Business Briefs

Petroleum Policy

Oil price increases despite world oil glut

In a move that could signal a possible further round of oil price increases, the Gulf oil sheikdom of Kuwait announced Jan. 14 that it may soon cut its oil output by 25 percent from 2 to 1.5 million barrels per day. This was immediately followed by British National Oil Company's (BNOC) pronouncement that it will charge $29.75 per barrel of oil. On the same day, Algeria raised its surcharge on oil to $3 per barrel above the $30 per barrel price it already charges.

The new price leapfrogging comes in the context of a world oil oversupply, which would not support higher oil prices except for the fact that oil prices in the Rotterdam oil spot market still remain artificially inflated. According to an Exxon company memo, in January 1980, crude oil inventories have apparently continued to build long past the historic turning point. By all accounts, Exxon reports, stocks have reached maximum capacity in Japan, are approaching the limit in Europe and are higher than normal in the United States as well. For example, on Oct. 1, inventories available for drawdown in the U.S.—that is, oil actually sitting in storage tanks, as opposed to oil that is counted as inventory but is already in the distribution system—stood at 660 million barrels, enough to supply consumers for at least 16 days. That, the study says, was about 11 percent above normal, and 20 percent above the level of inventories on Oct. 1, 1978, just before the trouble in Iran began. And inventories have probably grown since then.

Exxon's report does not try to reconcile the seemingly anomalous situation: how and who is supporting the increase in oil prices such as those announced by Algeria and BNOC , when an oil glut, as Exxon describes, should force prices downward? Exxon thinks spot oil prices may fall in the future.

Budget

NYC Mayor Koch demands big service cuts

Predicting that "it will be more difficult than any time since 1975," New York city Mayor Koch demanded Jan. 17 that the City enact both sharp budget cuts and tax increases this year to balance the city budget by 1981. "Every part of the city will feel the impact," Koch boasted, "and no group will find them easy to accept."

Koch's demands lay to rest the story that the Municipal Assistance Corporation (Big MAC) had adequately solved New York city's fiscal crises. Instead, Big MAC, which is run by Lazard Freres investment banker Felix Rohatyn, in conjunction with Koch, has continued to gut the city of essential services. In the latest proposal, Koch asks for a reduction of 7,186 jobs from the city's school system over the next two years, a cut of more than 15 percent of its personnel. Since the institution of Big MAC, following the 1975 New York city financial crisis, the reading scores in New York city schools have plummeted. Koch also called for the reduction of the New York Police Department so that the number of officers on the street at any on time would be reduced by 6,100—a gutting of the police force by one fifth. New York city crime under the joint Koch and Big MAC administration has skyrocketed.

To balance of his austerity, Koch called for $192 million in new taxes. If the taxes are approved by the City Council, and in some cases the state legislature, New Yorkers could be paying more for their water, beer, liquor, gasoline and home upkeep.

Energy

Carter gasohol gimmick assailed

President Carter's announcement Jan. 9 that he would put through a $3 billion federally subsidized gasohol program to create a market for embargoed American grain has run into a hail of criticism, from gasohol opponents and proponents alike. The first voices to be raised in erosion of the President's plan came from the "gasohol industry" itself. Spokesmen for the several production facilities now in existence pointed out that, even with massive subsidies, the capacity to do what the President proclaimed just wasn't there. Gasohol industry people have reportedly been up in arms ever since Undersecretary of State Warren Christopher got on national television a week before the embargo and advertised a gasohol market for five million tons of corn—a figure known to be wildly false,e they say.

This week, one more study has been issued which questions the basic energy efficiency of gasohol. Researchers at Louisiana State University demonstrated that the use of sugar cane, and other grains, to produce fuel would create a net energy loss—it takes more energy to produce one unit of gasohol than that unit's use as fuel provides.

Gold

Group of 5 meeting fails to agree on gold

A meeting of senior officials of the finance ministries of the Group of 5 nations in Washington Jan. 15 failed to reach agreement on measures to stabilize the price of gold, helping to provoke further increases in the price of the metal, according to Treasury sources.

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Gold market sources believe that the meeting would take steps to lower the gold price, whose $300 rise so far this year has severely damaged Washington's international credibility. The American central bank had proposed some form of coordinated central bank gold sales at a meeting of the Bank for International Settlements in Basle, Switzerland one week earlier, without success.

However, Treasury sources said the U.S. Administration was hamstrung at the Washington meeting by Congressional disapproval of the Treasury's policy of open market gold sales. "Many Congressmen think that the United States could get a much better price for its gold—even better than $750 an ounce," one Treasury source said. "They also believe that the United States may need its gold reserves."

On Tuesday, Treasury Secretary G. William Miller indicated that the Treasury did not plan future gold sales for the time being.

The meeting, on the other hand, made a significant concession to possible gold remonetization by discussing, for the first time on a high-level official agenda, the use of gold to make the International Monetary Fund's unpopular reserve asset, The Special Drawing Right, more attractive to investors.

International Credit

World Bank doubles capacity

The World Bank announced early this week that it had gained the necessary authorization for a doubling of its capital stock from $40 billion to $80 billion. Japan's agreement to the increase Jan. 4 pushed unsuccessfully by the Bank's governors for more than a year and a half, brought the tally of individual member nation approvals just past the 75 percent majority to make the measure law. The United States, which has 21.47 percent of the vote (weighted by financial contribution), is the only country which is required to present such measures to its congress, and was sidestepped in accomplishing the move.

Spokesmen for the World Bank pointed out that if the United States does not ultimately approve the measure, its voting weight in the Bank will shrink to the point of losing the veto over Bank charter changes it presently holds. The American Congress has consistently delayed further contributions to the Bank for lack of a coherent foreign economic policy, and growing questions concerning the role of the Bank—in the forefront of neo-Malthusian zero-growth and "appropriate technologies" hoaxes—is actually playing in the world.

Since by charter the Bank's loans cannot exceed the totality of its subscribed capital and reserves, the institution was anticipating a severe cutback in its activities within the next period unless the increase was implemented. Only 10 percent of the Bank's total capacity is paid in.

Petroleum Policy

Mexico threatens to cut off oil sales to U.S.

Jorge Diaz Serrano, director of Petroleos Mexicanos (Pemex) said Jan. 14 that Mexico may cut off its oil supplies to the U.S. Mexico exports 600,000 barrels per day to the U.S., representing 80 percent of the total of Mexico's oil exports. He said that Mexico is currently selling its light petroleum for $32 per barrel to the U.S., but that he suspects this oil is being resold on the oil spot market for $40 per barrel. Pemex, he said, will cut off its oil supplies to the U.S. if these price mark-ups are confirmed and continued.

Briefly

● **SOVIET CENTRAL BANK** officials are quietly opening checking accounts for Western companies at the International Bank for Economic Cooperation, the central bank of the East bloc Council for Mutual Economic Assistance (Comecon). The accounts, denominated in the Comecon accounting unit, the transferable ruble, are nominally intended to make payments for purchase of Western goods, in a form that can be used to buy Soviet exports, including energy supplies. In effect, Western firms who accept payment in transferable rubles are giving the Soviets suppliers' credits. West German bankers who doubt Soviet need for trade credits think they have encouraged such accounts in order to enhance the prestige of the Comecon monetary system.

● **JAPANESE DEFENSE** contractors are disappointed over the Ohira government's blunt refusal to take part in any American-sponsored economic sanctions against Iran or the Soviet Union. Japan's defense industries believe that Japan's contribution to a U.S.-led military buildup will more than compensate for lost trade with the Soviets. But Tokyo's refusal to cooperate with the U.S. puts Japanese military expansion to rest.

● **GOLD ROSE** to $820 in frantic trading at deadline Jan. 17, in response to a series of military reports from the Mideast and Far East, some of them false (for example, that the Chinese were building up troops on their roof-of-the-world border with Afghanistan). The $105 upward movement, paralleled by a rise in the price of silver to $47.30 per ounce, occurred after Western Europe and Japan refused cooperation with Washington on economic measures against Moscow. The gold price reflected the state of confidence in the United States.