Click here for Full Issue of EIR Volume 6, Number 7, February 20, 1979

Oil: there is plenty of it

Talk of the new oil crisis precipitated by the halt in oil production in Iran has neglected several crucial facts. At present consumption levels of the advanced sector nations which make up the Organization for Economic Cooperation and Development (OECD), Iran supplies 15.8 percent of their crude oil imports. Overall, Iran supplies 10.8 percent of those countries' oil supplies.

Even should Iran not resume production in the near future, it is highly likely that other sources could supply part of the needed oil on a short-term basis. Such possible sources include: the removal of environmental restrictions in the U.S., resulting in an increase of 400,000 barrels of oil a day; an increase in Alaskan production for 800,000 barrels a day; an increase in Kuwaiti production to generate an additional 2,000,000 barrels a day; an increase in North Sea production by 400,000 barrels a day; a raise in United Arab Emirates production for an additional 600,000 barrels a day; Libya upping its levels 500,000 barrels a day; and Iraq increasing production by 1,000,000 barrels a day. Other OPEC members are said to be able to generate a hike in production which would equal 1,500,000 barrels a day.

In other words, 7 million barrels a day of oil could be brought on line to offset any perceived emergency.

In fact, Saudi Arabian oil production, which was down in January, has bounced back to nearly 10 million barrels a day (mbd) after having fallen to 8 mbd. The decrease was, sources say, the result of a decision made in mid-January by the Saudi Arabian Supreme Council and had been prompted by a proposal submitted by Saudi Oil Minister Zaki Yamani to impose a production ceiling of 9.5 mbd. In recent days, Yamani's proposal has been countermanded by powerful elements in the royal family around Crown Prince Fahd, who favor hoding Saudi production to at least 10.5 mbd to compensate for Iran's collapsed exports.

However, certain forces — among them British Petroleum and Royal Dutch Shell along with their collaborators in OPEC — see the oil shortage hoax as a way of adversely affecting the economies of West Germany and Japan.

Oil spot markets gone wild

Since the beginning of January, the spot markets in both crude oil and petroleum products have climbed astronomically. According to Platt's Oilgram Price Report of Feb. 12, a number of OPEC producers were auctioning crude at $20.00 a barrel. In January, Petroleum Intelligence Weekly reported that the producers of North Sea crude were one of the instigators of the current speculative bubble in the spot markets. Since then numerous press sources have named both Royal Dutch Shell and British Petroleum, which jointly control half of the North Sea crude output, as the source of the bidding-up process of prices on the spot market.

According to one New York oil analyst, unlike the U.S. multinational companies, neither BP nor Shell is subjected to any restrictions in the use of their inventories of crude and petroleum products. This means that these two companies can sell petroleum purchased for inventories at low prices, at any price whatsoever. In the current market situation large inventories held by these companies can be dumped into the spot market at whatever price will bring in the highest profit.

Since the 1973 oil crisis, legislation passed in the U.S. has restricted U.S. companies from such price hedging with inventories. Moreover, according to official figures, U.S. company inventories are down significantly from a year ago this time.

According to the French daily Les Echos, spot market prices for petroleum products such as gasoline and heating oil have taken a massive leap. Heating oil has climbed from $120 a ton on the Rotterdam spot markets to $250 a ton. In the last week alone gasoline in European spot markets has jumped by 50 percent from $200 to $300 a ton. While the petroleum products spot market only represents 2 to 3 percent of the total European market it does set trends for long-term contracts. And considering that many refineries are producing less due to cutbacks in crude deliveries resulting from the Iranian shutdown, the spot market becomes a last resort to hard-up vendors of products.

Like the spot markets in the U.S., European spot markets are nearly dried up with respect to additional marketable crude and refined products.

OPEC members feed price hysteria

As a result of this upward trend in prices, certain of the producing nations of OPEC have begun to auction oil at the spot market level. According to Les Echos, Feb. 13, there is a growing coalition within the cartel which is calling for a special meeting to discuss raising OPEC's official price. The reasoning behind such a move is that the oil companies are raking off mammoth profits on oil which comes from OPEC wellheads, and therefore, the developing nations producing the crude should enjoy the revenues.

Les Echos says that Kuwait, Libya, Nigeria, and Algeria are united in pushing for higher OPEC prices. According to informed sources, the United Arab Emirates, a traditional ally of the Saudis on pricing matters, is also joining this coalition. In this connection, UAE Oil Minister Oteiba this week attacked the multinational oil companies for profiteering.

Sources on the inside of OPEC affairs indicate that Saudi Oil Minister Yamani is pushing the high price posture behind the scenes. A recent statement given by Yamani to the Jan. 29 Middle East Economic Survey would tend to confirm Yamani's complicity. In the interview Yamani defended the right of OPEC nations that are harder-pressed, such as Algeria, to raise the price of their oil to compensate for the decline of the dollar and the inflated cost of imports. Yamani's actions, sources say, are a product of a simmering factional struggle within the Saudi royal family in which Yamani has opposed Prince Fahd and

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Fahd's policy of keeping oil prices down and Saudi production high.

Now with Iran out of the picture as a key ally of Fahd in enforcing this strategy, Yamani has taken an aggressive position to see his more militant anti-U.S. policy come into being.

The outlook in Iran

Although State Department and oil industry sources now estimate that the new Iranian Premier, Mehdi Bazargan, will make every effort to bring Iran's oil production to capacity as soon as possile, the continued violence makes that prediction uncertain. Conservative estimates are that without any foreign technical assistance, the National Iranian Oil Company (NIOC) could increase crude oil output from the present 700,000 barrels a day to about 3.5 mbd within a month. Department of Energy sources state that even if Iran were to produce sufficient crude to export one mbd, it would have a mollifying effect on the constricted oil markets and in turn bring down spot (open) market prices which have seen the price of high-demand low-sulphur crude go as high as $26.00 a barrel — a full $12.00 over the OPEC benchmark crude price.

However, continued political chaos in Iran does not bode well for this forecast. Within the camp of Iranian opposition leader Ayatollah Khomeini, there are known divisions on future Iranian oil policy which are reflected in the new government of Premier Mehdi Bazargan. Moreover, there are still many unknown elements to the plan worked out last month by Abdullah Entem, the head of the National Iranian Oil Company, to fully take over Iran's oil industry from the British Petroleum-led consortium of multinational oil companies.

Both government and private oil industry sources agree that NIOC alone could market at least 2 mbd independently on a state-to-state basis with Japan being a key purchaser.

—Judith Wyer

Schlesinger pumps U.S. energy crisis

"Schlesinger is a liar, and you can quote me on that," Mexican Foreign Minister Santiago Roel told a reporter, apropos of U.S. Energy Secretary James Schlesinger's role in Mexico's thus-far futile oil and natural gas negotiations with the United States. It appears, in the wake of the secretary's repeated warnings of a U.S. oil crunch as a result of the Iranian crisis, that many Americans are coming to share that view.

Following his publicized statement to the Senate Energy Committee last week that the current Iranian situation is more serious than the 1973-74 oil embargo, Schlesinger told the House Energy Committee this week that the Iran crisis may trigger the emergency oil-sharing agreements of the 19-nation International Energy Agency. This, despite the fact that only three days earlier the IEA's director had stated that the impact of the Iranian shutoff was being exaggerated, and that it was presently inconceivable that the emergency agreements would be invoked.

Said one analyst bluntly: "Schlesinger is exaggerating the Iran situation to push through emergency legislation and price increases he would otherwise not be able to sell politically." In the view of this analyst, and many others, there is little reason why the loss of the 900,000 barrels per day of Iranian crude the U.S. normally imports should cause a crunch. That is only 5 percent of U.S. oil imports, and the difference could easily be made up from other sources, many within the United States itself such as increased flow of Alaskan oil and eased antipollution restrictions on types of oil that power companies and industry can burn.

Schlesinger's plans

The danger of an oil crunch, therefore, arises not from any present shortage, but from the possibility that Schlesinger, compulsively committed to the 1977 Carter "energy program" which he authored and which was, for the most part, rejected by the Congress, industry and the public as incompetent and unnecessary, may take advantage of an uninformed atmosphere of crisis to push through price increases and mandatory conservation measures for both industry and consumers which could be avoided by a stronger emphasis on new production.

By Feb. 26, Schlesinger has promised to send Congress a set of legislative proposals which would be a first step in such a program of cutbacks. They are likely to include plans for forced closing of gasoline stations one or more days per week, forced reduction of commercial heating levels, and cutbacks in parking spaces. In addition, the energy secretary has for the first time publicly raised the specter of $1 per gallon gasoline prices.

Moreover, quiet congressional approval was granted last month to the Standby Allocation Authority, which, under conditions of a shortage, gives Schlesinger sweeping powers to allocate all U.S. consumption of crude oil, both imported and domestic, to utilities, refineries, and industry. According to one industry spokesman, by April the impact of the loss of oil to small refiners who normally purchase their oil on the now scarce and prohibitively expensive spot market, could produce conditions under which these standby rules can be invoked — placing powers amounting to rationing in the hands of Schlesinger and his Economic Regulatory Administrator, David Bardin.

Predictably, other government agencies are not moving to mitigate the threat of a shortage either. The Environmental Protection Agency this week refused to postpone rules requiring the nation's gasoline refiners to lower the lead content of gasoline to meet EPA antipollution standards. The EPA decision portends a major shortage of gasoline next fall (the regulations go into effect in October), because refiners are refusing to add the new refinery capacity required to meet the regulations, as they cannot do so profitably.

— William Engdahl