Geneva meeting avoids major issues

The recent oil meeting could manage only temporary solutions, and the threat of further price cuts remains real.

OPEC's three-day emergency pricing session prevented, as expected, a generalized price war, but did nothing to prevent a major collapse of prices early in 1985. This had nothing to do with the OPEC meeting as such; the players who now control the oil market were simply not at the table.

Prices for light crude (as opposed to heavy) have been weakest because Britain, Norway, and the Soviet Union have increased their shipments during the past several weeks. Unlike Nigeria, these are not cash-short developing nations which have no choice but to maintain revenues. The trio is coordinating a market strategy which implies a major reduction in prices. As recently reported by *EIR*, such a reduction would propel the overvalued U.S. dollar over the edge.

A Dow-Jones survey released on Nov. 2 confirmed that Britain and Norway had both increased liftings during September, the period of maximum softening of light crude prices. Britain's share of the North Sea increased output by 3%, Norway's, 6.2%. The survey adds: "Preliminary indications are that Norway's output will continue to rise in October."

It is useful to recall that the immediate crisis was triggered on Oct. 16, when Norway, a producer of North Sea light crude, surprised the world by taking what seemed a unilateral action to make its lighter grades of crude more saleable in the present sluggish world oil market. Ten years ago, and even five years ago, light crude was the premier quality most in demand by world refineries since it was the abundant Saudi Light which defined world price reference. Since the destabilization of Iran in 1979, there has been a marked structural shift in Western refining capacities toward more efficient processing of the heavier grade crudes from areas such as Mexico. The market for the light crudes, specifically those of the North Sea, Nigeria, and, to an extent, Soviet Urals light, have thus become marginally weaker.

According to reports circulating in Sweden, the Socialist International government in Stockholm forced Norway into the price decrease. Reportedly, the immediate trigger forcing Norway's unexpected unilateral price cut the week of Oct. 15 was the threat to buy elsewhere by two Swedish oil companies, both closely tied to the pro-Moscow Socialist government of Olof Palme. According to the Swedish business daily *Dagens Industri* of Oct. 30, Swedish Petroleum Corporation, a government-owned oil company, and OK, a Socialist-party cooperative oil company, threatened Norway's Statoil to cancel its purchasing contracts if Statoil didn't drop its price to that attainable on the competitive spot markets (where Moscow has become a major market force in recent years). Sweden buys some 10% of Norway's oil.

Whether this trigger or, as some have suggested, the major oil multinationals such as Mobil were behind Norway's move, the underlying reality is a depressed world economy awash in energy which cannot be sold. This depression is reflected in the 4.1% drop in volume (5.4% in price) of petroleum imported by the United States in September.

OPEC itself is becoming increasingly factionalized as the result of bickering over who shall cut production.

OPEC's formal agreement for a temporary reduction of some 1.5 million barrels per day (mbpd) by its 13 members has apparently been joined by Mexico's agreement to cut its output as well, though it is not a formal member of the cartel. OPEC's plan is to cut output from 17.5 mbpd down to 16 mbpd during the next weeks, reasoning that winter demand and low company stocks will put upward pressure again on prices. One analyst predicted that if the anticipated demand for the winter reaches 21 mbpd, there could actually be major short-term supply shortages. This is the risky Saudi gamble of Sheik Yamani.

Indicative of intra-OPEC pressure is the fact that Saudi Arabia itself is being charged by other OPEC members with provoking the present price-collapse crisis. Several months ago, Saudi Arabia cleverly hid a de facto price cut in its crude by increasing the percentage content of the mix of Arabian Heavy in its export contracts from 20% up to 35%, effectively making its Arabian Light 50¢ per barrel cheaper. The Saudis have also come under attack for its circumventing of the official OPEC quotas by various barter deals, such as one spectacular billion dollar barter for Boeing jet planes. Technically, barter does not fall in the letter of OPEC's member production ceiling agreement. But many members feel such major barter violates at least the "spirit" of the OPEC agreement. The present shaky Geneva accord, the brunt of which will be borne by the Saudis as the so-called "swing producer," can hold for weeks, but not months.