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Subject: QUARTERLY KEROSENE AND GASOLINE REPORT.

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Trade in petroleum products in Manchuria during the past quarter has fallen even below the low level of the few preceding quarters. Even though the third quarter is normally a dull season, it is estimated by officials of the larger companies that business at present is only in the neighborhood of 35% of normal.

Upset political conditions are still mainly responsible for the continued low level. Bandit and partisan resistance to the new administration prevents the conduct of normal business in interior districts. The harvesting of crops has even been interfered with in some sections and the general spending power among the farming population has probably decreased.

The larger companies are still reducing the number of dealers and agents in the farming districts and are cutting down on the quantity of stocks carried outside the protected areas. In some cases losses of stocks have been suffered through banditry. Losses of outstanding credits with dealers have also been taken in some cases, although these are now decreasing.

September is normally the beginning of the winter season and an increase is usually noted in purchases of kerosene for the interior. During the past month, however, there has been no improvement and none appears in sight for several months at least. An active anti-bandit

campaign is scheduled for October and ruthless methods may succeed in a considerable slackening of open resistance but it will be some time before this can be reflected in purchases. The farmers have suffered losses through banditry and failure to market crops which have reduced their incomes. Normal credit structures, which might have enabled them to make purchases on the strength of next year's crop, have not been rebuilt since their total collapse at the time of the Japanese occupation when thousands of the wealthier Chinese left the country.

The disastrous floods in North Manchuria during August will also have a serious effect on kerosene business during the coming winter. Nearly a third of the total population of Manchuria have been affected and will find their incomes directly or indirectly cut by the floods and heavy rains, and large number of the farming population have lost everything. Some of the oil companies also lost stocks in the flooded districts.

Gasoline and lubricating oil business has held up fairly well, largely due to the heavy consumption by the Japanese military who are utilizing an increasing number of cars, trucks and airplanes in anti-bandit campaigns. However, there are still no bus-lines operating in the interior.

There has been little change in the competition situation. Soviet products are now being distributed from Dairen and a few new agents have been appointed but conditions are unfavorable for expansion and this line is still doing only about 20% of the total business.

There is also some Japanese gasoline on the market but it is not well received due to quality.

Rumors of a prospective Soviet-Japanese oil combine offer a serious threat to the prestige of American and European companies on the Manchurian market. Transportation costs from Batum will naturally be higher but it is believed thoroughly possible that the new combine, if it develops, will be able to offer serious competition in Manchuria.

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