \$1.46 you refer to was the manufacturing cost? As I said previously, even the invoice to Pan East refers to

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a unit cost and not a manufacturing cost.

Later on in the same page you have a sentence

"On the other hand, the price paid by Europa to Gulf was, even allowing for the fluctuations of the spot cargo prices shown in Table 6(b), rather above what one would expect the price of a long-term contract to have been in that period. This would clearly point to the fact that throughout this period Paneast constituted a vehicle to grant a price concession to Europa outside New Zealand."

10

have you taken into account when

expressing that opinion the substantial benefit

received by Europa Refining under the ancillary

affreightment contract, the alternate freight credit? I believe I have already said what I have to say about the relation of the

affreightment contract and f.o.b. prices and what I said on this point in relation to crude oil would be equally applicable to naphtha.

I want you to look at this problem for a moment from Gulf's point of view, and the negotiating position of Europa...under the contracts of 1964 was Gulf not supplying naphtha which can be described as premium naphtha? Does the 1964 contract give a specification of the naphtha to be supplied.

10 Perhaps if you accept it was a premium naphtha? I cannot comment on that without seeing the specifications. Look at Vol.III p.3129? It was what I believe can generally be described as a full range naphtha as distinct from a light petro chemical, but it was on the basis of A.P.I. gravity of 65.3, not an exceptionally heavy naphtha. A heavy naphtha could have had a gravity as low as 62, and I believe that throughout the contract the gravity has been in the range of 65 to 67 A.P.I.

20 Well, did you hear Mr Todd give evidence or did you read his evidence about the attitude of Gulf to the Bench Mark situation as reached with the New Zealand Government and the other oil companies? I heard what Mr Todd said.

And did you hear him say that in the overall concept of cost and freight price the overall delivered price for Europa Refining was a low one? I heard Mr Todd say that.

30 Would it have been possible for Europa Refining to have put the pressure on Gulf to make a further reduction? I believe that at certain points of time in the contract that may have been possible.

Well, if Europa Refining had been able to press Gulf into reducing the f.o.b. element, would it have had

any answer to a request from Gulf to raise the freight element? I believe that Gulf might have had a case at least for a temporary freight increase at the time the Suez Canal was closed when certain Governments did allow certain Suez Canal surcharges, but this would have mainly applied to European countries where the additional costs of going round the Cape instead of through the Suez Canal was substantial. The case would have been far weaker
10 in the case of shipments to New Zealand.

Insofar as freights may have been raised and f.o.b. costs reduced, would not the position from the economic point of view have been the same to Gulf as it was before any such change? That all depends on the extent of the reduction of the naphtha price and/or the increase in freight.

But is it not the position that from Gulf's point of view the components, if you like, of f.o.b. and freight were regarded as components of one package?
20 Gulf may have looked at it in that way. However, if we look at the naphtha price to Europa ⁶⁶ ~~65~~ shown in Appendix A, which for the greater part of the period with which we are concerned was \$2 per barrel which was the price to Europa of 66 A.P.I. per barrel for naphtha, and if we take the Bench Mark price...no, if we take the Persian Gulf posted price during most of that period at $4\frac{1}{2}$ cents per gallon or \$1.89 per barrel, there is still a difference of
30 than the difference between the alternate freight and the freight at which Gulf could have chartered on a long term basis to supply Europa throughout the period of the contract, 1964 or 1965..admittedly the difference would not be very great.

Now p.11, about line 10 or so "It would therefore have been unreasonable for a major purchaser like Europa", is it correct to describe Europa as a "major purchaser"? Yes, among smaller arms length buyers Europa was a major purchaser, taking the overall volume of Europa, it was not a major purchaser compared with Japanese buyers.

With whom are you comparing it? With independent importers, with independent arms length buyers of
10 petroleum products from the Persian Gulf.

Where are these independent arms length buyers, in Europe? In Europe, countries like South Africa, Or India but I admit the word "major" would apply to the overall purchases of Europa and not to gas oil in particular. Still on p.11, paragraph 3, could you help me here, I have some difficulty with it, will you read that paragraph? (read)

20 In accordance with the letters of October 31, 1970, Paneast's profit on naphtha was further reduced, to 34¢ per barrel, by virtue of the fact that the direct discount to Europa was increased to 41¢ per barrel, and, hence, the price received by Paneast was similarly adjusted."

Now will you turn back to paragraph 2 on p.10 and read that please?

30 "This profit was reduced to 54¢ per barrel in accordance with the terms of the letters of March 16, 1965 (Exhibits B2/3131 and B6/3147) which, with effect from April 1, 1964, granted a discount of 29¢ per barrel on the price of naphtha to Europa and hence, on the price received by Paneast from Gulf."

There is something wrong here, you are quite right...it should be 42 cents, not 34 cents ...it was clear from Appendix A (ii).

That is Appendix A (ii) on p.18? Yes.

Now p.12, second paragraph you say

"In accordance with the letters of October 31, 1970, the increase of 9¢ per barrel in the posted price of Kuwait crude oil would have similarly affected both sides of the contractual price relationship"

the question I want to put is, did it in fact affect both sides similarly?

The letter of October 31st ~~1970~~ *1970 did.*

It did...was there any reason for saying "would have", rather than "did"? No.

10

Page 13, last sentence of the first paragraph on that page

"But in the case of naphtha, this formula applied only to the price paid by Paneast and the effect of the price adjustments was to preserve a profit for Paneast, although at a substantially reduced level."

are you there implying that if EXBT C.S.26, which you had just been dealing with in previous sentence, had not been given effect to, Pan East

would not have made a profit at all? "Because it was the formula applied only to the price paid by Pan East....previously".

Yes, but my question is, are you implying that in the absence of the C.S.26 arrangement Pan East would not have made a profit at all? I have not made that calculation and I would have to make a calculation to give you a definite yes or no.

10 Are you within the physical limitations of time and circumstance to make such a calculation? If I am given permission to do it during the tea break I'll be glad to do it.

11.32 COURT ADJOURNED

11.52 COURT RESUMED

20 Have you been able to arrive at any conclusion? On the basis of my calculation if I have understood the question correctly, and therefore I repeat it, would Pan East have made a profit if the letter of 20th September 1971 had not been issued on naphtha.. was that the question.

Yes, that is the question. On that basis the profit of Pan Eastern on naphtha would in the period from February 15, 1971 as compared with Appendix A (ii) (iii) have in fact been greater than indicated in the Appendix just referred to. It would have been 41.25 cents a barrel.

30 Still on p.13 about 6 lines from the foot of the page, dealing in that paragraph with the long term outlook for naphtha prices and you say

"On the other hand, the potential demand for naphtha for the U.S. gas industry was more conjectural than probable."

was it not, however, at that time, this is September 1971, well known that gas supplies in the U.S.A. were becoming more and more inadequate and that naphtha was being considered as a feedstock for gas plants?

Yes, certainly, but before that could be put into practice the so called synthetic gas plants in the U.S.A. to use the naphtha would have to be built and they could not be constructed and be ready before approximately 1975. Furthermore, it would have been necessary to amend the U.S. import regulations in order to permit the import of naphtha for that purpose, and until that had taken place it was unlikely that any capital investment in such synthetic
10 gas plants would be made in the U.S.A. In fact the import regulations have not yet been amended to make this possible up to this point of time.

Are you aware of a conference known as the Energy Conference held in Washington D.C. in September 1971? Not in detail...I was certainly not present and have not read the paper.

Now at the very foot of p.13 and at the top of the next page you deal with Gulf agreeing in the case of naphtha to absorb a proportion of its increased tax
20 paid costs, would you refer to the Tables annexed to C.S.26, and particularly Table No.2 relating to Kuwait naphtha, this is similar is it not to the Table that I put to you earlier annexed to EXBT C.S.25? Correct.

Does this Table too not show that for the period from 14 November to 31 December 1970 it was 1 cent ~~the~~ that was absorbed, and from January 1 to February 14, 1971, it was 1.5 cents that was absorbed? Yes, but if I may say that this is of course a trivial
30 amount.

And that thereafter no part was absorbed by Gulf? Correct.

Page 14 about two thirds of the way down, you have an inset which sets out certain results; the second

one relates to gas oil sold by Gulf to Pan East, under what provision of the processing contract was gas oil sold by Gulf to Pan East? I do not know the exact reference in the exhibit, this table is based on the letters of amendment, it was also in my previous evidence if I may turn to that.

10 Now p.16 in Appendix A, you refer under the heading of "Intermediate Position" B to "From November 14, 1970, if Gulf...1970", do you now accept that these letters of variation were not unilaterally sent by Gulf without the knowledge of Europa but as the result of negotiations between Gulf and Mr Todd? I have said before that if Mr Todd says that he had negotiations with Gulf at that time I accept his word. I also repeat, however, that the reason why these negotiations were successful from Mr Todd's point of view may have been because Gulf knew what was coming in the way of posted pricing.

20 What is the purpose of setting out in this Appendix the situation that might have prevailed if certain things had not happened when, in fact, we know they did happen? Just as a matter of interest, of no particular importance.

Now p.18 "Naphtha 66"..we looked this morning at p.3129, the schedule which shows an A.P.I. gravity of 65.3...is there any reason for the 66 here as distinct from the 65.3? The reason why I took 66 A.P.I. is that on the basis of actual shipments received 66 A.P.I. was I am advised over recent years
30 a typical average. I should say here that a variation of 1 degree A.P.I. or even 2 degrees A.P.I. in the supply of a feedstock is generally accepted in the industry as being within the operational tolerance.

Now I want to come to this question of naphtha pricing which is dealt with in the supplementary addendum to your evidence, it begins at p.3, you say at p.5, first paragraph

10 "Regarding the naphtha quality for New Zealand, although I have had contact with both Government and the oil companies in New Zealand in my company's role as adviser to New Zealand Government on oil matters the question of quality of naphtha was never raised with me by either Government or any of the oil companies with whom I have had contact before 1971."

I gather

from what you said in evidence, you were not present at any of the inter-departmental meetings about bench marks? No.

And that you have been the consultant or adviser to the New Zealand Government in relation to pricing over a period of some years? Correct.

And would that include the question of pricing of naphtha? Yes.

20 As an expert advising the Government why would the question of quality of naphtha have to be raised with you before you considered it? I don't quite follow the question.

Well, ought you not as the adviser or consultant to the Government to have been aware that this was a question that might be germane to the question of naphtha pricing? In my role as adviser to the Government of New Zealand I would take the initiative if I felt that there was a problem of which the
30 Government may be unaware irrespective of whether the Government had raised it with me previously or not. I would draw their attention to any oil industry developments relevant to New Zealand. The reason why this was not just a problem of naphtha quality

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was not raised earlier was that in the overall industry-wise naphtha demand and supply situation I did not think that there was a problem I am equally sure that if this had been made a serious issue between the oil companies and Government, Government would have raised it with me or one of the oil

companies in New Zealand with whom I have met informally from time to time.

Now when the naphtha prices were fixed for Bench Mark purposes were they made retroactive? That depends sometimes the negotiations dragged on relating to one particular year until well into the middle of that year and I believe I am correct in saying that the 1969 negotiations continued into 1970 and then an agreement was made covering the whole period from
10 the beginning of 1969 to the end of 1971.

I would like you to look at a letter than you wrote on 4th January 1972 to Mr Todd headed "Naphtha Pricing" (EXBT II)? I am aware of that letter. At the time when that letter was written there was a question as to its confidentiality I take it? Yes. But subsequently the consent of the then Minister was obtained to removing the characteristic of confidentiality? You will appreciate that this letter is part of a series of correspondence between myself
20 and Mr Todd. Mr Todd came to see me in London in September/October 1971 and informally discussed with me the naphtha problem. Much to my surprise Mr Todd then advised me on his return to New Zealand that he had reported his interpretation of our conversation in London to the Minister, although it had been understood between us that the discussion was an off the record one. I did not agree with the interpretation Mr Todd had placed on the discussion which I had with him in London, and I therefore wrote
30 this letter, which has now been given as an exhibit, to Mr Todd to put the record straight. At the end of the correspondence it was Mr Todd who asked me whether I had any objection to the full exchange of correspondence being made available to Government

and the other oil companies involved in the negotiations. I replied that as an adviser to Government it was not for me to say but that if Government had no objection I was agreeable.

And did Mr Todd advise you that Government had no objection? He did, and the whole correspondence I believe was given to Government and also to the other oil companies.

10 This letter of 4th January was written at least in part to put the record straight, at least from your point of view? Yes.

You sent copies to the Minister and to Mr Datsun who was officer of the department with whom you had high level meetings? I sent copies to the then Minister and Mr Datsun because Mr Todd had also sent copies of his letters to me to them.

Now p.1

20 "I have held the view, and am still of that opinion, that so far as 1971 is concerned there was and is a case for an increase in crude oil prices. There is evidence that in the case of other fixed price contracts crude oil prices were raised by the amount of the increase in government take. Admittedly the evidence with regard to naphtha and other products is thin, partly because the market is a much smaller one."

it is
that last sentence, does that sentence accurately convey your thinking now as well as at the time you wrote the letter? Indeed, but I think it must be read in conjunction with the remainder of that paragraph.

30 "The available evidence from market reports is, however, that whereas some products such as fuel oil, at least initially, absorbed the full increase in tax paid costs and more, the price in the market for naphtha actually weakened."

that
is the context you say it should be read with?

Yes..I should explain that those oil companies who were selling fuel oil were during most of 1971 getting returns on that product compared with the period before the Teheran agreement which were higher by more than the increase in the tax paid costs of crude oil. They were therefore, on balance not losers if the naphtha did not take the full increase in the tax paid cost of crude oil. Indeed one company only increased its posted price by the equivalent of 29 cents per barrel of naphtha whereas the increase

in tax paid costs on crude oil was over 40 cents per barrel.

Just look briefly at p.35 of your evidence in chief in which you deal with the Channel Ports Index, is it the position that that index related to a fictional situation? No.

Was the index dropped by Platts Oilgram Service at some stage? I believe it was dropped in 1966.

What was the purpose of the index while it operated?

10 The purpose of the index was to show at what price products could be brought from the Carribean to Europe, this being a guide to the potential competition in European markets from that area. I have reason to believe that when originally conceived the idea of publishing this index was inspired by Esso.

20 So was its purpose not to inform the Carribean suppliers of what they would need to do to meet the situation disclosed in the Channel Ports Index? It was not showing Carribean suppliers as to what to do in order to compete in Europe. It was rather the reverse. It was to tell European refineries at what price Carribean supplies would compete with them. Isn't that just looking at it from the European suppliers' point of view? It is looking at it from the European refinery point of view, but it is still of relevance insofar as by breaking up the Channel Port Index into f.o.b. and freight component, it gives an indication of actual market prices for
30 petroleum products in the Carribean at any one particular point of time.

Do you personally know of the reason why the Channel Ports Index was dropped? I do not know, but my own interpretation would be that the demand for

petroleum products in Europe was by 1966 almost entirely naphtha out of European refineries and therefore the import from the Carribean and possible competition from that area had become negligible. Now on p.30 of your evidence in chief, the last 2 lines, and running on to p.31 you say

10. "Assuming operating costs remain constant during the period between 1970 and 1975, which is believed to be a reasonable assumption, then increases in tax-paid costs become synonymous with the OPEC Cost Increases shown in Gulf's own table."

what I would like you to consider, Mr Newton, is whether that is a reasonable assumption in view of the rampant inflation of costs and continuing deflation of currencies? The rampant inflation of costs was supposed to have been taken care of by points (iii) the last paragraph on 29 of my evidence in chief,

20 "An annual increase of 5¢ per barrel on crude oil posted prices coupled with a further $2\frac{1}{2}\%$ to compensate for worldwide inflation, such increases to be effective from [certain dates]"

As for devaluation of currencies this is something which had not been taken into account in the Teheran agreement. It was therefore the result of further negotiations between the oil companies and the producer countries which culminated in the Geneva agreement to which I refer in a footnote on p.29 and on p.31 which supplements the Teheran agreement, and which provides for changes in posted prices in the event of changes in the value of the U.S. dollar against other currencies. This agreement will not again become effective.

30

10107 A

Just reverting to Mr Todd's evidence about crisis in the industry to which you referred in your oral supplementary evidence yesterday, I think you have said that there was basically no crisis of supply until the end of the period or near the end of the period with which we are concerned in this case? Yes. But is it not the position that since the establishment of Opec in 1960 the international oil industry has been in a state of crisis?

There have been intermittent discussions between the oil companies and producer countries, in particular, in 1964/65 over the question of whether royalties should be part of the tax or should be regarded as an expense. I think, however, it would be wrong to consider those earlier discussions which took place against a background of a very considerable crude oil surplus to have taken place under conditions of crisis. It was only when as a result of the

10 Libyan development in the second half of 1970 and the subsequent more heated negotiations with certain threats being made by the producer countries that one can speak of there having been a crisis affecting supplies.

Does your evidence not show how vital it was for a company in the position of Europa Refining to have contractual security of supply? I have never denied this, either in my previous evidence or in this.

And what when Mr Todd was negotiating the contracts

20 which we know as the 1964 contracts, he had to reach an arrangement in the light of the situation as he then saw it? I agree that he had to reach an arrangement which would give him maximum security of supply at reasonable cost.

And you would not suggest, would you, that he should be able to forecast developments in the industry throughout the whole of the period of supply? I don't think anybody could.

Do you accept that Europa Refining has over the

30 period in question bettered the Government Bench Marks relating to the landed cost of feedstocks? I would have to see the landed cost on the basis of Bench Mark Prices and agreed freights spelled out and calculated over the period in order to give a

yes or no answer and compare them with landed prices paid by Europa.

I show you EXBT V, Mr Newton, now accepting that for the moment? I think it would be irresponsible of myself if I accepted these global figures without seeing details as to how they have been arrived at. Well, just looking at those figures, and evidence has been given about them by another witness, it does show the global figures that the value of supply
10 contract prices for f.o.b.'s and freights is a little lower than the value at the Bench Marks for f.o.b.'s and freights, does it not? This exhibit shows it, but I would want more detail as to how it has been arrived at.

You have been adviser to the New Zealand Government in relation to Bench Mark negotiations for several years?

Yes.

Would you be aware, as adviser, of any suggestion that Europa had not bettered the Government Bench Marks?

20 I have never been concerned with the position of individual companies.

Have you been informed? I have not been informed either.

Would you not be likely to be informed if one of the companies had not met the Bench Marks? No, there is no reason why I should be.

You said earlier you were advised of arguments that may be put up by the companies and your opinion on those arguments requested by the Government? In the
30 course of actual negotiations the Government would seek my opinion on particular arguments. They would, however, not necessarily tell me, nor is there any reason why they should, if one or other of the

companies had not met the Bench Mark prices.

If one of the companies argued that it was in a special position, would you not be informed of that argument in order to comment on it? I might be, I might not be.

Is the position that you have not heard it suggested by anyone that Europa Refining has failed to meet the Government Bench Mark? I have not been told that.

12.50 COURT ADJOURNED

I am Director of Administration and Accounts, Inland Revenue Department, Wellington. As a Special Inspector I was involved with the investigation of the Europa Group.

The Company Section of the Wellington District Office was considering the question of whether the Department should tax exchange profits shown in Europa Refining's accounts for the year ended 31 March 10 1968.

While discussing this matter with the Examiner, Company Section I noticed that Europa Refining's accounts for the period 31 March 1965 to 1968 made no reference to the purchase and sale of refinery feedstocks.

As a result I wrote the letter dated 10 January (already produced as Exhibit 9) with a copy to Mr Mahon.

As no reply had been received and in view of the pending Supreme Court case against Europa Oil I called 20 at the office of Europa on 23 January 1969 to obtain the information requested in my letter. I interviewed Mr Smith and took notes of the shipment concerning the Denmark Getty. Following the interview I prepared a report which I produce as an Exhibit.

In the course of the interview Mr Smith told me

- . There was no written contract between Europa Refining and Europa Oil for the feedstocks Europa Refining sells to Europa Oil and no invoice was issued.
- 30 . The first entries in the accounts recorded feedstock purchases from Gulf Exploration in April 1964. The accounts comprise a ledger which records separately in respect of each shipment from Gulf, the f.o.b. and freight costs. When these costs are finalised Europa Oil's account in Europa Refining's books is debited with the

total cost of the shipment.

10112

The debit in Europa Oil's account is cleared by a payment which equals the cost of feedstocks purchased by Europa Refining. Europa Refining therefore breaks even on each shipment.

In the absence of any written contract there is no precise time at which the property passed and to avoid any difficulty over ownership in the event of loss by fire, the feedstocks were insured under a policy which treated either company as owner.

10

I traced through several shipments in Europa Refining's books of accounts which showed that Europa Refining pays Gulfex and Propet for feedstocks and freight respectively 120 days after the loading date of the ship from funds held in a London Bank account. Europa Oil made advances to Europa Refining for these shipments about the time the ship was loaded. These advances were remitted overseas for deposit at a trading bank in London where approximately the equivalent of NZ\$2 million was held permanently on deposit.

20

The details I took concerning the "Denmark Getty" expressed in N.Z. currency were:

<u>F.O.B.</u>	(a) Light distillate	£185,429.16. 1	
	(b) Middle distillate	<u>114,650.14. 8</u>	£300,080.10.9
<u>Freight</u>	Freight on (a)	52,963. 5.10	
	Freight on (b)	<u>26,680. 6. 2</u>	<u>79,643.12.0</u>
			£379,724. 2.9
	Harbour Improvement Rate	6,329.15. 0	
	Insurance	942.14.11	
	Supervision	<u>10. 0. 0</u>	<u>7,282. 9.11</u>
			<u>£387,006.12. 8</u>

30

This total figure of £387,006.12.8 was charged to Europa Oil current account in Europa Refining's books.

This shows that Europa Oil was charged with the landed cost of the "Denmark Getty".

I produce the Pan Eastern "Expected Profit" Statement prepared by Inland Revenue Department for the years ended 31st December 1965 to 1970 inclusive.

The "profit expected" is the profit of Pan Eastern which Europa Refining or Europa Oil could have calculated in respect of supplies from Gulfex.

Set out each year in the statements under the respective headings for Naphtha (L.D.), Gas Oil (M.D.) and Kuwait crude are the difference between the prices paid by Pan East for feedstocks and the prices received on sale.

Shown as purchase is the price paid by Pan Eastern to Gulf under para. 4.02 of the processing agreement. Shown sales is the price paid by Europa Refining to Gulfex under the Feedstock Supply Contract.

The cost of purchase is specified in each case under Clause 4.02 of the processing agreement while the prices under the Supply Contract could be calculated from price references published daily in the publication Platts Oilgram.

The profit could be calculated by applying the difference in these sets of prices to the Volumes shipped.

The "profit expected" is this profit doubled in order to give effect to paragraphs 5.02 and 5.03 of the processing contract.

2 P.M. COURT RESUMED

ROBERT THOMAS PHILLIPS (Sworn)

EVIDENCE IN CHIEF READ: [pp. 10111 - 10113 inc.]

XXD BARTON: How long have you been director of

Administration Accounts? Something over two years.

Immediately before that had you been acting as

Specialist? No, I had been acting as Chief Inspector
for the previous twelve months.

And before that had you been Specials Inspector? Yes.

10 Over what period have you been closely involvdd in
a consideration of the tax liability of Europa Oil,
the objector? I think from March 1965 to more or
less the end of the previous hearing, so from 1965
to early part of 1969.

In the course of your association with the Inland
Revenue Department have you had occasion to investigate
tax position of closely linked companies? Yes.

Have you considered the position where one person is
the Managing Director of several closely linked
20 companies? Is this other than Europa.

Generally? Yes, I have.

In those circumstances is it usually your experience
to find formal contracts between the component
companies in the group? I am getting concerned
about discussing things in terms of the Secrecy Act.
Yes, there are normally.

Where the managing director of one company arrives
at a decision concerning that company and another
company of which he is managing director, has it
30 been your experience that a note or memorandum
records the decision? I can't answer that. The
circumstances to which I refer concerning contracts
are those concluded between an overseas parent

company and the New Zealand company and in those contracts the directors are quite different. So far as contracts between a New Zealand company and either its sister company or subsidiary company I don't recall ever having seen any.

Did you know the business of Europa Oil to be that of marketing petroleum products? I did.

Over period from 1964 did you know where it got its petroleum products from? Yes I did, its supplies
10 in more than one shipment was from Persian Gulf, but I think there were also supplies from the Carribean. Where did it get its finished products from? From the New Zealand Refinery.

Look at EXBT NO. 9, that is a letter you wrote? Yes, I wrote that.

And the hearing in the Supreme Court in the first Court was shortly to take place at the time you wrote the letter? Within three weeks or so.

Is it a fair inference from what you seek in para-
20 graph (a) that you did not yourself know the answer? We didn't know, we were uncertain, that is why this letter was sent.

And you sent a copy of the letter to Mr Mahon, then counsel for Europa Oil? I did.

Have you had an opportunity of reading a copy of Mr Smith's memorandum dated 23rd January 1969? Yes, I have.

Recording what took place when you visited him? Yes. I show you EXBT HH, you see in the first paragraph
30 of that note Mr Smith refers to something that you said about an explanation received by the Crown Law Office from Mr Mahon? Yes, I see that.

Does that accurately state the position? I don't

p A

actually recall having said this. I don't have it recorded in my notes. It could well have been another reason for having this matter tidied up. I just don't recall the question.

the
ted
loss
to see

Would you accept that the question when property passes in goods is a matter that worries lawyers perhaps as much as anyone else? Yes, it is important but the ownership passes after all.

t

Do you accept it is a legal problem? I think it is.

10 Now on p.2 of your evidence in chief today line 7,, you are there recording what Mr Smith told you, you say that he said '

"In the absence of any written contract there is no precise time at which the property passed"

Yes I did.

What did you understand by that? The precise point at which ownership changes.

Was that consistent with what Mr Smith records in the first paragraph of his note that the property in the crude oil passes to Europa Oil in the refinery? I see some distinction, but I record the question as being at no precise time whereas if the crude oil is sold to Europa Oil in the refinery it places some bounds on the transactions.

20

But it still leaves uncertain the precise time within those bounds? Yes.

You go on to say still p.2

"and to avoid any difficulty over ownership in the event of loss by fire, the feedstocks were insured under a policy which treated either company as owner."

did you call for the insurance policy? No.

10116 A

Did you ask any questions about the scope of the insurance policy? Not that I recall, I accepted Mr Smith's explanation.

Did you accept the policy covered the risk of loss by fire in the refinery? I would really like to see the policy, I just don't know.

You are recording what Mr Smith told you about

difficulty in the event of loss by fire, what did you understand that difficulty to be if it did not relate to fire in the refinery? I don't know whether I applied my mind any further at the time, but no doubt I was looking or thinking of in whose possession and ownership the feedstocks would be.

And if the feedstocks were in the possession of either company, does it not follow from that as a reasonable interpretation of what Mr Smith told you
10 that the risk passed at some stage in the refinery? Not necessarily so.

If the risk passed before the petroleum actually went into the refinery, what would the problem be? If it was destroyed by fire while held in the refinery tanks.

But at that stage it would have passed over the ship's rail? Yes, it would have.

If you still have Mr Smith's note EXBT HH, in front of you, look at the fourth paragraph, last two lines
20 "so Europa Oil must come into the picture before products are produced in the Refinery."

do you recall Mr Smith saying anything like that? I can't just recall these words, but if it is recorded I accept that.

Does it not also follow from that that Mr Smith was explaining to you that at some stage in the refinery Europa Oil must come into the picture? At some stage in the refinery, yes I think that is possible, but it may still have bought feedstocks.

30 Who, Europa Oil? Europa Oil.

Now if Europa Oil bought feedstocks, why would Europa Refining be wanting to apply for a licence under the Motor Spirits Distribution Act (not proceeded with).

Carrying on at p.2 of your evidence, little over half way down,

"These advances were remitted overseas for deposit at a trading bank in London where approximately the equivalent of NZ\$2 million was held permanently on deposit."

is it not the position that each advance remitted to a trading Bank in London was uplifted at the expiration of 120 days after loading of the tanker to which the advance related? That over-simplifies it, the moneys held represented the total cost of shipments within the 120 days' period and insofar as the cost of one shipment went into the Bank account, another went out the other ^{end} ~~end~~ for payment to Gulfex, but this left a permanent pool of funds.

Coming now to p.3 of your evidence, and looking at your exhibit 27, you see that each of these pages is headed up "Pan Eastern Expected Profit" for a particular year? Yes.

Was each of them prepared before the beginning of the year in question? You mean by the Tax Office, no. Is "Expected" a fair description? Expected means Expected by Europa Refining rather than expected by the Tax Office.

But these have been prepared by the Department with the advantage of hindsight? No, they have been prepared recently but they could have been prepared shipment by shipment at the time the volumes of feedstocks were loaded on to the ship..sorry, at the time the quantities loaded were known to Europa Refining.

Let us look at the situation at the commencement of one of these periods, would it be known at that date what volume of crude oil would be processed in the ensuing year? At the beginning of the year, no. Would it be known at the beginning of the year what

the cost of crude oil would be to Pan East throughout the year? No, because it was tied to posted prices. Would it be known what the selling price of production would be throughout the year? Not at the beginning of the year, nothing would be certain.

How would you go about calculating the expected profit for year ending 31st December 1973? At the point of time at which the quantities of naphtha were loaded, I would take the difference in respect of each
10 barrel loaded, the figures \$1.46 being specified in the processing contract, and the price defined in the supply contract being the price of Kuwait crude plus whatever cost may apply under the escalation clause. I would obtain the price of Kuwait crude from Platts Oilgram Service which we receive daily, and so far as gas oil is concerned I would compare the cost price of \$2.00 as defined in the processing contract and compare that price with that quoted daily for 48/52 Diesel Index which was the price reference specified
20 for gas oil under the supply contract which, of course, was the selling price by Pan East under the processing contract.

Are you not really then taking the situation as at the date of loading each tanker and then working out the profit in relation to that shipment? Yes. Would you accept that at the date of ordering the shipment Europa Refining became obliged to pay for it? Yes, I think that is in the contract too.

Why have you not taken that date for the date of
30 determination of the profit? I don't think that generally they are material, these dates, because the posted price of crude oil may remain the same for two or three years and I think the posted price

of ⁴⁸48/52 Diesel Index being the price reference for gas oil would change more than two or three times per year.

But you wouldn't know that at the date when the order was placed? The Tax Department would not know the date at which the order was placed but we did know the date at which the ship loaded.

I suggest the reason why the Department did not take the date on which the order was placed was that on
10 that date, nobody, not even the Department, could calculate the profit to Pan Eastern? No, but they would be 99.99% chance of it being right.

Always right? Not always.

99.99% over the whole period? On the basis that the prices stayed the same for two years several days would be unlikely to make any difference.

But is not the position that nobody knows the day or the hour when there ~~may~~^{now} be a change? I can only say this, that in respect of the previous hearing I
20 prepared all the profit expected statements on the basis of prices applying on the loading date and in each case they came to exactly the ultimate profit shown in American dollars in the books of Pan East; over that period there must have been something like 40 shipments and this particular point did not apply in any of them.

But there again you were preparing this material after the event? Yes.

Now p.3 paragraph 3 you speak about the difference
30 between the prices paid by Pan East for feedstocks and then the next paragraph shown as purchase is the price paid by Pan Eastern to Gulf under paragraph 4.02, did Pan Eastern pay those prices? You mean pay in cash, no, not generally, they were by journal

entries.

Now p.3 last paragraph, I would just like to say the question by qualifying the question of payment, I want to say that if you buy goods you can either pay for them by cash or settle on the 20th of next month or have them contraed against money which may be owing to you but all these I consider to be different methods of payment.

Well did Pan Eastern pay Gulf for, shall we say,
 10 naphtha \$1.46 by journal entry or in any other way at all? I think the best thing to do would be to let me look at an exhibit in the big box EXBT AA, what seems to happen is the crude is purchased in the summary statements.

They show the cost of crude \$1.35 and that there will be a refining fee, processing fee, 20 cents per barrel? These papers show this, which, of course, is quite in conflict with the contract.

So you suggest that Gulf has been wrongly interpreting
 20 the contract? I say they could place whatever interpretation they saw fit in these papers.

Now still on p.3 of your evidence, last paragraph

you say "The "profit expected" is this profit doubled in order to give effect to paragraphs 5.02 and 5.03 of the processing contract."

I do.

I want to put an absolutely elementary question to you, when you double something you usually end up with an even number? That is normal.

Know any other way? Unless you have decimals, no.
 How do you explain this very minor matter that in
 30 the Pan Eastern statement of processing profit you occasionally have an odd number? Perhaps we have rounded off 50 cents and doubled that figure.

It doesn't matter what you round off whenever you double you must have an even number?

Would you just point to some figure.

Yes, the last item "Statement of processing profit" ends up 839, the year 31st December 1968, ends with odd number, same for 69, how do you reconcile that with doubling? The profit that ends with 838 is Department's calculation, whereas Pan Easterns is 839, perhaps our arithmetic is better than theirs. That is the way they did it? That is end result.

10 Can you point to any provision in the contract which uses the word "double" or "multiply twice" or "doubling"? No, but the effect is the same.

Are you thinking of paragraph 5.02? Yes.

Does that paragraph not refer to other production?

It does, but it is an unknown quantity and an unknown price and no reference to a processing cost to arrive at the predetermined figure in paragraph 5.02 and in my opinion that is doubling.

20 Is the effect of cl.5.02 not to determine the price at which the other production will be sold? Yes, but so as to guarantee to Pan East a return equal to our first profit calculation.

You do not record in your Tables here those sales? No. Why not? Because they are unknown as to volume and unknown as to the price and unspecified in the contract.

Do you know whether such sales, the sales of these other products, were actually invoiced by Pan Eastern? They are shown on the summery statements comprising volumes estimated by Gulf.

30 Mr Phillips, you are still with the Department are you not? Yes.

I put to you a letter dated 13 November 1972 from the Solicitor General to the Solicitors for Europa No. KK Oil (EXBT KK) please read that letter? (read)

"I refer to Mr Richardson's discussion with Dr Barton.

"The Objector's contentions are, of course, that the Commissioner was wrong in disallowing as a deduction the amounts in dispute, and that s.108 has no application. The Objector has emphasised that it was Europa Refining, rather than the Objector, which entered into the 1964 contracts.

10 "If the Court upholds these contentions, it is likely that the Commissioner will have to give further consideration to assessing Europa Refining for the same amounts.

"I therefore think it desirable at this early stage of the present case to advise you of the possibility of Europa Refining being assessed should the Commissioner fail against Europa."

RXD RICHARDSON: Mr Phillips, at the time your interview with Mr Smith concluded on 23rd January 1969, what was your understanding as to what particular petroleum commodities Europa Oil purchased from Europa Refining? The feedstocks.

20 What was your understanding of the meaning of "feedstocks" at that time? Well, it was semi-raw materials that had to be processed through the New Zealand Refinery before they could be sold on the market. Now you were asked some questions as to the time when property passed and in relation to insurance in particular, can you say anything as to the risks of spillage or fire at the time feedstocks are passing from ship's tanks to refinery tanks? No, I dont know.

I am a Survey Leader in the Pay Research Unit of the Department of Statistics, Wellington.

For eleven years up to March 1969 I worked for the Inland Revenue Department. I was involved for some time with the investigation of the Europa Group.

During the investigation it was brought to my notice by the Companies Section of the Department that Europa Refining showed a capital reserve of \$28,321 in its
10 balance sheet for the year ended 31 March 1968. A note to the balance sheet explained that the reserve represented the exchange difference on funds held overseas at date of devaluation of New Zealand currency and still held at balance date.

A letter was written to Europa Refining asking for details of the exchange profit. The reply detailed the funds held overseas and explained that they originated from interest earnings on deposits held overseas. As on the face of it the company appeared to have no overseas
20 transactions. Mr P.H.J. Nota from the company section and myself interviewed Mr N. K. Smith the company's secretary, on 20 November 1968.

It was my regular practice to take notes at an interview of this kind. In this case I subsequently prepared a report and I produce a copy as an exhibit. I do not have the original notes of interview but having been used for the preparation of the report they would not have been required any further.

In the course of the interview Mr Smith explained
30 that Europa Refining Co. Ltd was incorporated on 17 July 1962 primarily to purchase and hold Europa Oil (N.Z.) Ltd's shares in the N.Z. Refining Co. Ltd. When the refinery came on stream it was intended that Europa Refining would carry on the refining business and sell refined products to Europa Oil. However, Mobil opposed the application

for a wholesale licence which meant that Europa Oil itself was forced to process the crude through the N.Z. Refinery. As Europa Refining was named as the purchaser in the contracts with the Group's suppliers Gulf, Europa Refining had to purchase the feedstocks and then sell them to Europa Oil at cost.

BRYAN DAVID KENNERLEY (Sworn)

EVIDENCE IN CHIEF READ: [at pp.10123-10124]

EXAMINATION IN CHIEF CONTINUES:

Mr Kennerley, I am going to read a passage of evidence of Mr Smith and ask for your comments, p.⁵⁰~~15~~ line 25

10 "I was present at Plenary meetings on 23 June 1968 and 1 July 1968 between Oil Companies and the Government Interdepartmental Committee on the Oil Industry at which meetings Mr B.D. Kennerley representing the Commissioner of Inland Revenue stated that subject to confirmation with the Commissioner he was able to commit the Commissioner to the bench mark levels and would let us know if the Commissioner did not accept. No notification was ever received that the Commissioner did not accept the bench mark levels."

20 Yes, I made a statement at the beginning of the first plenary meeting between company representatives and officials of Government. The statement concerned the position of the C.I.R. at the conference. My recollection is that I had clearly in mind that the Bench Mark applied only to the international companies and the statement was made in this context. Indeed, the international oil companies were assessed under s.20 whereas Europa Oil was assessed under s.111 and s.108 on an entirely different basis. I have since had the opportunity of refreshing my memory by referring to my report of the negotiations and this report confirms my recollections.

30 XXD BARTON: Have you had an opportunity of reading the memorandum prepared by Mr Smith, EXBT GG, dated 20th November 1968 relating to your visit and Mr Nota's to Europa Oil's office? Yes, I have. Did your visits take place either on that day or a day or so earlier? It took place on the same day.

And your note EXBT 28 is prepared almost six weeks later is it not? That is correct...I always made a practice when I interviewed a person to take summary notes at the time which were immediately elaborated when I got back to the office and from this document I prepared a full report.

TO BENCH: You say elaborated? I took notes of what people said, and these notes were filled out in long hand when I got back.

10 TO COUNSEL: Those basic notes no longer exist? I would say they probably exist, but I left the Department in 1969 and all my records of 11 years were despatched to vaults in the Ford Building and I have not been able to find them.

Do you agree that the main purpose of this visit related to matters other than the problem of passing of property as between Europa Refining and Europa Oil? Yes.

20 Would you look at paragraph 5 of your note EXBT 28, second last sentence, that says "As Europa Oil is bringing 2 or 3 shipments into New Zealand", is that a correct statement of those shipments that Europa Oil brought them into New Zealand? I don't understand the question.

Is that a correct statement that it was Europa Oil that brought shipments into New Zealand? Look, I'm sorry, I am not familiar now with details of the contracts, so I could not answer that one way or the other.

30 Did you see any shipping documents to see who actually imported these cargoes? I did not.
On the same note, paragraph 4

"Europa Refining Co.Ltd. was incorporated on 17 July 1962 primarily to purchase and hold Europa Oil (N.Z.) Ltd.'s shares in the N.Z. Refining Co.Ltd."

now did Mr Smith not say to you that on incorporation Europa Refining took the shares in New Zealand Refining Company Ltd or some such words as that?

This interview took place in 1968 and I am sorry, I can't recall exact words of what either Mr Smith or I said, this is just a recording of my recollection of what was said at that time.

You also say here that the shares were to be held... that Europa Refining was to hold Europa Oil shares... New Zealand Refining Company Ltd", first sentence in paragraph 4, what did you understand by that, to hold as trustee or agent? No, New Zealand Refinery were to hold shares in Europa Refining Company Ltd, no, Europa Refining Company were to hold the shares in New Zealand Refining Company.

It would hold Europa Oil's shares? No, I don't think I meant that, the significance is Europa Oil is the parent company.

Parent company of what? New Zealand Refining...I can't actually recollect the situation really, I may be wrong, it is a long time since I have been into the Europa Oil, Europa Refining Company affairs. And paragraph 5, why bring the word "Todd's" into it at this stage? Presumably that was the trend of the conversation, that is how I understood the report from Mr Smith.

Well could your note of 6 January 1969 not have been drawn up on the basis of several pieces of information only one of which was the information that you gleaned from Mr Smith? That is possible, in fact it is the

case, because I did ask our legal people their understanding of devaluation issue and this influenced the recommendation which I would have made to the District Commissioner.

You say

"So to enable the Todd's to generate overseas funds, Europa Oil pays Europa Refining for a shipment in New Zealand currency as soon as the risk passes, i.e. when the finished products pass the intake end of the tankers hose at the port of delivery."

10

Yes.

Then you go on to say "When the finished products pass...port of delivery", just take the last matter first, what is the port of delivery you have in mind there? I couldn't say I'm afraid.

You are referring to finished products? That is what the report states.

Have you a clear understanding what finished products mean in oil industry? Just from knowledge working there for seven years..in Tax Department on tax cases that is.

20

Now the next sentence..no, last sentence in that complete paragraph

"As Europa Oil is bringing two or three shipments into New Zealand every 120 days this means there is over \$2 million permanently lodged in London banks on fixed deposit."

did Mr Smith say that to you, do you know? I wouldn't have written it down unless it was communicated to me.

30 Might you not have deduced it? It is very hard to say at this stage, but as far as I am concerned, I would have thought this would have come out in the interview.

Is not the position that at the end of the 120 days period the money that had been remitted to London

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would be drawn on to pay Gulfex? So I understand it. Just looking at the interview as a whole, Mr Kennerley isn't it a fair statement to say that the arrangements between Europa Refining and Europa Oil played a very minor part in this whole interview? Without them they wouldn't have the capital reserve of \$28,000 and the interview wouldn't have taken place.

But the arrangement between Europa Refining and Europa Oil played a minor part? They were a part.

10 You do not now have a clear recollection of what passed between Mr Smith with you and Mr Nota on the property passing at that time? No.

EVIDENCE FOR CROWN COMPLETED