give the government control of distribution to refiners of all domestic and imported crude oil under the appropriate emergency conditions. If the rationing and allocation packages are passed by Congress, the two together would give Schlesinger full control of the nation's energy supply, a stated prerequisite to the implementation of the North American Common Market proposal supported by Senators Kennedy and Jackson.

The announcement this week, by Sen. Henry Jackson, Chairman of the Senate Energy Committee, that he will hold hearings on the "rumors" that U.S. oil companies are responsible for forcing the oil price hikes is in line with the Schlesinger scenario.

Jackson chose to ignore testimony from Department of Energy Assistant Secretary Harry Bergold that it was "foreign" — that is, BP and Shell — not the U.S. entities who were culpable. Thus, the stage is set to watergate precisely those oil companies with the strongest ties to Saudi Arabia and other OPEC nations which could, in fact, make up any real U.S. shortfall. The Jackson hearings will feed into Sen. Kennedy's plans to break the political and economic power of these same companies through forced divestiture of their holdings.

Since 1977, Schlesinger has been committed to deindustrializing the U.S. economy. He was previously delayed by Congress's rejection of the energy program Carter introduced in 1977, but if he is successful now, the U.S. faces an economic collapse whose dimensions are not even suspected.

—*William Engdahl*

What U.S. oil cutbacks look like

Citing direct and 'indirect' effects of the loss of Iranian oil exports since Dec. 26, a number of major U.S. oil companies have announced cutbacks of their allocations of refinery production.

Exxon, the world's largest oil company, announced this week that it is cutting deliveries of low-sulfur fuel oil to customers by 75,000 barrels per day beginning March 1. This is a 50 percent cutback in this type of oil, used for home and industrial heating.

Shell Oil, the U.S. subsidiary of Royal Dutch Shell, which has played a major role in forcing up international oil prices, has announced it will cut its output of refined gasoline product by 5 to 8 percent. Shell is the nation's largest U.S. marketer of gasoline. This is an estimated 400,000 barrels

Texaco has cut its output of refined gasoline product by 5 percent, or an estimated 150,000 barrels per day.

The oil hoax — attack on EMS

Although the U.S. financial and oil trade press has expended reams of copy in discussing the ramifications of the Iranian oil cutoff and recent oil price hikes, most commentators have missed the essential point: The oil crisis of 1979 has been deliberately rigged at the highest levels of the Anglo-American intelligence elite with the primary objective of busting up the European Monetary System (EMS). The EMS, as this publication has documented in previous issues, is no mere currency-stabilization scheme but a Franco-German-led effort to establish a vast "Euro-Asian" economic cooperation bloc, including the Soviet Union, Japan, and the Middle East oil producers. The oil crisis is intended to obliterate this nascent new world monetary system by setting off an inflationary oil price explosion which will thoroughly disrupt the economies of Western Europe and Japan and undermine the fragile international credit structure.

This "bust EMS" strategy was outlined by Sir George Boulton, a senior advisor to the Bank of England and former chairman of the Bank of London and South America (BOLSA), at a United Kingdom banking conference on Jan. 17: "I would ... refer to those countries or territories which are probably incapable of further growth or are in a state of decline. Western Europe — an area which before 1914, when it included Imperial Russia, controlled or substantially influenced the whole world — has in two wars lost all the advantages of political control and the effective control over the raw material resources of what is now called the Third World.... The Moslem world is rapidly moving into a condition of religious civil war, and no matter who controls the Gulf, the supply of oil, not only from Iran, will probably shrink. In these circumstances business over most of Africa and all the Middle Eastern countries will suffer and consequential defaults and bankruptcies will multiply. Western Europe will be affected by the rising price of oil exacerbated by shortages. Europe has no immediate alternative sources of energy

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and will have to adapt economies to energy austerity and the abandonment of cherished social reforms, and governments will have to get used to electoral unpopularity."

Who's hurting most?

Just how vulnerable are Western Europe and Japan in the present oil crisis? The question must be broken down into two parts: First, to what extent are these economies prepared to deal with a protracted cutoff of Iranian supplies or with the loss of additional supplies as a result of further political destabilizations and/or wars (e.g. an Egyptian attack on Libya) in the Middle East region? Second, how will Western Europe and Japan be affected should a generalized oil price hike in the order of 50 percent (in a "worst case" scenario) be imposed during 1979?

In assessing the data, bear in mind that it is based on the supply trends in effect prior to the crisis. While the oil hoax confronts the Europeans and Japanese with a grave threat, they are by no means without options, some of which are indicated. Above all, it must be remembered that there are powerful forces within the oil-producing countries which are opposed to the oil hoax scenario, and are open to direct collaboration with the affected advanced sector nations.

Table I (page 22) shows total 1978 gross crude oil imports for twelve major western European economies, the U.S., Canada, and Japan and percentages imported from Iran. In addition, the table lists the three leading oil suppliers (other than Iran) for each importing country and percentages of total imports. Clearly, with the exception of France, all of the Western European countries and Japan are much more highly dependent on Iranian oil as a share of total imports than is the U.S. An even more dramatic contrast emerges when we compare this data with figures recently published by the Morgan Guaranty newsletter "World Financial Markets" showing net oil imports (including

Table I
Iranian oil shutdown: how major economies are effected

Gross Imports of Crude Oil in 1978 (Estimates)
(1,000's of Barrels Per Day)

	Total Imports (1000's BPD)	From Iran % of Total Imports	From Other Leading Exporters	% of Total Imports
FRANCE	2,328	9.5	Saudi Arabia	34.5
			Iraq	17.4
			United Arab Emirates	8.4
GERMANY	1,882	18.8	Libya	15.6
			Saudi Arabia	14.7
			Nigeria	10.6
ITALY	1,890	14.0	Saudi Arabia	22.8
			Iraq	15.6
			Libya	13.5
UNITED KINGDOM	1,318	14.0	Saudi Arabia	21.3
			Kuwait	17.1
			Iraq	13.6
UNITED STATES	5,925	9.5	Saudi Arabia	17.4
			Nigeria	13.6
			Libya	9.5
JAPAN	4,421	19.0	Saudi Arabia	30.4
			Indonesia	13.3
			United Arab Emirates	10.4

Note: These are gross figures. They do not take into account exports or re-exports.
Source: Energy Economics Research Ltd.

Table II
Trade balances — effect of a 50% oil price hike

Figures in parenthesis ( ) are negative

	1978 Net Imports of Crude & Products (Mns. of barrels per day)	1978 Trade Balance Oil (bns. of U.S. $)	1978 Trade Balance All Goods (bns. of U.S. $)	Addition to Net Oil Import Cost with 50% Price Hike (bns. of U.S. $)	1979 Oil Trade Balance with 50% Price Hikes* (bns. of U.S. $)
FRANCE	$2.2	$(11.1)	$(0.8)	$ 5.6	$(16.7)
GERMANY	2.7	(15.7)	17.1	7.9	(23.6)
ITALY	1.7	(8.1)	(0.4)	4.1	(12.2)
SPAIN	0.8	(4.6)	(6.0)	2.3	(6.9)
UK	0.9	(4.5)	(6.9)	(0.4)	(4.1)
EUROPE TOTAL**	10.8	(57.5)	(11.7)	26.1	(83.6)
CANADA	0.3	(1.6)	1.8	0.8	(3.4)
JAPAN	5.3	(25.5)	18.2	12.8	(38.3)
UNITED STATES	8.0	(40.0)	28.4	20.0	(60.0)
TOTAL	24.4	(124.6)	(20.1)	59.7	(184.3)

* Except for the U.K., it is assumed that there are no changes in the volume of net imports. In the case of the U.K., figures have been adjusted for increased North Sea oil production in 1979.
** Austria, Belgium, Denmark, France, Germany (Federal Republic), Italy, Netherlands, Portugal, Spain, Sweden, Switzerland, U.K.
Source: Energy Economics Research Ltd., Morgan Guaranty.

oil products) as a percentage of *total energy consumption:* France, 60.0 percent; West Germany, 53.3 percent; Italy, 68.0 percent; Japan, 73.4 percent; United States, 22.0 percent; United Kingdom, 21.4 percent.

It is, of course, still possible that Iranian exports may resume previous levels (the Iranian government has announced that oil exports will start up next week, although exports levels have not yet been specified). Most European and Japanese countries have large government-held or private stockpiles and, since tankers take several weeks to reach their destinations, most have only begun to be affected by the Iranian shutdown. Nevertheless, national oil companies have been scrambling to nail down additional supplies from other countries, such as Iraq, Venezuela, and Nigeria, and, in some cases, have been forced to resort to the spot oil markets where crude oil is selling at well over $20 a barrel. Japanese stockpiles are already being run down and the French government has had to impose limited conservation measures.

The impact of a second generalized OPEC crude price hike this year is potentially much more serious. Table II (page 23) provides a rough estimate of how trade balances of major Western economies would be effected in the event of a 50 percent price hike to levels close to those presently prevailing on the spot market (that is, from $12.70 per barrel of Saudi light crude at the end of 1978 to $19.00). Assuming oil import volumes remain the same, a price hike of this magnitude would add a whopping $60 billion to the oil trade deficits of the twelve European economies, the U.S., Canada, and Japan! This does not even take into account the effect on the oil bills of the non-oil producing Third World countries.

The sudden imposition of this enormous "tax" on the world economy has the following implications: First, the EMS could be torn asunder as the weaker European economies are forced to turn to West Germany and Japan for bail-out funds (even as the German and Japanese trade and current account surpluses are dramatically reduced). Second, the industrialized economies will be faced with a major contraction in their exports as Third World countries are forced to slash imports to free up funds for oil payments. Third, the present "excess liquidity" in the Eurodollar credit markets will quickly vanish as European and Third World countries compete for funds to cover the increased oil tab. An isolated default or bankruptcy, as in the 1974 Herstatt crisis, could then provoke an unraveling of the entire Euromarket structure. Under these circumstances, long-term development lending to the Third World, the core of the EMS program, would be nearly impossible.

Qui bono?

At the same time, the strategic position of the United Kingdom and its ruling elite (who are responsible for the anti-EMS posture of the U.S. government) would be notably enhanced in this "worst-case" scenario. Britain's North Sea oil exports have risen sharply in recent months and the UK government intends to achieve oil "self-sufficiency" by the end of 1979. British oil companies able to charge the extortionate spot market prices for much of the North Sea exports, *so that Britain stands to emerge as a major beneficiary of the oil crisis.* According to the Feb. 24 issue of the London *Economist*, "Britain could shrug off the (Iranian) shortfall virtually unscathed, and be able to get through 1979 without any major shortages. North Sea oil production is building up towards self-sufficiency at a satisfactory rate ... Two-thirds of Britain's oil needs are already being met by the North Sea, and the average 600,000 barrels a day of exports are earning a nice new inflated price." During January, the average daily crude output in Britain's North Sea fields jumped to 1.46 million barrels a day, compared to 1.35 million in December, and only 885,000 in January 1978.

What follows is a brief summary of how the Iranian shutdown has effected other major economies thus far:

Iranian impact

Japan: Depending on oil imports for over 73 percent of its energy consumption needs, Japan is the most vulnerable to an oil shortage of any of the major economies. Oil refiners are expected to process 6.9 percent less crude in the first quarter than originally planned and actual deliveries will slip 2 percent below target. The government is permitting companies to draw down stockpiles to 80 days' supply in March, compared to 84 days' holdings in December and 90.6 days in November.

France: During the last week, oil companies have begun to limit supplies of gas oil and home heating oil to customers, with Shell delivering only 85 percent of the quantity supplied last year and the French company CFP cutting deliveries 13 percent from last year's levels. The government oil company (Elf) announced on Feb. 23 that it may have to limit deliveries of home fuel oil and gas oil to top-priority customers, such as hospitals, clinics and schools, as well as to contract customers in some areas of France. The French government recently warned the companies that the country's strategic stockpiles must remain at the 90 days' level, restricted the export of petroleum products, firmed up price ceilings to prevent speculation, and ordered companies not to sell more oil to large customers than they did last year.

However, the French shortage may soon be alleviated as a result of a deal negotiated by French Foreign Trade Minister Deniau with Iraq last week. Iraq will allow France to purchase 25 percent more crude oil in 1979, or an additional 5 million tons, which should take care of about half the Iranian shotrfall. French President Giscard announced on Feb. 16 that

the French government would be making top-level diplomatic contacts with several Arab oil-exporting countries in the next few weeks to discuss supplies. Giscard said he would place the energy problem on the agenda for the meeting of EEC ministers in March, perhaps indicating that the French government has plans underway to avert a disastrous escalation of the crisis.

Germany: Although West Germany is more dependent on Iranian oil than France, government officicals say they expect no near-term shortages and do not plan conservation measures. West Germany has a comfortable 100 days' supply in government reserves and additional 100 days' stockpile in private hands.

Italy: Government sources say the country has adequate stockpiles and they are more worried about the impact of price increases on the country's inflation rate and balance of payments.

Spain: The country lacks firm supply contracts and has had to buy up to 20 percent of its oil requirements on the spot market, leaving it extremely vulnerable to the higher spot prices. The government estimates that by June 30, its gasoline reserves will have fallen to 27 days' supply while fuel oil stocks will have dropped to 39 days. However, the Spanish government has succeeded in lining up additional crude supplies this year from Iraq and Venezuela (500,000 tons each.) Spain is also seeking additional crude supplies from Mexico independent of the proposed 10-year agreement, under which Mexico would supply 5 million tons a year starting in 1980.

— ***Alice Shepard***