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What are the risks of an oil crisis?

by Laurent Murawiec

"In case of a flare-up in the Persian Gulf," said the official at the German foreign ministry, whose head Hans-Dietrich Genscher has made no secret of his partnership with the Ayatollahs, "we have so diversified our petroleum sources out of there that we won't feel any effect. We're insulated." Figures apparently justify this boast, since only 17% of Germany's oil came from the Gulf in the third quarter of 1983, whereas 'Gulf dependency' was around 50% in 1978.

Military and oil experts consulted on the matter stress, as a senior official at a U.S. oil major's London office did, that "shutting down the Persian Gulf is easy as hell: My mother could do it. The Iranians are on the Abu Musa island and the few islets there, it'd be hard as hell to drive them off, and if we did, they'd still be 18 miles away and could shell any tanker going through. Then, Khomeini wouldn't have to lift a finger—the insurance companies would shut down the Gulf!" Lloyds of London has indeed been charging penalty rates on ships sailing into the high-risk area.

Every day, 8.5 million barrels of crude go through the Strait of Hormuz. Experts calculate that its shutdown would leave an absolute shortfall of 5 million barrels a day (bpd)—the equivalent of 12% of free-world consumption—since Nigeria, Libya, Mexico and Venezuela, the main producers with significant spare capacity, could only increase output by 3 million bpd. "In that case, the price would not increase by less than $10 a barrel," a London oil expert said. To prevent this, Saudi Arabia has been storing up 55 million barrels in tankers far away from the region, and will shortly reach the 70 million barrels level, at the cost of 20-30¢ a month a barrel. "This is a buffer stock to allow the United States to intervene," a broker commented.

Oil stocks in the Western world stand at 96 days of consumption, as prescribed by the International Energy Agency, higher than they did in 1978, when after two months of Ayatollahdom in Iran, Royal Dutch/Shell, British Petroleum and other majors started a fatal scramble for oil, sending the price to close to $40 a barrel, and the world into depression. "The real danger is not one of physical shortage of oil," said a specialized journalist. "The attitude of the media and the oil companies will be decisive. It could turn a temporary shutdown of the Gulf into a world crisis."

Another flank which might be opened is the fragile pipeline Karkuk-Cyhan, which brings 750,000 barrels of Iraqi oil through Turkey. Interruption of the oil flow might collapse the tottering Iraqi government, and tilt the whole regional balance in favor of Iran, whose guns and terrorists are already so frightening the exposed Kuwaiti sheikdom that it is suing for armistice, at a heavy political and financial price. Saudi Arabia, frightened by the U.S. withdrawal from Lebanon, is similarly sending "signals" to Moscow. "The Jubail-Yambu pipeline which brings some Saudi oil from the Gulf to the Red Sea is very fragile too," a Paris-based oil expert said.

France, which draws 35% of its oil imports from the Gulf (16% from Saudi Arabia alone), or Japan, which is 49% Gulf-dependent, would seem to be far more exposed than West Germany. Now, is it really the case that West Germany would be "insulated" from a shutdown of the Gulf? "No consumer nation in the world would be excepted from the price ripple. No contracts are longer than one quarter these days, and most are shorter, with 20% of free-world oil being either directly traded on the spot market, or price-related to it. The moment there is a crisis, no contract is sacrosanct, and the contracted price of one cargo can double within the two or three weeks of the trip. That's the beauty of *force majeure*," a London broker said.

The joker in the pack of oil cards is the Soviet Union, which exports at present 1.5 million bpd to the Western European nations, and has linked up with Japanese trading companies recently. Last year, France trebled its crude purchases from Moscow, Germany doubled them. The Soviets, meanwhile, trebled their own purchases of crude from the Middle East. Soviet power on world oil markets was already manifested in 1983, when it was Moscow that set off worldwide oil price cuts, immediately followed by the British oil companies, over the howling of a virtually impotent OPEC. The U.S.S.R. is the only major producer—it is in fact the world's leading oil producer—that can significantly crank up its oil *exports* from one day to the next. If strategic advantage can be reaped in supplying oil-starved Europe and Japan, Moscow can intensify its policy of the last year, squeezing its oil exports to its satellites, even to parts of its civilian economy.

In the event of an oil crisis, the probability of which is increasing with every shot fired between Iran and Iraq, strategic agreements with Moscow will be the price to pay for "insulating" Western European nations from the effects.

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