

ENERGY EXTRA

Britain earning 'price hawk' reputation

The government of Margaret Thatcher has announced that, effective immediately, oil output from the North Sea's largest oilfield, Brent field, will be cut by 10 percent. The British Energy Ministry's official reason is that wasteful gas flaring which accompanies the oil pumping must be reduced to conserve valuable natural gas reserves.

But industry sources concur that the move was timed to escalate the speculative upward spiral in the price of oil on international spot markets. The British National Oil Company (BNOC) earlier this month sparked a series of competitive price increases for high-demand light crude from producers both inside and outside the oil cartel, OPEC. North Sea producers also triggered the early 1979 pricing bubble on the spot markets following the collapse of Iranian oil exports.

Said one New York oil analyst, "Britain is getting a reputation as being an even bigger price hawk than the hawks in OPEC." According to the *Wall Street Journal* on Oct. 26, Britain has announced that it will again raise its prices for North Sea crude if Nigeria, which produces a comparable grade of oil, enacts a price hike. Nigeria, in turn, is expected to follow the lead of Algeria and Libya: both raised their prices to nearly \$27 a barrel last week in response to the initial announcement of a price increase by BNOC.

This "leapfrogging" of oil prices has already induced Iraq, Iran and Kuwait to up their prices as have the non-OPEC producers,

the Soviet Union, Angola and Mexico. If the spiral is not broken, it will mean a sure price hike by OPEC come the mid-December price-setting meeting, diplomatic sources see going to \$30 a barrel. From that level another spiral on international markets will take the price of oil to the \$60 a barrel level in speculative trade.

Both Royal Dutch Shell and Esso (the European affiliate of Exxon) have stated that the reduction of North Sea output will only force these companies to step up competitive bidding for oil on the spot market. The *Financial Times*, Oct. 30, reports that Shell predicts a possible shortage of petroleum products, notably heating oil and gasoline, in Europe as a result of the shut down of production.

Europeans plan strategy

Standard and Charter bank reports that the governments of France and Germany are displeased with the well known tactics by London to drive up oil prices. According to a U.S. source, France and Germany are reportedly seeking to bring North Sea oil surpluses under EC jurisdiction and keep prices to Europe within reason.

All of the continental European nations are in varying degrees dependent upon refined products from the massive Amsterdam-Rotterdam-Antwerp refining and import center. It is the so-called Rotterdam spot market which has been the center of rapidly expanding speculative oil trade throughout 1979. As this magazine reported last week, as early as 1978 the

major international oil companies began to oust the smaller oil traders and refiners from the competitive spot market at the same time that the multinationals began to allow intercompany (third party) contracts to lapse—forcing many oil concerns with no productive capacity to increasingly depend on the spot market for vital crude supplies.

Many countries which have disciplined their national oil companies to stay out of the spot market are now (out of desperation) bidding for crude and petroleum products at skyrocketing prices. This is the case in France and in Japan, both hit with a spate of third party contract cancellations by the multinationals which is predicted to cause an oil shortage this winter.

Les Echos reported last week that the French government is fearful that many of the French concerns currently bidding for petroleum will not be able to continue competing given the average Rotterdam selling price of between \$40 and \$50 a barrel for crude. France, reports *Les Echos*, is aware that the multinational oil companies are leveraging the market and certain hawkish OPEC producers such as Iran are aiding in this deadly conspiracy. What is promised by this conspiracy is a cold winter for the consuming nations.

—Judith Wyer