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OIL SHUTDOWN

Creating an energy IMF

Since about 1971, world energy policy and developments have been modeled around scenarios for a "controiled economic disintegration" on a global scale as put forth in the Council on Foreign Relations Project 1980s" series of studies on U.S. foreign and economic policy.

Their volume on oil entitled *Oil Politics in the 1980s: Patterns of International Cooperation*, asserts that the energy crisis of 1973 and the accompanying four-fold increase in OPEC oil prices was the beginning of an "oil revolution." During this period a "new era" in world oil began which the report calls the "second oil regime."

The report was authored by Norwegian Statoil Company executive, Oystein Noreng, and has a remarkable predictive accuracy concerning the current oil crisis. The second oil regime, which will persist through the next decade, says Noreng, will be a period of "disintegration" of the traditional integrated oil markets which have been under the control of the Seven Sisters cartel of multinational oil companies. This disintegrative process will produce a dramatic upturn in petroleum prices and will be plagued by frequent disruptions of world oil flows.

In fact, the dramatic rise in the price of oil over the course of 1979, following the shutdown of Iranian crude exports earlier this year, is a symptom of the CFR's second oil regime.

Underlying this scenario for a "second oil regime" is the calculated effort on the part of the CFR's elite membership and their British allies to use energy crises (which they calculate will persist throughout the 1980s) to bludgeon Europe, Japan and the oil producing nations into a multinational energy cartel. This cartel, to be under the supervision of the multinational oil companies, will control all forms of energy: oil, coal, nuclear and such exotic forms as synthetic fuels.

Such a cartel will become the energy correlate of the International Monetary Fund (IMF) and the World Bank monetary institutions. As the report concludes, the success of this scenario depends upon the preservation of the troubled Bretton Woods monetary system,

The CFR's scheme: disintegrate oil markets

Following are excerpts from the New York Council on Foreign Relations volume entitled Oil Politics in the 1980s. *As part of the Council's 1980s Project series, the volume lays out a scenario whereby the international integrated oil marketing system will "disintegrate." This process will be accompanied by a reintegration process to create an international energy cartel dominated by the multinational oil companies.*

The First Oil Regime was characterized by an integrated pattern of organization, based in the major consuming countries, and a low price for oil. During the First Oil Regime the center of the world's oil production gradually shifted from North America to the Middle East ... The industrialized consuming countries became increasingly dependent on a limited number of developing countries for their oil....

The combination of rapidly growing demand and rising exploitation costs (shown by the investments in areas like Alaska and the North Sea) proved fatal to the First Oil Regime because it opened the way for a price increase and institutional change through OPEC control of production....

The Second Oil Regime is characterized by a fragmented pattern of organization and a much higher price for oil. The center of world oil production is the Middle East, but for physical and political reasons it is not clear if growing demand can be met by supplies from this area. ... The Second Oil Regime, like the first, erodes the basis of its own existence through its inability—for physical and political reasons—to guarantee sufficient supplies of oil....

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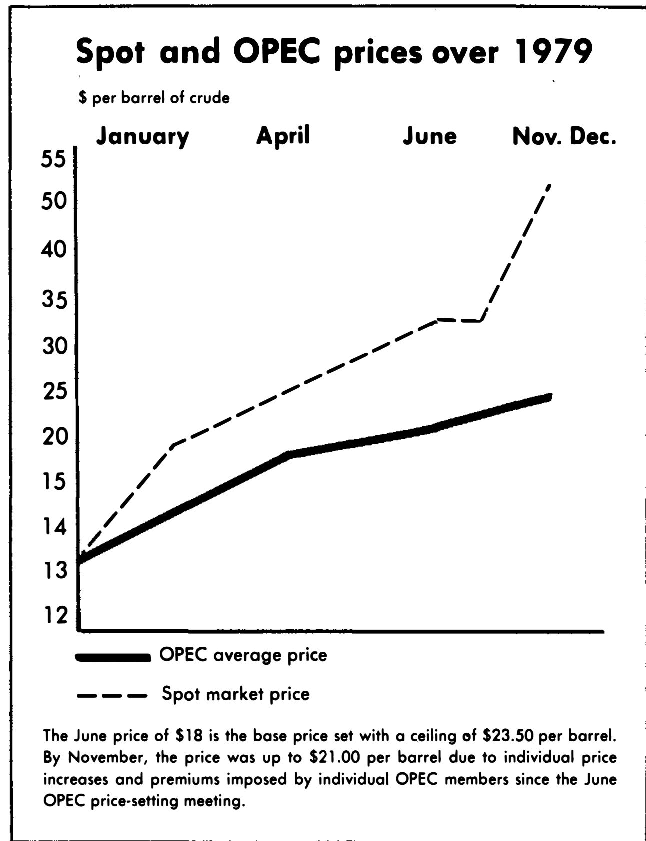
the City of London and allied Wall Street financial centers, and the IMF itself.

The subject of this report is to take a critical look at the tumultuous oil markets over the last year in light of the CFR's published plans. Evidence cited here will prove that London has been a prime mover in rigging the oil crises this year, just as elements within the City of London have been the advocates of using rising energy costs to destroy the dollar and impose in its stead the IMF's Special Drawing Right, based on a basket of currencies, as the world's reserve currency.

The year 1971 marks the beginning of a series of OPEC oil price rises beginning with the Teheran agreements and campaigns on the part of London to induce the cartel to break with the dollar. According to noted Washington oil analyst, Melvin Conant, just after President Richard Nixon broke the gold/dollar link and imposed wage and price controls in the U.S., "London proposed to OPEC that it adopt a basket of currencies as a means of pricing its crude." On numerous occasions since then, the OPEC cartel has considered the policy as the value of the dollar continues to slide.

Even before the dramatic 1974 four-fold increase in OPEC oil prices, the cartel had begin to demonstrate its militancy on the pricing front primarily as the result of the takeover of Libya in 1969 by Muamar Qadaffi. But OPEC's zeal for higher prices changed following the four-fold price increase as the Saudis began to recognize that radical price increases or breaking with the dollar as the pricing currency for OPEC oil would only devalue their growing dollar-denominated reserves.

Throughout the period up to the end of 1978,



The June price of $18 is the base price set with a ceiling of $23.50 per barrel. By November, the price was up to $21.00 per barrel due to individual price increases and premiums imposed by individual OPEC members since the June OPEC price-setting meeting.

Saudis enforced pricing moderation over the cartel. The Saudi effort to hold the line on prices was given strong backing by the Shah of Iran in 1976. The crude producing volume of Saudi Arabia and Iran comprised over half of OPEC's total output and served as a

The best allocation of resources in the energy sector can be ensured by cooperation and, to a certain extent, through reintegrating the international oil companies. They are vital not only because of their technical, organizational, and financial resources; they are also valuable intermediaries in the international economy.

The break up of the integrated structure of the oil markets in the oil revolution (prompted by the Second Regime which, the report states, began following the 1974 four-fold price hike for OPEC oil—ed.) created serious problems for both sides. The international oil companies and several national oil companies of the consuming countries lost many of their sources of oil. Even though several companies made large profits on inventories during the oil crisis, many are now in an extremely tight financial situation. This is especially so for the Western European national oil companies.

In recent years, oil companies have increasingly moved into other sources of energy, such as coal, oilshale, and uranium. This type of diversification, called horizontal integration, has been defended because it centralizes capital and expertise, thus furthering the development of new sources of energy.... Restricting horizontal integration would reduce the risk of an international energy cartel, but at the cost of slowing down the development of new sources of energy, and thus also create pressure for new price increases. Thus the resources for the oil companies are needed for expanding energy production, but there is also a good case for stronger political control over them....

The solution envisaged here is the use of the international oil companies as the cornerstone of a new oil regime. Their expansion and involvement in other types of energy should be encouraged under closer public control.

weapon to dissuade any price hawk from raising prices lest he be flooded out of the market.

The Islamic Revolution which swept the Shah off the throne, turned the tide within OPEC and opened the door to a nightmare of oil price hikes, against which the Saudis singlehandedly could not do combat.

Abundant evidence exists within the public domain to prove that British Petroleum and its sister multinational Royal Dutch Shell were the instigators of a stark speculative price increase emanating from the oil spot market (where noncontractual across the counter oil transactions are made). According to an oil analyst now with Merrill Lynch, as early as October 1978, during the heat of the Iranian Revolution, Royal Dutch Shell had conducted a detailed profile of world oil stocks, in particular, the stocks of the U.S.

Because there had been an oversupply of oil on world markets during the period leading up to the Iranian revolution in late 1978, stocks were not adequately built up to meet the needs of the winter and the crisis which ensued because of the Iranian oil export shutdown in December 1978. Shell knew that the shutdown would prompt a rush into the spot markets and trigger a serious spiraling in world oil prices. Shell's own stock supplies, insiders say, were more than adequate to meet the demands of the crisis London knew was coming.

Force majeures and market 'disintegration'

Shortly after the Iranian oil shutdown the multinational oil companies began to impose force majeures (notice of cutback in supply) on all third party contracts. These cutbacks to other oil companies not affiliated with the system of the majors began a process whereby companies and refiners were forced onto the spot markets to competitively bid for badly needed margins of oil.

It was Shell and British Petroleum who were the first multis to impose the force majeures. In January 1979, *Petroleum Intelligence Weekly* reported that the North Sea producers triggered a spiral in spot market prices. Shell and BP control a major portion of North Sea oil. Within a matter of weeks, other majors began to impose force majeures on third party contracts, and the spot market soared.

This process of undoing the integrated market is precisely what the CFR termed the disintegration of the oil markets. Throughout the course of the year the volume of oil trade on the speculative spot markets has grown from 5 percent of total world oil trade to 25 percent thanks to the imposition of force majeures on intercompany trade.

Because of the increasing volume of spot transactions, the average pricing level for crude oil purchases has not dropped below $30 a barrel. It was the momentum and volume of spot trade which triggered numerous OPEC price hikes over the course of the year.

Coinciding with the Iranian revolution, OPEC took a series of unprecedented decisions at its December 1978 price-setting meeting, aimed at stopping oil speculaton, particularly on the so-called Rotterdam spot market. The move, which was led by the Saudis, was meant to take the pressure off continental Europe which had been subject to pricing manipulations on oil through the massive Amsterdam-Rotterdam-Antwerp oil terminal and refining nexus.

OPEC announced that it would impose a net 10

Predicting the chaos of the 1980s in 1973

In March 1973, prominent international oil consultant Walter J. Levy released a report titled New Roles and Relationships in the Next Decade. *Levy's almost prophetic anticipation of future economic chaos due to OPEC policies on oil and petrodollars is no coincidence. Levy was one of the directors of the New York Council on Foreign Relations Project 80s study which concluded its basic findings in 1976. We quote from the 1973 report.*

On OPEC

Culminating with the conclusion of the participation negotiations in 1972—which may still turn out to be not the final round of negotiations—there is little doubt that the major oil producing countries, especially of the Middle East, have acquired an immense potential for power—as long as at least two of the more important producers are able to maintain a reasonably united front. In the case of Saudi Arabia alone, we face a situation which, within a few years, gives that country, with its overwhelming lead in reserves and production, a pivotal role in supply.

As dicussed, their power is based not only on their effective control over immense oil resources on which the security and prosperity of the Free World have become dependent, but will in due course derive also from their control over unprecedented financial resources which they will be able to extract from the oil purchasers. Moreover, large monetary reserves will give them the freedom to restrict their oil production for political or any other reasons, even though they would thereby forego current income....

The dilemma confronting us is acutely disturbing as any proliferation of international restrictions on

percent price hike for 1979 to be instituted in small quarterly steps to forestall crude stock build up and hedging. by the multis.

Between January and June, the momentum of oil speculation drove the price of spot crude to over $30 a barrel. The "price hawk" North African producers responded to "the profiteering of the multinationals" by imposing premiums on their high demand light crude which created such a massive spread in OPEC prices that the traditional price differentials between the various grades of crude were destroyed.

Even after Iran renewed efforts in March, adding a margin of crude into the markets, and even with major production increases by Saudi Arabia, Kuwait and Iraq, the speculative spot price rises continued. This momentum was fed primarily by the continued imposition of force majeures by the majors, which forced crude short European state companies and Japanese trading companies reluctantly into spot trade.

As early as August, Shell initiated a program of tacking additional costs (premiums) on remaining third party contracts. According to *Petroleum Intelligence Weekly*, Oct. 10, shortly after the Shell move to impose the premiums, other majors followed suit, imposing premiums of as high as $8 a barrel over contract price.

Le Monde, Oct. 11, reported that not only was this practice of imposing premiums on third party contracts exacerbating an oil pricing spiral, but that many of the majors were competitively bidding for spot purchases of crude directly from the Middle East producers. *Le Monde* named Shell, Esso (Exxon foreign affiliate), and Gulf as the most aggressive bidders. At that time United Arab Emirates Oil Minister Mana Saeed Oteiba publicly urged on the companies not to bid so high for OPEC spot crude.

By the June meeting of OPEC, the Saudis conceded a major defeat to the price hawks by agreeing to a ceiling up to $23.50 a barrel, while the Saudis kept their oil at a base price of $18.00. A relative amount of discipline was maintained in the cartel until last month.

Again the British triggered another round of price hikes on contracted oil at the same time that spot prices for crude and petroleum products reached record highs.

The British National Oil Company announced it would raise its prices beyond the $23.50 OPEC ceiling. Immediately thereafter Mexico announced a jump to $24.60 a barrel, and Kuwait followed suit. By the end of the month, Libya, Nigeria and Algeria had all broken the $23.50 OPEC ceiling with numerous other producers in the cartel making price increases just to the ceiling. As French press sources pointed out, this recent spiral in both contracted and spot prices was the result of BNOC's move. With North African crude now selling at between $26 and $27 a barrel, BNOC again raised its prices last week to match.

Two weeks ago London made yet another move which added to the speculative pricing spiral on the spot market. The Thatcher government announced that 10 percent of the oil output of the North Sea's largest field would be cut, in order to reduce the flaring off of gas which accompanies the pumping of oil. At that time both Esso and Shell, the field's two prime producers, warned that the effect of the poorly timed move would be to drive the price of petroleum products further up and would only force these companies to make more speculative purchases on the spot market.

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capital or short-term movements of funds would, in and by themselves, be most harmful to our financial markets and monetary system. In the affected Middle East oil and capital-surplus countries, any restriction on their investments abroad would probably be accompanied by restriction on their output of oil.

On the need for an international oil alliance

Individual European countries and Japan ... might be tempted to outbid each other in an effort to curry thereby special favors with the Middle East oil producing countries and to secure a privileged position for themselves.

But whatever their motivation, the national companies of importing countries will, in any case, greatly expand their foreign supply operations. While such diversification might or might not provide a modicum of some added supply security, it should be noted that any new ventures would be subject to fundamentally the same kind of political and economic risks as those of the international oil companies.Only a coordinated approach to energy policy by the relevant importing countries could really prevent such harmful consequences.

Beyond a doubt, U.S. relations with Europe and Japan are in disarray. There are many outstanding unresolved problems on defense, burden sharing, trade policy, the whole range of monetary issues including currency realignments, capital flows, and so on.

Perhaps instead of establishing a grand design which would encompass a resolution of all major contentions and areas of conflicts, it might prove to be more fruitful to proceed pragmatically on an issue-by-issue basis and try to tackle first those problems where the chances of an Atlantic-Japanese policy, or at least of an agreed upon coordinated approach, would seem to be most promising.

According to a source with a Swiss-based spot trading company, the majors themselves have become a strong market force in spot trade. The source named Mobil Oil as one "particularly hawkish force" in the market which has contributed to the pricing spiral.

Following the announcement of a rumored Iranian oil embargo last week, the prices of crude on the spot markets shot up to over $50 a barrel. The chaos in Iran and the embargo imposed on all U.S. tankers is expected to yield even more oil price jumps between now and the mid-December OPEC price setting meeting.

Cartelizing energy

The U.S. oil companies that have been embargoed by Iran this week will now be forced to buy the necessary margin of oil on the spot market. Industry sources agree that OPEC will impose a base price of $30 a barrel next month if this spot market price momentum continues. For the first time last week, an official with an OPEC country has also predicted that the cartel would go for the $30 a barrel price tag as the cartel's ceiling price. Kuwaiti Finance Minister Abdul-Rahman al-Attiqi stated that the $23.50 OPEC ceiling has already been breached. Similarly, the *Middle East Economic Survey*, a journal known for its close ties to the Saudis predicts that Riyadh will raise its prices from $18 a barrel to the $23.50 a barrel level even before the Dec. 17 OPEC parley. Last week, UAE Oil Minister, Mana Saeed Oteiba, during a trip to Jeddah Saudi Arabia, told the press that his country would advocate a price rise since all pricing discipline within the cartel had broken down. Oteiba is known to be a close ally of Saudi Oil Minister Zaki Yamani.

Numerous prominent American bankers, notably H. Thornburg of Security Pacific bank see a major shake out of the oil industry as a result of skyrocketing prices and accompanying tight credit policies. Thornburg predicts that a pattern of acquisitions will begin to occur in which the independents will be bought up by the multinational oil companies.

Within Europe, a similar process will occur whereby smaller state-owned oil firms will be forced out of the spot market unable to competitively bid against the multis.It is under these conditions that a reintegration process of international energy firms will occur in what the CFR calls the formation of a "multinational oil regime." The horizontal diversification of the multis to include control over all branches of energy production will become the base of such a regime. The smaller companies both in Europe and the U.S. will be bludgeoned through market chaos into either accepting such a "new reality" or will be bankrupted and bought up.

A speech delivered by the prominent international oil consultant Walter J. Levy, a leading member of the CFR, in March of 1973 foretells the current chaos. At that time, Mr. Levy was preparing Europe and Japan for the 1974 energy crisis and giving the allied nations the critical choice of joining the International Energy Agency. The creation of the IEA in 1974 was a prelude to the current CFR plan to establish the multinational regime.

The economic reality of such a scheme is harsh energy conservation, economic austerity for the industrial nations and the ever-present danger that war may erupt over the oil-rich Persian Gulf.

—Judith Wyer

World economy in for energy shocks

A Ford Foundation sponsored report, titled "Energy: the Next Twenty Years," describes the next two decades of economic chaos that will be caused by repeated energy crises. The following are excerpts.

As we note elsewhere, the most serious and likely energy shocks over the next 20 years will be associated with the world oil market and particularly with the oil-exporting countries in the Middle East. The probability and effects of disruptions in the world market might be reduced in various wars, perhaps including reducing oil imports below what they otherwise would be. But whatever is done, the United States and others will import a large share of their oil for most or all of our 20 year period and will be affected by shock anywhere in the world oil market. The importing countries must work together to prepare for the kinds of interruptions in supply that are certain to occur—but at times, in places, and for reasons that are unpredictable.

A reduction in the volume of oil flowing into the world market will cause prices on the spot market to leap upward; even if long-term contract prices are honored for the oil exports that continue. By the time the oil makes its way through the system to consumers, it will tend to be priced at this spot scarcity value. Conversely, a sudden increase in the price at which oil is available, even if unaccompanied by explicit limitations on quantity, will result in less oil being purchased. In principle, there is little difference between a reduction in quantity supplied and an increase in price—although given the difficulty of reducing oil use quickly, a small reduction in quantity supplied can be equivalent to a large increase in price.