The Gulf war and oil prices

The last resort London and its friends have to maintain control over the oil price decline, is to expand the Persian Gulf war.

The midnight oil is burning in the boardrooms of certain multinational oil companies over fears that the decline in oil prices may get out of their control. No where has this concern been more evident than at British Petroleum and its little sister, the British National Oil Corporation (BNOC).

London is worried about possible activation of a Saudi contingency plan to flood world oil markets with oil at a price as low as $20 a barrel in order to regain Saudi control of the world market (see article, page 4). Should Riyadh exercise this option, it would bankrupt overnight the entire British North Sea venture which only became profitable after the 1974 quadrupling of oil prices. London's plan to develop more North Sea crude is based on an oil price not one penny less than $25.

An oil consultant who advises OPEC now reports London is "using Iran against Saudi Arabia" in order to prevent Riyadh from taking any "rash action on oil prices." Just returned from London, he revealed that two weeks ago, Iranian officials, led by the powerful speaker of parliament, Ayatollah Hashemi Rafsanjani, made a secret trip to London to confer with British intelligence officials at a military base.

Since then Iran has launched a new offensive against Iraq, and has sent delegations to the five small emirates which border Saudi Arabia to threaten that if they support Iraq in any way, Iran will take action against them.

French intelligence sources emphasize that the two-year-old Gulf war has entered a critical phase; and that this time around, Iran may be prepared to bomb a Gulf oil installation. "All it takes is one cargo of spare parts for Iran's F-4s or F-16s," the source reports, "and the Iranians just might try a hit on an Arab oilfield across the Gulf."

More than any other Western country, France has become the leading supplier of sophisticated arms to Iraq. Paris insists that such weapons as Excocet missiles and the Mirage F-1 fighter are only for defensive purposes, and that Iraq is not about to pursue Iran's oil installations for fear of retaliation against the Gulf states.

Iran appears to be testing the waters for a future adventure against Saudi Arabia or one of its oil exporting neighbors. William Quandt of the Brookings Institute reports that an Iranian fighter "strayed into Saudi airspace" recently and was detected by the AWACS stationed along the Gulf.

On the surface, Saudi Arabia is responding by playing its predictable conservative game of oil politics. Saudi Oil Minister Zaki Yamani made a visit to Lagos, Nigeria, on Feb. 7, where he reportedly reached agreement on an OPEC price drop of $4 a barrel. The next day the Libyan oil minister arrived in Riyadh, for further discussions on the difficult task of arriving at a formula for limiting OPEC production through member production quotas in order to keep the price from sliding as it has so many times over the past two years.

But, on Feb. 10 Yamani gave an interview in which he affirmed for the first time that there is "no way out of a price reduction." Yamani issued a veiled threat to Iran for its refusal to fall in line behind the $30 a barrel deal. He stated "a price cut is inevitable, and if no decision is taken by OPEC, the matter will be left to its members, who will behave as they want—and there will be chaos." The Iranian Oil Ministry then responded by rejecting the Saudi plan to lower its price.

Yamani knows there is no way OPEC can enforce production limits on its economically strapped members. Incentives for tougher Saudi actions are mounting. Outside London, other oil giants recognize that their long-term investments in such exotic projects as Arctic oil cannot be maintained if the price of oil continues to collapse. British and other multinationals want a short-term price decline to $25 a barrel, followed by higher prices around the corner. Concomitant with moves by these forces to bring the price down, word is already spreading through the oil industry that an imminent catastrophe in the Middle East will disrupt Arab oil flows and reverse the price collapse. This is precisely what the Iran revolution accomplished in 1978, following a decline in world consumption and prices in the aftermath of the 1974 oil-price hoax.

Speaking in Houston Feb. 2, Standard Oil of Indiana chairman John Swearingen predicted new chaos in the Mideast and a likely cutoff of U.S. Arab imports. A week later Charles Di Bona, the head of the American Petroleum Institute, told the New York *Journal of Commerce* that "tumult" in the Middle East would reverse the depressed oil markets; and on Feb. 9, Exxon vice-president Weldon Kruger delivered a speech in New York on "conflicts and tensions in the Middle East" and energy resources.