Anglo-American split over oil prices?

Elements in the Reagan administration welcome Saudi Arabian pressure on OPEC; Great Britain does not.

Well over a year ago, Saudi Arabian Oil Minister Zaki Yamani declared that his country was prepared to keep its oil exports at record levels in order to hike the supply of oil and force prices down. Saudi Arabia is now beginning to realize this goal, as OPEC's latest price-setting meeting shows.

For the first time in over three years the cartel did not raise the price of crude oil. The reason is twofold. First, there currently prevails a 2 to 3 million barrel per day excess of crude on world markets, fed by high Saudi exports. Second, demand for oil has collapsed over the last 18 months as the result of the worsening world recession. OPEC's current total exports are at 1971 levels, and will drop further.

As Yamani stated earlier this month, the only way to stimulate demand for OPEC oil is to reduce the price from the current $36- to $41-a-barrel level to Saudi Arabia's $32-a-barrel price. But Saudi Arabia's 12 fellow cartel members refused to heed this Saudi call, and instead agreed to a price freeze and an across-the-board cut of at least 10 percent of each producer's output to try to soak up the surplus and thereby firm up prices.

Reports from Geneva indicate that it was a stormy meeting, with Yamani demanding a decline in prices and the other producers insisting that Saudi Arabia drop its production from its current 10.3 million barrels per day before they would even talk about prices.

Yamani was reportedly instructed by Saudi Crown Prince Fahd—who runs day-to-day Saudi policy—not to waver on his demand for a price drop. In an unusual move, Yamani left the meeting hours before it officially ended as a show of his intransigence.

Even if the production cut is carried out by the other OPEC countries, it could at most lead to 1.3 million barrels per day shut-off of exports, still leaving a sizeable excess, and most projections foresee a continued decline in demand.

As one industry source put it, "It's the Saudis' game now . . . they can just keep pumping out crude, they will continue to erode prices, and there's not much the rest of OPEC can do."

Over recent weeks a number of OPEC countries including the North African states, whose crude bears the highest price, as well as Kuwait, have shaved or cut surcharges in order to maintain sales contracts. Last month Kuwait reduced its production by 250,000 barrels a day for lack of buyers at the price it was asking. Over the past year, Nigeria's output has dropped by 40 percent.

According to estimates by Royal Dutch Shell, total OPEC exports may drop to as low as 21 million barrels per day by the end of the year from the current 23.5 level. If Saudi Arabia sustains its current export level, it will produce half of total OPEC exports.

Arab sources report that the American oil companies that market most of Saudi crude, and "certain voices" within the Reagan administration, are encouraging Riyadh to pursue its pricing policy. The American multis have a tremendous edge in marketing cheaper Saudi crude. The Saudis are said to be holding to this pricing stance in the hope that Washington will adopt a new Mideast diplomacy which sacks the discredited Camp David framework and brings about a comprehensive peace agreement.

These same sources report that Britain is "unhappy" at the current arrangement between Washington and Riyadh, not only because it hurts the market position of the two British oil companies, Royal Dutch Shell and British Petroleum, but because London fears that an independent Mideast policy will emerge on the part of the Reagan camp.

Throughout the 1978-1980 period it was Shell, BP and their so-called little sister, the British National Oil Company, in alliance with Iran and Libya, which triggered a new oil price explosion. "The British have never been very happy about the special relationship between the United States and Saudi Arabia," said a Lebanese source. He warned that the British are preparing to unleash a "new wave of Muslim radicalism, using the Muslim Brotherhood" against the Saudis to destabilize the growing entente between Reagan and Saudi Arabia.

Britain's concern about prices was expressed this month by David Jones, the U.K.'s deputy secretary of energy, in a speech to Parliament. He called for yet another doubling of world oil prices.