

## World squeeze by ME oil shortage

The collapse of Iran's oil exports under the pressure of political chaos, is having a critical effect on world oil markets, both in terms of escalating open (spot) market prices and a shortfall of crude oil to the consuming nations. The economies of Japan and Western Europe, and to a lesser extent the U.S. have already experienced the impact of the Iranian shutdown of its 5 million barrel a day (mbd) crude exports. But the big blow to the consuming nations was dealt earlier this week with press reports that the Saudis were cutting back oil production, counted on to partly fill the gap.

According to oil industry sources, Saudi Arabia and Kuwait could in fact, make up the deficit of Iranian crude. Together they have the technical capacity to produce between 14 and 15 million barrels a day. But as these same industry sources have indicated, their refusal to turn their oil taps on full is a political question tempered heavily by dissatisfaction with U.S. policy in Iran and on Arab-Israeli relations.

Saudi Arabia dropped oil output by two mbd: from over 10 mbd to just over eight in mid-January, creating the fear in the consuming nations of an impending oil crisis. In addition, this net drop has had a negative impact on the dollar.

Well-placed sources indicate that the decision on the part of the Saudis to reduce production was presented to the Arabian American Oil Company (ARAMCO) and the Saudi Supreme Council on Jan. 15, in a proposal to impose a 9.5 mbd production ceiling for the first quarter of 1979. While this is up from the previous 8.5 mbd ceiling, it actually necessitated a decline in late January production levels to balance the 10 mbd-plus production from the first 19 days of the month.

The reduction of Saudi crude plus the Iranian shutdown presents the world economy with an estimated shortfall of 4 mbd. According to ARAMCO sources the Saudis may even further drop output in February — to as low as an average 7.6 mbd — which would further frustrate world markets and force conservation measures in a number of consuming nations.

All of the participating companies in the Iranian oil consortium, OSCO, have imposed official reductions in deliveries to their customers, known as force majeure. British Petroleum this week increased their force majeure from a 35 percent to 45 percent reduction in deliveries. Already badly hit by strikes, Britain is paying the equivalent of \$1.25 a gallon for gasoline, thanks to the shortages.

Last month Japan launched an energy austerity drive, and the Tokyo government is now forced to consider dipping into its 90-day strategic stockpiles. Japan is the worst-hit by the shortages. As the world's second largest oil importer, Japan imported 20 percent of its crude oil from Iran. If the situation is not soon alleviated, the Japanese government is expected to enact a strict 10 percent reduction on all industrial and private consumption of energy.

In France, the Council of Ministers held a meeting this week to discuss among other things possible alternative means for

securing crude oil. French sources indicate that the council voted on a plan to raise the cost of all fuels consumed domestically by 10 percent in order to encourage conservation. Unlike West Germany and Japan, France has a limited dependency on Iranian oil, only 8 percent of total consumption.

The other side-effect of the Iranian oil shutdown has been a major bidding up of crude oil on the spot market due to a sharp drop in supplies. According to the Petroleum Intelligence Weekly, one of the sources of the current speculative momentum is the North Sea oil fields. Industry sources have indicated that the two British companies, British Petroleum (BP) and its sister company Royal Dutch Shell, who together control half of North Sea output, are the most notorious for manipulating oil markets through hoarding and hedging against higher prices to make quick speculative profits.

According to Les Echos, Feb. 5, the French are concerned over the dramatic climb in spot market prices since the global shortfall began. Certain small U.S. refiners have already reported paying as high as \$22 a barrel — almost \$8 over the set price for crude sold by the members of the Organization of Petroleum Exporting Countries (OPEC).

The Journal of Commerce, Feb. 6, reports that Japan is working through diplomatic channels in Kuwait, Saudi Arabia and the United Arab Emirates to secure preferential purchases of additional crude. Such an initiative is no doubt being pursued by the other industrialized consuming nations.

The Saudis may well accommodate such a pursuit for certain countries whose policies are amenable to Saudi strongman Prince Fahd and his close allies. But informed sources are fearful that the U.S., whose foreign and economic policies have met with disappointment in Riyadh, may not bid so well.

— Judith Wyer

### Sheikh Yamani:

Saudi Arabia is almost taken for granted as the irrefutable friend of the industrial West (and especially the U.S.) and in all situations is expected to act for the good of the advanced sector. The recent cutbacks of Saudi crude oil took many by surprise.

According to one New York analyst there has been a major realignment within the Saudi royal family which is responsible for the move. Evans and Novak, on Feb. 4, cited a shift in the Saudi elite, with Saudi oil minister Zaki Yamani breaking with the second in command Prince Fahd in favor of Fahd's longstanding rival Prince Abdullah. Both Yamani and Abdullah are now openly arguing that the Saudi government has done the U.S. enough favors and that U.S. Mideast policy warrants a "warning" from Riyadh. Prince Abdullah, the third in command in the royal family has gained a powerful ally in Yamani in what is characterized as a simmering faction fight over who will replace the ailing King Khalid.

Prince Abdullah represents a far more conservative Islamic element within the Saudi extended royal family. He

# Schlesinger uses Iran to cut U.S. energy

U.S. Energy Secretary James Schlesinger told Congress this week that the international impact of the ongoing Iranian oil export shutdown is "prospectively more serious" than the 1973 Arab oil embargo. His remarks triggered an immediate and sharp fall in the New York stock market and sharp declines in the U.S. dollar abroad. Substantially changing his remarks of one week before, Schlesinger told members of the Senate Energy Committee that he "personally" favored immediate mandatory conservation measures, but added that this view was not shared by the full Administration.

Schlesinger's remarks were a calculated escalation of a climate of panic being orchestrated around the Iran situation, which has cut off 900,000 barrels a day of U.S. oil, some 5 percent of its total oil consumption. Schlesinger's latest remarks, he stated, were based on his assessment that the political situation in Iran is so unstable that production for export is not likely to be restored for months, possibly years.

Schlesinger also used the occasion to announce that he is submitting emergency plans to the White House within the next 10 days and emergency standby legislation to Congress for approval by Feb. 26, a call for forced closings of gasoline stations during the weekends, forced temperature reduction in buildings and factories, and other mandatory energy "conservation" measures.

A spokesman for Schlesinger termed his remarks "realistic,

not pessimistic" adding that his office was "puzzled" by the sharp reaction to Schlesinger's remarks on international markets.

## Gross exaggerations

Behind Schlesinger's crisis remarks there is considerable evidence that the U.S. energy czar is using the pretext of Iran to impose austerity measures on the U.S. economy. One well-informed New York banker told the Executive Intelligence Review that the oil shortage is being "grossly exaggerated and Schlesinger is responsible for such exaggeration." He added that according to reliable insider estimates he is optimistic that Iranian exports could resume as soon as the next several weeks.

Another source close to the petroleum industry said that Schlesinger had set the stage for the current situation by refusing to take definite measures such as permitting industrial users and electric utilities to use gas and coal which would considerably reduce oil consumption by as much as 4-500,000 barrels per day.

Three weeks ago, Schlesinger's office announced new emergency standby crude oil allocation rules which, if applied, will give him the authority to ration crude oil supplies to industry, electric utilities, and oil refineries. Schlesinger's energy emergency head, David Bardin, commented that the new rules "are another step to prepare the United States to meet a variety of oil supply interruptions."

One analyst said that under the present circumstances of uncertainty "all it will take now is for one U.S. gasoline producer to go to Washington and tell the White House it cannot get oil, and there will be a real scare. That's how 1973 started." Last week, one small Texas refinery announced that it had closed its refinery for lack of oil to refine.

—William Engdahl

## why the Saudis cut back

is known for his ties to the fundamentalist Muslim Brotherhood which was created by the British and still has strong ties to London-based intelligence organizations. This network favors a drastic slowing down of industrialization and oil production, a policy which the London financial machine has favored in order to undercut U.S. presence in the region.

Yamani, as well, has developed since last summer a close relationship to the British Oil Minister Anthony Wedgewood Benn, even inviting Benn — whose country is not in OPEC — to attend OPEC committee meetings.

There are rumors that Fahd, who wants to keep Saudi oil production to a maximum, may countermand Yamani. But Fahd will be hard pressed to justify this move, which will be seen as yet another favor to the United States. Washington sources say that this will require some major breakthrough in U.S. Mideast policy, given the growing impatience toward Washington throughout the Arab world.

## DOE: 'to the brink of disaster'

*The following are comments made to the Executive Intelligence Review by a spokesman for the Department of Energy on the impact of the Iran political situation on world energy supplies.*

**EIR: What is the likely impact of the continuing loss of Iranian oil exports?**

**DOE:** Regardless of who heads up the Iranian government, it will be physically impossible for them to resume full production for at least 7-9 months because of the sloppy way the wells were shut in.

**EIR: What will this mean for the rest of the world?**

**DOE:** With Iran out of the picture for a sustained period, life is going to be particularly hellish for the Third World.... The dollar will be hard hit. So will Italy. Turkey will be in a disastrous situation to meet its IMF obligations and the loss of 1 million barrels of Saudi oil won't help.... For the U.S., \$1 per gallon gasoline (Schlesinger's proposal — ed.) is an affordable nuisance, but for the Third World, it will bring them to the brink of disaster....