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London's free traders plan their domination of post-OPEC markets

by Judith Wyer

After the longest and most grueling consultation session in OPEC's 23-year history, the 13 cartel members finally arrived at an agreement to reduce the OPEC crude-oil price. This is the first time the cartel has cut its prices. But the agreement, which dropped the market price by $5 a barrel to $29 and limits the cartel's output to 17.5 million barrels a day (mbd), is not expected to last long.

A week before the March 14 announcement of the OPEC price cut, British Petroleum (BP) broke its usual public silence on oil policy and issued a highly provocative statement that OPEC's $29 price formula was unacceptable, since it undercut the newly reduced British North Sea crude price of $30.50 a barrel. BP and its Anglo-Dutch sister, Royal Dutch Shell, have not as yet accepted the British National Oil Corporation's Feb. 19 price drop of $3 a barrel, and are known to be pressuring the British oil company to make yet another cut in North Sea prices. This move could easily spark another more drastic round of price cutting, or even a total price war.

For the first time since the current oil price crisis erupted, following the collapse of the late January OPEC meeting, Saudi Oil Minister Zaki Yamani issued a firm statement in London on March 14 that, should Britain opt for another price drop, undercutting OPEC's $29 price, it would be "inviting a price war." Yamani cautioned that the British would lose if any price war with OPEC resulted in a sharp crude price drop.

How firm Yamani's threat is remains to be seen. It is known that the Saudis are considering a contingency to drastically cut their price and raise their output to as high as 10 mbd. Moreover, there are numerous independent oil companies waiting to purchase cheap Saudi crude. But until now the Saudis have not broken with their "play it safe" profile. By abiding by the rules of the oil price game defined by London, Saudi Arabia is risking not only the survival of a number of heavily indebted oil-exporting countries now straining under the pressure of collapsing oil income, but is risking its own internal security.

The next oil hoax

British Petroleum's unusual statement reflects the City of London's current bid to remove OPEC as a leading controlling force in the world oil market, and return the control of oil and all energy supplies to a small group of anglophilic multinationals. Only the naive would rejoice at the prospect of "greedy OPEC" being smashed. The financial interests now vying to consolidate control of the multi-billion dollar oil market rigged the first and second oil hoaxes from behind-the-scenes and fully intend to orchestrate a third, which will be sparked by chaos in the Middle East, putting a brake on collapsing oil prices.

In the short term, however, Britain and its allies are orchestrating a controlled oil price drop by increments, and thereby lay seige to the major oil exporting countries. A controlled price drop followed by a radical upturn in price, could net the large integrated multis a speculative windfall from massive oil inventories.

Since the collapse of the January OPEC meeting, the event which triggered the current oil price decline, the major oil companies have drastically increased their drawdown of stockpiled oil (drawing down means that the companies consume their own stocks by running stockpiled crude through their own refineries). On some days, this drawdown of stockpiled oil has been as high as 6 mbd, compared with the seasonal average of 1.5 to 2 mbd.

As a result, the majors have made a severe cut in their purchases of crude from the OPEC countries and more recently from Mexico. OPEC's total exports bottomed out in early March at just over 11 mbd, about 40 percent of OPEC's averaged record export level in 1977 of over 28 mbd. Effectively, the major oil companies are boycotting both OPEC

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and Mexico to force further price reductions.

Within 24 hours of OPEC's March 14 price drop, various U.S. major oil concerns had already put out press statements that the cut was not enough. U.S. Secretary of Energy Donald Hodel told the *New York Times* that the OPEC price was headed by "the mid-20s range . . . the market will still have an oversupply."

Even debt-strapped Mexico's cut of $3-plus a barrel is not seen as sufficient. Over the past month the companies have nearly halted purchases of Mexican crude in order to pressure for another price cut. Some of *EIR*'s sources say that this de facto boycott will not let up until Mexico cuts by at least another dollar a barrel. It is only a matter of time until Mexico succumbs to such pressures. At that point, the entire OPEC pricing agreement could easily unravel.

Oil stocks and speculation

There is evidence that at least some of the major oil companies might be cautiously bidding to drive the oil price down in order to replenish their inventories with cheap crude, as a speculative hedge against a future upturn in prices.

Presidential adviser Alan Greenspan, a zealous advocate of the Thatcherite model of free enterprise, spelled out just how the majors could make a speculative killing on an oil price as low as $20 a barrel. Greenspan argued on March 11 in the *Wall Street Journal* that even if the majors were to hold on to $20 a barrel stockpiled oil until 1990, with oil prices nominally rising to only $30 a barrel, the profits would be handsome.

In fact, Greenspan's scheme of playing the "free market" by hoarding millions of barrels of cheap oil is premised on an oil price hike long before 1990!

Certain oil multis have reportedly consumed a large volume of their stocks in preparation for "restocking with cheaper oil." According to the March issue of *Arabia and the Islamic World Review,* Royal Dutch Shell and British Petroleum together have drawn down 110 million barrels of oil stocks worth $3.5 billion, and are said to have completed their drawdown.

Among the so-called seven sisters, BP and Shell are the masters of oil market manipulation. They, along with the raw materials giant Phibro, a company whose board interlocks with Shell, were responsible for sparking the oil-buying panic of 1979 that eventually culminated in the Second Great Oil Price Hoax.

For BP and Shell, such a manipulated series of price shocks is a prerequisite for maintaining the market position of North Sea oil fields. Due to unusually high costs of production in the North Sea, a price drop to even $25 a barrel for any period of time would collapse the value of investments there.

Though the North Sea is producing at a record volume of 2.3 mbd of high valued light crude, it is expected that Britain's production will ebb over the next two to three years, and London is scrambling for new investment. Their North Sea oil exports have given the British leverage to manipulate the oil markets against the countries of both North and South, by speculating the price of oil up or down. These price manipulations have become one of the chief pressure points the British have used to gain their *political* objectives against the United States, oil-dependent European nations, and especially against the underdeveloped sector. As for the oil market itself, the British have disrupted the post-World War II structure of the market, through which oil trade was based on long-term purchasing agreements between producers and consumers, a partnership that afforded the world economy a certain measure of stability.

Now, given the current instability of the oil markets, oil companies have adopted short-term policies to increase their cash flow through both currency speculation and stock speculation. This has invited the emergence of the oil spot market and allied oil futures market.

According to the *Petroleum Intelligence Weekly* of March 7, between 30 and 50 percent of the total oil consumed in Europe is no longer price-pegged to the OPEC benchmark but rather to the fluctuating prices of the Rotterdam spot market. It is reported that affiliates of the multis now acquire as much as 80 percent of their total supplies via the spot market. And it is through this market that Khomeini's regime has been able to peddle up to 2 mbd of oil at prices well below OPEC's by way of trading companies which front for the multis.

British Petroleum is perhaps the largest single market force on the European spot market, moving as much as 1½ mbd of crude. Since the oil price began to decline in 1980, the spot market has consistently averaged prices up to $5 below that of OPEC's. Not only in Europe but also in the United States, oil prices are increasingly being influenced by the spot market and allied futures market. Though the total volume of oil passing through the spot market is still relatively small, at 10 to 15 percent of the total volume of the non-communist oil market, the City of London envisions that it will grow to become the basis of a free-enterprise-style future oil market, dominated by short-term spot trade and associated oil futures markets. Continued turbulence of oil markets with prices fluctuating up and down is the precondition for such a transformation.

According to the London-based Petroleum Economics Ltd., in the future, oil will be traded "like another commodity" subject to manipulation of speculators. Within this emerging free market, the major oil companies are being transformed into pure trading firms, with no involvement in the physical act of producing energy. Over the past 13 years, the multis' control of oil production at the wellhead has declined from 97.6 percent of all OPEC wells to 50 percent in 1980.

But even with the increased control of its own wells, OPEC and other leading developing-country exporters are

not able to market their oil, because of the monopoly the majors hold over world markets.

Should the oil markets undergo the transformation envisioned by London, a few multis, most likely BP, Shell, and Gulf, will move for even tighter market control.

The model for such trading concerns is Royal Dutch Shell. At its inception, founded by Nazi-supporter Henri Dieterding, Shell was nothing but a middleman in moving oil and raw materials and its main puporse was to manipulate markets on behalf of the Anglo-Dutch oligarchy.

The oil futures market, in fact, was a product of the first oil shock, first established in October 1974 in both Rotterdam and New York, BP was the first oil company to endorse the futures market and later supported the establishment of the London-based gas oil futures market. The first oil hoax ushered in the process of "controlled economic disintegration" which the New York Council on Foreign Relations (an elite policy grouping allied to the London-based Royal Institute of International Affairs) endorsed in its *1980s Project* studies. Out of the process of disintegration a "reintegrated" oil market, dominated by a mega-energy cartel, is to emerge.

The role of a mini-OPEC in London's scheme

In the short term, Britain is not likely to impose another price cut below the $29 barrel level. However, London is expected to employ its old trick of having its OPEC allies, Libya and Iran, do its dirty work.

Iran has not even agreed to abide by the $29 benchmark, and Libya is already reported to be transacting oil agreements with Eastern Europe at far below the OPEC marker price. These new Libyan deals have enabled the Soviets to withhold oil from its Warsaw Pact partners and simultaneously export a record volume of crude to Western Europe at prices that also undercut OPEC. Since late January, the U.S.S.R. has decreased its price three times, the most recent being less than 24 hours after OPEC finally cut its marker price!

Various outlets for British policy, including the Philadelphia Wharton School, are now forecasting that as a result of the current oil price slide, OPEC will be markedly cut down to size, with only the underpopulated oil exporters of the Arabian peninsula surviving as a kind of mini-OPEC once the oil price bottoms out. According to this scheme, the British-created Gulf Cooperation Council would serve to unify the Gulf states—those states that are known to possess over two thirds of the world's proven oil reserves of nearly 600 billion barrels. As the holders of the world's most abundant and cheapest-to-produce oil, Kuwait, Saudi Arabia, the United Arab Emirates, and Qatar would serve as a de facto oil reserve for London, turning up production when supplies are slack and turning production down when there is a glut. These states would have no sovereign control over their own oil policy and related economic development programs.

As a result, the Gulf states would also provide the "oil pricing security" underwriting the multis' bid to multibillion dollar investments in marginal oil in such exotic places as the Arctic and Antarctic, in a race to secure top-down control over not only all of the world's oil supplies but raw material supplies as well.

For this reason alone, the oil price must go up again. The lead story in the February edition of the influential London-based *Petroleum Economist* is headlined "Heading for a third oil shock?" The article forecasts that another oil crisis is around the corner which will be triggered by "war, revolution, or assassination" in the Middle East.

Just when that crisis will hit is purely a political question. The most significant determinant is how long it will take to break certain large developing-sector oil exporters' control over their oil. Both Mexico and Nigeria have been targeted as the first victims of an ugly financial squeeze by both the international banks and the oil companies. These countries are being told to surrender their oil in exchange for badly needed credits.

At the same time, across-the-board, even countries less seriously affected by the current economic crisis and oil price downturn, such as Saudi Arabia and its wealthy neighbors, will make deep cuts in development which will result in billions of dollars in lost contracts for the leading industrial nations. Already Saudi Arabia has begun "stretching out" projects not related to military, security, and oil infrastructure, resulting in payment delays and the layoffs of thousands of foreign workers. Moreover, the Saudis have announced that their 1985-1990 development program will be based on only a 5 mbd oil production average (half of Saudi Arabia's peak output of 10.6 mbd), at a price averaged near $20 a barrel.

Within the Reagan administration Secretaries George Shultz and Donald Regan have heralded an oil price drop as the magic needed to bring about the long-awaited economic recovery. The average world oil price has in fact already dropped well over $5 a barrel since 1980, but no such recovery has resulted.

President Reagan is known to value the close alliance the United States has established with the Saudis over the years. But by supporting the oil pricing policy dictated by London, the administration is sure to destroy not only a relationship which is vital to U.S. national security interests, but also likely to finish off once and for all the United States' role as the leading big power in the Middle East. By London's calculation, this will impel the United States to retreat to the Western Hemisphere, leaving Britain's former colonial turf, the Middle East, and all of its oil, to London's designs.

A special consulting report on the world oil pricing crisis, "Oil Price 1983: Problems and Prospects," is available through the EIR *Special Services Department at $250 per copy. This report employs the LaRouche-Riemann econometric model to analyze the impact on the total U.S. economy of various oil-price scenarios, and also provides a documented review of who is controlling current oil market manipulations.*