A new teapot dome scandal?

Oil, the Carter administration calls a 'strategic reserve' is being auctioned off on the spot markets at world's record prices

The Carter Administration is selling off the nation's former defense stockpile of petroleum reserves. Strike you as odd? At the same time that President Carter is warning the nation of the danger of imminent shutoff of Persian Gulf oil supplies from Iran, the U.S. Department of Energy is selling oil on the open market at world record prices as high as $43.50 per barrel.

The Carter Administration is exercising its legal authority under terms of a little-known act passed in the early days of the administration on the urging of then-Energy Secretary James R. Schlesinger. That act authorizes oil from the U.S. government strategic Naval stockpiles at Teapot Dome, Elk Hills, California, the West Texas Ordovician reserve, and elsewhere. The price is to be set at a price equal to an oil companies' bid *plus* the highest posted price for so-called "stripper" oil. Without getting into the byzantine DOE pricing maze, we note that since the Carter Administration decontrolled certain categories of stripper oil last summer, prices for certain stripper grades have soared over $40 a barrel. This means that the major oil companies, the ones buying the Naval reserves, have created an uncontrolled spot market which far exceeds the notorious Rotterdam market in price.

Some examples of recent purchases are instructive. On Jan. 8, the DOE sold 4,500 barrels per day from its Teapot Dome reserve at $43.50 per barrel. Shell Oil, Gulf Oil and Cities Service all have posted recent prices for uncontrolled crude near $40 per barrel.

The net effect of government action is to prop up world oil prices, at a time when a glut of oil would normally exert a downward pressure. Indeed this downward pressure was predicted last month at the OPEC meeting by Saudi Oil Minister Zaki Yamani. Even should the world lose the entirety of Iranian production, the world would be swimming in a surplus of oil as we have documented in previous columns. Under such normal market pressures, we would expect the inflated Rotterdam spot market to soften and eventually fall to more normal levels. This of course would jeopardize the enormous financial "oil bubble" which has been deliberately created by certain London and New York banking houses and their multinational oil majors Royal Dutch Shell, British Petroleum and their U.S.-based sisters such as Exxon, Mobil and Texaco.

Indeed, in recent weeks, prices on Rotterdam have begun to slide downward from last summer's $40 per barrel. Coming at this "opportune" moment, the Carter administration decision to unload its government reserves is startling to say the least.

The Teapot Dome reserves alone contain some 43 million barrels of oil. Last month, the DOE started dumping more than 120,000 barrels daily onto domestic markets. Compare this to Schlesinger's cries last winter for gasoline rationing and $1.50 per gallon gas to force conservation, because of an alleged shortfall of some 200,000 barrels per day from Iran. Also reflect on the fact that billions of our tax dollars are being dumped into the DOE Strategic Petroleum Reserve in West Hackberry, Louisiana salt domes, ostensibly to build a military reserve of oil in the event of a shutoff from the Persian Gulf. Now the same administration is selling off its military reserves—at the height of the Persian Gulf crisis!

Domestic oil producers are up in arms over the policy. One California oilman told *EIR* this week, "I am outraged. The DOE sells at $42/barrel and I get $6 for the same grade of crude." Another in Montana fumed over the same fact.

In the 1920's, the so-called Teapot Dome scandal of kickbacks was used to watergate the Warren Harding Administration. Perhaps this Teapot Dome scandal can be used to a similar effect.

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