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Energy Insider

An oil-price drop: part of Soviet plan for 'Pearl Harbor'?

by Vin Berg

Both the deepening world depression and Soviet plans for a "monetary Pearl Harbor" against the United States raise the question of a major drop in oil prices.

First, Algeria's energy minister, Belkacem Nabi, warned other members of OPEC to expect strong pressure in the coming months for lower prices. In an interview with the official Algerian news agency, APS, Nabi said that the oil-price structure has been "in a delicate equilibrium." He pointed to several factors which have helped to prop up prices since January, including the Gulf War, the miners' strike in Britain, a decline in Soviet oil exports, and increasing technical difficulties in Britain's offshore field in the North Sea.

"But the next few months will be more difficult. . . . The possibility of new downward price pressures cannot be ruled out."

It is certain that the oil industry's first-quarter price surge, motivated by the super-mergers and fear of shutting of the Persian Gulf, has now attenuated, if not clearly broken.

Various commentators, such as syndicated columnist Elliott Janeway, are now predicting an oil-price bust. Apart from speculation concerning an enforced peace between Iran and Iraq, the factors usually cited are:

- Iraq's need to trade crude oil for imports in the absence of foreign exchange, especially with the Japanese trading companies;
- Nigeria's, Mexico's, and other Third World nations' financial problems;
- the surprising lack of movement in spot crude-oil prices when a Phibro-chartered oil tanker blew up in the Persian Gulf on April 26;
- continued flatness in oil consumption in the industrial nations;
- the beginning of seasonal slackness in oil demand;
- increased stocks in industrial nations. For example, American oil imports during the first quarter of 1984 were 41.4% higher than during the first quarter of 1983, although oil demand was only 4.9% higher. This suggests hedging against a possible cutoff of the Persian Gulf.

Soviet objectives

View this from the Soviet strategic perspective. The Soviets have the capability through their surrogate, Iran, to shut the Persian Gulf, with the presumed objective of forcing Western Europe to depend on them for energy supplies.

However, an oil-price decline could accomplish Soviet objectives more subtly, and perhaps more effectively—without incurring the risk of American response. A drop in oil prices would constitute an enormous bribe to the Western Europeans (e.g., Thatcher, Genscher, and Andreotti) who are now discussing replacing the dollar as a principal European reserve asset with a basket of their own currencies.

In addition, American banks lent $40 billion in March alone to finance speculative purchases of oil in the ground; this was the single biggest boost to U.S. liquidity during the first quarter. What happens if the oil price drops?

As Janeway notes, American banks "are sitting on sky-high reserves valued for collateral purposes at up to $35 per barrel: outer space in current oil-market terms. If ever there was a classic case history of long-term market direction crowding out immediate considerations of market price, the over-borrowed, under-margined condition of the domestic oil-credit pyramid provides it. A markdown of a mere 25 cents per barrel is guaranteed to swing negative leverage against the domestic oil-patch banks—if only because it will end the winking by examiners at the loan-to-capital ratios of banks overloaded with sticky oil loans."

Further reverberations

Add to this the devastating impact of an oil-price drop on heavily indebted Third World producers, especially Mexico, whose debt is held by American banks, as well as the impact of OPEC deposit withdrawals from the already tense Eurodollar market. The result could be what former National Security Council economics chief Norman Bailey calls "a monetary Pearl Harbor directed at the United States."

On May 8, spot oil prices actually declined marginally, despite the Iraqi attack on two Saudi oil tankers the evening of May 5, possible confirmation that the Soviet Union has determined that a drop in oil prices would be even more devastating for the United States than shutting the flow of oil from the Persian Gulf.

Since the Soviets are calling the shots in this situation, through their enhanced influence in the Mideast, it is impossible to predict which option they will choose. *EIR* warned of this effect of the worsening Iraq-Iran situation in early January, just as the oil-stock runup began. It is time to seriously consider the opposite.

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