Oil heads toward $5-8 per barrel

Economic disaster lies ahead: Is anyone in Washington listening?

Elected representatives of oil-producing regions, and the oil industry itself, finally began to panic, as the oil price headed towards single-digit figures during the week of March 22.

According to David Mizrahi, editor of *Mideast Report,* Iran is already offering cargos of crude oil at $8 to $8.50 per barrel, bringing the global oil price into the single-digit range. *EIR* warned of the likelihood of a single-digit oil price following the collapse of OPEC negotiations on Feb. 4, citing the simple fact that there is more than enough oil that can be pumped with a profit at $5 to $8 per barrel.

Now that the oil market has one foot in single-digit figures, nothing short of the incineration of the Persian Gulf will change this for the foreseeable future.

The oil price will remain under $10 per barrel indefinitely.

On March 24, OPEC oil ministers began a seventh day of crisis talks on measures to halt the plunge in oil prices, but without agreement on specific actions.

There was agreement on the objective of boosting prices back to last year's $28 per barrel from the current $14 and less, but the 13 member states remained bitterly divided over allocating individual production quotas. Leading industry analysts contacted by *EIR* dismissed as "a meaningless gesture" the OPEC reference to a $28 per barrel price-support level. They said that to attain that level, OPEC would have to cut its current production of 17 million barrels a day in half.

The next day, as oil prices plunged to barely $11 dollars per barrel on the British spot market, ARCO president Robert Wycoff predicted that U.S. oil production will decline 10% per year beginning this year, and lead to increased American independence on foreign oil producers.

Judging from the situation in Alaska, the likelihood is that oil production will fall by more than 30% in the United States before the end of 1986. If oil prices stay at their current low levels, more than 50,000 people will lose their jobs in the oil-dependent state of Alaska, and more than 75,000 Alaskans will flee the state, according to a university study turned over to Alaska's governor on March 25.

One in every five Alaskans will lose his job, the population of the state will drop by 14% and the oil industry will shut down in Alaska if oil prices stay at about $13 per barrel, predicted economist Scott Goldsmith of the University of Alaska's Institute of Social and Economic Research.

Since Alaska produces one-fifth of all American oil, the virtual elimination of Alaskan production—which costs more than $13 per barrel to deliver to refineries—will bring the total reduction in the United States to about a third of total output within months.

Is anyone in Washington listening?

On March 22, the Joint Economic Committee blew up the administration's most cherished myth, namely, that falling oil prices would bail out out its Hollywood sound-set recovery.

The dramatic drop in oil prices will pump up the economy only slightly, but cut into capital investment and corporate profits, the Committee said. In addition, the report said, oil-producing regions of the southwest and west will face increased unemployment and reduced income and farmers in those areas will incur deficits after they lose royalty payments.

"Extravagant claims for a dramatic resurgence of economic growth due to falling oil prices are without justification," the report said. Texas Senator Lloyd Bentsen (D) gloated that the report showed that economists, who first predicted a doubling of GNP growth as a result of lower prices, "are beginning to have some second thoughts about that."

The White House is obsessed with the idea of an oil-price-led recovery, to the point that even the oil lobby has not dared to propose the obvious solution, i.e., a protective tariff for oil producers.

Nonetheless, official Washington has taken into account the national-security implications of a massive reduction in current oil output, and the virtual extinction of the domestic oil industry within 10 years. It is now considering expanding the Strategic Petroleum Reserve. That is not much different from a rancher, in the midst of slaughtering his herd at distress prices, pausing to buy a side of beef for his home freezer.

Energy Secretary John Herrington said on March 26, "There have been radical price changes, and we have to re-examine" a bargain-hunting program.

Meanwhile, Herrington denounced proposals for an oil import tax, saying it would interfere with free market operations and be economically counterproductive.