What's Behind The Oil Glut?

With the world in severe need of energy, the Organization of Petroleum Exporting Countries (OPEC) is now faced with an apparent major oversupply of crude oil.

Generated by the multinational oil companies' stockpiling binge, this crude oil "glut" now threatens the existence of OPEC itself. The key role of the oil producers in the creation of a new world monetary system to get production going again is in jeopardy as a result of this economic warfare campaign against them.

The standard explanation for this unusual market aberration is that the oil companies speculate just before OPEC pricing meetings. Prior to the December 1976 meeting, all of the major multinationals hoarded millions of barrels of crude at the pre-OPEC meeting price, hedging against a large price increase, so that they could dump the oil for an easy profit. Not only did a mere 10 percent increase result from the meeting, but the largest producers, Saudi Arabia and the United Arab Emirates (UAE) for the first time split the OPEC price by refusing any increase despite the increased prices of Kuwait, Iraq, and Iran. As a result, the multis were left sitting on a mass of crude. The same kind of buildup occurred prior to July's OPEC meeting where only Saudi Arabia and the UAE announced a slim 5 percent price increase, ending the split pricing system. Unprecedented levels of stockpiling added to the existing glut, which was further exacerbated by a reduced demand for oil in the advanced countries due to reduced industrial output.

Both a recent issue of *Business Week*, and the Aug. 27 issue of *Afro-Asian Affairs* question the suspiciously high levels of "refinery intake" both by the U.S. and OECD countries. *Afro-Asian Affairs* contends that such increased purchases of oil by multinational companies is tied to a deliberate stockpile buildup, especially by such Rockefeller companies as Exxon.

In the event of renewed Middle East warfare and an oil embargo, such holdings by the multinationals might well be used as a means of rationing oil — effectively taking over the economies of the advanced countries, along the lines of the International Energy Agency's (IEA) emergency measures first tested during simulation exercises last year.

According to a spokesman for the Federal Energy Agency (FEA), the U.S. arm of the IEA, the current market slump also serves as a convenient wedge to "loosen" the solidarity of OPEC, and induce the oil-producing states to sell oil to the U.S. strategic stockpile. During the summer, prices of both heavy and light crude slipped on the spot market by 10 to 30 cents a barrel below standard OPEC prices. Such a soft market intersected the opening of U.S. government bids for purchasing oil for the 1 billion barrel strategic stockpile, under a formula created by Massachusetts Institute of Technology's Morris Adelman, who is known to support the breakup of OPEC.

The Adelman plans calls for the government to solicit sealed bids to suppliers under the aegis of James Schlesinger's Energy Department for designated amounts of oil. Any supplier can then offer to sell oil at any price, with the lowest bidder getting the contract. Such a plan is designed to pit one OPEC country against another — a prospect which is enhanced by present market conditions. The London *Daily Telegraph* took note Sept. 11 of the "new strains on the OPEC cartel which could grow as the oversupply situation gets worse." Numerous OPEC officials have condemned the IEA for attempting to usurp OPEC's power, including Saudi Oil Minister Yamani. The *OPEC Bulletin* recently reprinted a strongly worded condemnation from the *Baghdad Observer* of the strategic stockpile, as giving OPEC oil to the enemy.

OPEC's Recourse

During the July OPEC meeting in Stockholm, Kuwait, Iraq, and Iran expressed concern about the soft market particularly with reference to heavy crude on which these countries primarily depend. Since then, they have exerted efforts to convene an early extraordinary OPEC meeting to consider enacting production programming which would allocate output for each producer, thus putting the screws on Exxon's leverage over world markets. During a recent visit to Venezuela, UAE Oil Minister Oteiba stated that if the market does not firm up, that some temporary production programming schedule may be in order.

Already the Saudis have announced a 700,000 barrel a day cut in light crude output to combat the glut. *Business Week* speculated last month that the producers may shut in as much as 25 percent of their total output, with the Saudis taking the biggest cut. Until now, the four Rockefeller-dominated partners in the Arabian American Oil Company (Aramco) which handles Saudi oil have enjoyed over nine million barrels a day (mbd) of oil pumped. According to the UAE daily *Emirates News*, the Aramco partners are not in favor of the Saudi cutback.

Otherwise, both Kuwait and Iran have tried to make the best of a bad situation. Last week, Kuwait, under intense pressure from Exxon and other unnamed U.S. companies, was forced to drop the price of its crude by 10 cents a barrel or face a boycott by the Exxon group. Kuwait's production has dropped from its average 2 mbd to 1.4 mbd, a level so low that the government fears insufficient gas liftings to keep the country's gas-powered electricity grid going. Kuwait has begun to engage in a number of joint ventures with foreign partners in downstream production to assure the Persian Gulf Emirate of future markets. Over the last three months, two such deals have been signed to build refineries with Romania and Indonesia.

Iran, whose production has fallen dramatically from over 6 mbd to 4.5 mbd continues to sign a number of barter deals which undercut the going price of crude.the most recent being with the Texas firm Brown and Root for the construction of a large naval base on the Gulf of Oman in return for 100,000 barrels a day.

Such arrangements by the producers, however, are bandaid solutions to a serious assault against them which threatens to destroy OPEC.

— *Judy Wyer*

Schlesinger Sets Stage For Replay Of Natural Gas Emergency

Speaking at a press conference in Washington Sept. 14, Energy Secretary James Schlesinger confidently told reporters there will be no repeat of last winter's nationwide natural gas shortage which forced emergency shutdown of major portions of U.S. industry for up to three months in some cases.

There is a catch. Under sustained questioning, Schlesinger was forced to admit that the Administration's confidence is premised on their "gamble" that the coming winter will be a mild one. The government has taken no steps since last winter to ensure expanded production of natural gas for the interstate market. Schlesinger was forced to admit that in the event of another severe winter, emergency shutdown of major U.S. industry, rationing, school closings, and possible cutoffs of heating in certain residential areas would be the only possible response. In fact, such an emergency shutdown is the actual intent of the new Energy Secretary from all evidence available at this point.

Already Schlesinger has created a crisis management office, headed by Assistant Secretary David Bardin, and called WEEP, Winter Energy Emergency Project. Under the sweeping emergency powers given Schlesinger's new office, including military control over the entire U.S. economy and emergency powers to deploy units of the U.S. Armed Forces, the stage is set. If the Senate passes the National Energy Act now being thrashed out in the Senate Finance Committee and the full Senate, Schlesinger's office will have unheard of control over national allocation and production of energy. Who controls this power is a paramount political question determining the future of U.S. and international political and industrial development.

Last winter was the test run of [illegible] operation to militarize the U.S. economy using the lever of "choke-point" shutdown of critical industries in the context of the most severe winter in recent history. At that time, Schlesinger, who was then special White House Energy Advisor, orchestrated a massive psychological conditioning campaign through various news media to pit the "energy abundant" southwest states, primarily natural gas producers Texas, Oklahoma and Louisiana, against the "energy starved" Midwest and Northeast industrial states. The line was that the gas-producing states withheld their natural gas from the federally regulated interstate market in order to sell it on the unregulated intrastate market, where they could get as much as $2.00 per million cubic feet (mcf). The current interstate price ceiling is $1.46 per mcf.

The aim of this scenario, in addition to using energy to force a shutdown of major portions of basic U.S. industry, is an all-out mopping up operation of the not insignificant independent petroleum and natural gas industry interests which strongly oppose any attempted deindustrialization.

A Friend At Chase

Since the early years of the Kennedy Administration, it has been the so-called Chase Bank Group, the Rockeefeller family institutions directly linked with Exxon and key Arab Gulf oil interests such as Aramco, that have waged a concerted attack to reduce domestic oil production in the U.S. This same group of Manhattan financiers has recently been the primary sponsors of federal regulation fo gas and oil domestically. The net effect of such federal price control and punitive taxation on production has been that total drilling in the United States has declined by more than 50 percent since 1957. These measures hit the independents hardest because they are responsible for 85 percent of all domestic oil exploration' the Chase Bank Group depends primarily on their foreign-fed oil reserves.

The version of Carter's National Energy Act now before the Senate would extend federal price controls on natural gas to the intrastate market for the first time and further drive up the price paid by all consumers through imposition of well-head taxes. The tax proceeds would not go to exploration of more natural gas and other energy resources, but to prop up the U.S. Treasury as part of the largest single tax legislation ever imposed on the U.S. economy.

It is not surprising that the domestic oil and gas industry is howling in protest, demanding an end to price regulation and tax disincentives to production. Oklahoma Governor Boren, testifying on behalf of the Southern and Midwest governors' conferences, told the Senate Finance Committee earlier this week that the Carter energy bill could only be understood as a willful attempt by the Administration to dismantle the U.S. petroleum industry the same way that steel, textile and other major sectors of industry have been destroyed in