Yamani offers price drop, and Middle East stability

by Robert Dreyfuss

Saudi Arabia's Oil Minister Ahmed Zaki Yamani pledged this week to use his country's enormous oil and financial resources to bring down oil prices, stabilize the world oil market, and establish a basis for a lasting settlement of the Arab-Israeli conflict.

By reaffirming Saudi Arabia's commitment to maintain its oil production at a high 10.3 million barrels a day, Yamani brought about a potential revolution in world energy prospects. For the first time since Henry Kissinger's rigged 1973 oil price shocks that followed the October War, and the tripling of oil prices again during Zbigniew Brezezinski's 1978-79 Iran crisis, the world is confronted with the likelihood that oil prices will start to come down. Predictions by the Aspen Institute, British Petroleum, Armand Hammer, and the Trilateral Commission that energy costs would continue zooming upwards during the 1980s could now, following Yamani's statement, be headed for the trash bin.

Specifically, Yamani declared that despite heavy pressure to cut Saudi production because of a severe oversupply of oil—the so-called glut—the Saudis would not reduce their current production levels until other members of the OPEC cartel reduced their prices between $3 and $8 down to the Saudi level. In addition, Yamani extended an Arab peace offering to Israel, in the belief that a continuing Middle East conflict can only contribute to renewed instability in the world's oil supply.

But Yamani was not speaking just for Saudi Arabia. The Saudi policy decision to force a reduction in world oil prices was closely coordinated with Saudi Arabia's allies in France and West Germany. Earlier in April, Saudi government and the Franco-German axis which, in the French and West German governments. That loan consolidated the ever closer partnership between the Saudi government and th Franco-German axis which, in 1978, established the European Monetary System. The loan gave Paris and Bonn additional clout in their international battle against the high-interest policies of the City of London and Paul Volcker's U.S. Federal Reserve System, and will be used in a wide range of French and West German industrial and energy-related fields. President Valéry Giscard d'Estaing of France, in an interview on French television, called the loan "unprecedented" in history since it involved two states on the borrowing side, and he declared that the loan underscored that Franco-German relations had passed beyond a mere partnership into "entente."

Next week, Chancellor Helmut Schmidt of West Germany will pay a state visit to Saudi Arabia. In an interview published in Saudi Arabia April 20—timed to coincide with the arrival in the Saudi capital of Riyadh of the veiled figure of British Prime Minister Margaret Thatcher—Schmidt praised the "wise and moderate policy" of Saudi Arabia and called that country "an excellent stabilizing factor" in the Middle East. He said that during his visit he would discuss with the Saudis the international situation as a whole, the role of the big powers in the Middle East, and the current situation in

Producing Saudi Arabia's deliberate glut.

Europe. And, in a slap at certain Anglo-Zionist interests, Schmidt declared that "no third party" would be allowed to stand in the way of West Germany's intent to sell arms, including Leopard tanks, to Saudi Arabia.

The Franco-German strategy involved with the Saudi initiative is roughly as follows: if Saudi Arabia can bring about a stable world energy market, then the EMS countries can effectively launch a worldwide economic recovery program to restart industrial production in the developed countries through export credits granted to the Third World. The core of that program will be oil-for-technology agreements with the OPEC states and non-OPEC oil producers such as Mexico, along with the development of high-technology energy resources, like nuclear energy and fusion research. According to well-informed sources, the Saudis are considering several plans that involve Arab investment in fusion energy research and nuclear power development. "The Saudis want to invest in high-technology alternate energy," one expert said.

In this context, the decision by the White House to include the sale of five AWACs radar planes in the U.S. arms package for Saudi Arabia represents a major signal that President Reagan wants to get the United States in on the Saudi-European deal.

The announcement that five of the $400 million AWACs aircraft would be delivered to Saudi Arabia by 1985 came as a surprise to many Washington observers. Not only had the Israelis committed themselves publicly to oppose the sale, but Secretary of State Alexander Haig had staked what remains of his declining prestige on his own opposition to the AWACs deal. But Reagan, backed by the White House staff, overrode Haig, and the AWACs are now included along with the fuel tanks and other add-on equipment for 62 McDonnell Douglas F-15s, the KC-135 in-flight refueling craft, and a number of Sidewinder air-to-air missiles.

Though congressional opponents of the AWACs sale may force the White House to postpone its official submission of the package for a few months, the Saudis are satisfied that the White House is committed to the security of Saudi Arabia. And, in fact, by waiting until after the June 30 Israeli elections, Reagan will avoid handing warlike Prime Minister Begin a re-election issue to use in whipping up votes against opposition leader Shimon Peres.

Now, the question is whether Reagan will follow through on Middle East policy. Chancellor Schmidt, in the Saudi interview, said that he intends to place the issue of the Middle East high on the agenda when he comes to Washington later this month. According to highly informed Arab sources, Schmidt intends to use his visit to Saudi Arabia to explore the possibility of mediating between the White House and the Palestinians, including the PLO.

The Saudis are doing some effective lobbying of their own. Yamani met April 22 with Secretary of Energy Edwards and other U.S. officials.

'We engineered the glut'

In his televised interview, Yamani said publcly for the first time that it was the deliberate intention of Saudi Arabia to produce so much oil that other countries would have to reduce their prices. In speaking of the oil surplus on the world market, Yamani asserted, "We engineered the glut in order to stabilize world oil prices." For at least a year, the Saudis have been producing up to 10.3 million barrels per day, leading many to suspect that the Saudis were deliberately flooding the market. Now Yamani confirmed this idea. He added that his country would continue to pump more than 10.3 million barrels per day for even another year, until the price breaks.

The main cause of the oil surplus, of course, is the drastic decline in industrial production in the West caused by high interest rates and inflation since 1978, which has led to extremely sharp cutbacks in consumption of oil, especially in the United States. But during this period, the Saudis were expected to cut their production from 9 million barrels per day to about 6 million barrels per day to sustain the upward price trend. Instead, with the elimination of Iranian and Iraqi ouput, Saudi Arabia increased its output even more.

Other oil producers are feeling the pressure. Mexico, Nigeria, Iran, Kuwait, and Qatar have all had to institute price reductions in the past week or face losing customers to Saudi Arabia's much cheaper oil. Several oil companies cancelled contracts worth $900 million with Nigeria, and Persian Gulf nations that jacked up prices with add-on "premiums" are now quietly removing those premiums to continue to sell their oil. Mexico, not an OPEC member, is finding it difficult to sell 70 percent of oil exports of the heavier Maya crude, now overpriced despite a $3 price cut.

To intensify the pressue, the Saudis cut prices from $36 to $34 on the 600,000 barrels a day that it produces to make up for the loss of some Iraqi oil output. Most Saudi crude sells for $32.

In the spot market, where the price floats free, the spot price has suddenly fallen below $36, putting it at a level below that at which most OPEC oil is sold in long-term contracts!

Saudi offer to Israel

While acting to stabilize the world oil markets, the Saudis also extended a hand of peace to Israel and to Shimon Peres, a candidate for prime minister in Israel's June 30 vote.

Yamani was quite explicit about his country's offer to deal with Israel. "The only way for the Israelis to get peace is for them to shake the hand that is offered to them" said Yamani. But he disagreed publicly with General Haig's policy of subordinating the Arab-Israeli dispute over Palestine to the "larger" issue of the Soviet threat. Instead, Yamani suggested, only by solving the Palestinian issue could the Soviet Union be stopped effectively in the region. "If you solve the Palestinian problem, you stop the Soviets," he said. "The Soviets are entering our area only through the Israeli door."

Asked about the idea of an American troop presence in the Middle East, Yamani said, "We don't think an American presence will help. We think it will invite a Russian presence somewhere in the area."

Equally interesting, Yamani declared that those forces in the United States trying to prevent Saudi acquisition of American weapons are siding with Israel's Menachem Begin in the elections. No American would oppose the sale of arms to Saudi Arabia, Yamani declared, "unless you want to help Menachem Begin win the election." With that statement, Yamani made it pretty clear that the Saudis favor Shimon Peres in the June vote.

The basic Saudi strategy, worked out in coordination with the French and West Germans, is for a moderate Arab bloc including Saudi Arabia, Iraq, Jordan, and eventually Egypt to join with a Shimon Peres-led Israel to reach an immediate preliminary accord on the basis of a Palestinian solution.

THE DESTABILIZERS

Will Haig succeed in splitting Lebanon?

by Judith Wyer

A full-scale blowup of Lebanon was narrowly averted last week when the French government interceded with the Reagan White House to restrain Israel from invading Lebanon. It is rumored that Reagan went so far as to deliver a message to Begin that should Israel invade, the United States would immediately halt all arms shipments to Israel.

For the moment, this Franco-American diplomatic effort has undercut a ploy by Secretary of State Alexander Haig to trigger a limited Syrian-Israeli showdown over Lebanon. Reliable sources confirm that during his visit to Israel in April, Haig "gave Israel the green light" to go into Lebanon in defense of the Falange forces that have been fighting Syrian troops. The same sources report that behind the scenes, Syria and Israel have been plotting a war in Lebanon that would leave the country partitioned into ministates under the control of Syria in the north and Israel in the south.

Haig sees a renewed Lebanese war as the way to keep the discredited Camp David step-by-step negotiations on track. According to Haig's scenario, a controlled Israeli-Syrian war would result in Israel's agreement to return the Golan Heights to Syria in exchange for control of southern Lebanon. This scenario is not originally Haig's; it is the work of his good friend Henry Kissinger, who contrived the 1975-76 Lebanese civil war as part of the diplomacy that led to the Egypt-Israel Camp David treaty.

The Jordan option

Haig, along with National Security Adviser Richard Allen, aims to destroy the so-called Jordan option, i.e., the option of bringing Jordan into expanded peace talks that would include Palestinian representatives. France has been the strongest advocate of the Jordan option as a means of resolving the Palestinian problem, which Camp David bypasses.

Jordan's King Hussein has refused involvement in the Camp David talks and has called for a return to an