

Energy Insider by William Engdahl

New oil price collapse ahead?

It could come just about the time of the London stock market deregulation, and despite the OPEC accord of Oct. 22.

Informed Rotterdam and Middle East sources have predicted the outbreak of a renewed world oil price collapse, perhaps as soon as early November. This report contrasts starkly to the apparent stabilization of prices being predicted in the wake of the Oct. 22 agreement by OPEC ministers following a two-and-a-half-week meeting in Geneva.

One well-placed Rotterdam source told *EIR*, "For the past period there has been an under-the-table deal between the major multinational oil companies and the Saudis to hold the world oil price at about \$15 per barrel. The majors have been co-operating with the Saudis to make it appear that supply and demand are in balance when they are clearly not. We estimate that in the last period world production has been 2 million barrels per day (bpd) above demand. It's being stored in terminals, tankers, everywhere, until there is simply no more space left to store it. It is at the breaking point. We give it perhaps two more weeks before this oil will flood onto markets forcing sharp price drops."

This was just hours before the OPEC agreement was announced. That accord, if anything, worsens prospects for outbreak of a new oil price crisis. After 15 days of wrangling in Geneva, OPEC failed to agree on a system of permanent quotas. Instead, they increased the existing interim quota for the 13 oil-producing nations another 200,000 bpd to 17 million bpd, through the end of December. Kuwait reportedly brought talks to the edge of collapse with its

(successful) demand for an additional 90,000 bpd. As before, the 17 million bpd figure excludes Iraq, which has been producing close to 2 million bpd. Industry sources point to the clearly fractious situation inside OPEC as an indication of the strains on the stabilization strategy, as cash-strapped producers such as Nigeria feel pressures to exceed quotas. This, added to the glut on current market inventory, holds explosive potential.

Market response has been clearly unenthusiastic. Late day trades for North Sea Brent futures for November delivery were quoted in London at \$14.60 per barrel on Oct. 22. This is a meager \$0.15 above the previous day, and a far cry from the \$18 to \$19 being proclaimed in official OPEC statements.

By Oct. 23, the price of Brent crude had dropped to \$14.05—below the level of \$14.45 a few days before the Geneva accord. Participants at a Rotterdam conference which included Royal Dutch Shell and other majors stated flatly on Oct. 23: "Geneva is nothing. It won't help."

Though details are being kept in strict company secrecy, it is clear from a variety of sources that the dramatic rise of oil from levels below \$9 last summer to the current \$14 range, has been possible only through bizarre "one-shot" gimmicks. An analyst with a leading London brokerage acknowledged market nervousness over reports of excess stockpiling in the last two quarters. "There have been extraordinarily large U.S. imports of crude in this period. They have been

significant enough that they are having a major impact on the GNP deflator figure. It's hard to believe it's all because of strong U.S. energy demand."

The reality seems to be quite the opposite. According to a spokesman for Nicosia-based *Middle East Economic Survey* (MEES), at least for the Third Quarter through end of September, best estimates of total world oil supply and demand show as high as possibly 3.3 million bpd of excess output. "I would estimate at least 2.5 million barrels excess production at the moment, conservatively, but it is a time bomb, and it is causing a lot of concern."

The timing of such a renewed oil price collapse, where traders presently estimate prices could fall again to levels of perhaps \$10 per barrel or even lower, is even more dangerous to stability of world financial markets than the process earlier this year, when headlines in every international financial paper predicted imminent bank crisis.

The Mexican \$98 billion debt crisis is directly tied to oil exports. The economies of large regions of the United States from Texas to Alaska hinge on the oil industry. Some well-informed London sources report evidence of strong U.S. intervention in the summer to influence a Saudi deal which would keep the U.S. banking system from the brink of crisis for a few weeks more. Suspiciously, the timing of the OPEC agreement has postponed a new banking crisis until past the November U.S. elections, where reportedly the Republican strategy has been to postpone major financial crisis till then, at all costs.

But, as one London analyst put it, "The latest Geneva accord will last for at best seven weeks, until the next OPEC summit on Dec. 7."