OIL SHUTDOWN

Creating an energy IMF

Since about 1971, world energy policy and developments have been modeled around scenarios for a "controiled economic disintegration" on a global scale as put forth in the Council on Foreign Relations Project 1980s" series of studies on U.S. foreign and economic policy.

Their volume on oil entitled *Oil Politics in the 1980s: Patterns of International Cooperation*, asserts that the energy crisis of 1973 and the accompanying four-fold increase in OPEC oil prices was the beginning of an "oil revolution." During this period a "new era" in world oil began which the report calls the "second oil regime."

The report was authored by Norwegian Statoil Company executive, Oystein Noreng, and has a remarkable predictive accuracy concerning the current oil crisis. The second oil regime, which will persist through the next decade, says Noreng, will be a period of "disintegration" of the traditional integrated oil markets which have been under the control of the Seven Sisters cartel of multinational oil companies. This disintegrative process will produce a dramatic upturn in petroleum prices and will be plagued by frequent disruptions of world oil flows.

In fact, the dramatic rise in the price of oil over the course of 1979, following the shutdown of Iranian crude exports earlier this year, is a symptom of the CFR's second oil regime.

Underlying this scenario for a "second oil regime" is the calculated effort on the part of the CFR's elite membership and their British allies to use energy crises (which they calculate will persist throughout the 1980s) to bludgeon Europe, Japan and the oil producing nations into a multinational energy cartel. This cartel, to be under the supervision of the multinational oil companies, will control all forms of energy: oil, coal, nuclear and such exotic forms as synthetic fuels.

Such a cartel will become the energy correlate of the International Monetary Fund (IMF) and the World Bank monetary institutions. As the report concludes, the success of this scenario depends upon the preservation of the troubled Bretton Woods monetary system,

The CFR's scheme: disintegrate oil markets

Following are excerpts from the New York Council on Foreign Relations volume entitled Oil Politics in the 1980s. *As part of the Council's 1980s Project series, the volume lays out a scenario whereby the international integrated oil marketing system will "disintegrate." This process will be accompanied by a reintegration process to create an international energy cartel dominated by the multinational oil companies.*

The First Oil Regime was characterized by an integrated pattern of organization, based in the major consuming countries, and a low price for oil. During the First Oil Regime the center of the world's oil production gradually shifted from North America to the Middle East ... The industrialized consuming countries became increasingly dependent on a limited number of developing countries for their oil....

The combination of rapidly growing demand and rising exploitation costs (shown by the investments in areas like Alaska and the North Sea) proved fatal to the First Oil Regime because it opened the way for a price increase and institutional change through OPEC control of production....

The Second Oil Regime is characterized by a fragmented pattern of organization and a much higher price for oil. The center of world oil production is the Middle East, but for physical and political reasons it is not clear if growing demand can be met by supplies from this area. ... The Second Oil Regime, like the first, erodes the basis of its own existence through its inability—for physical and political reasons—to guarantee sufficient supplies of oil....

the City of London and allied Wall Street financial centers, and the IMF itself.

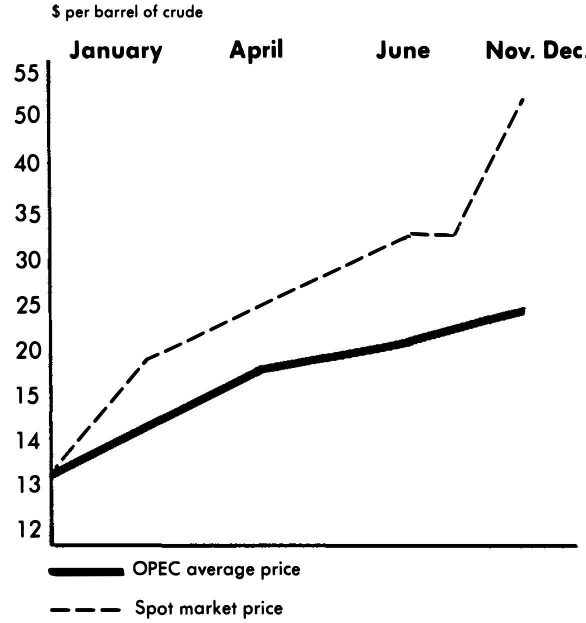
The subject of this report is to take a critical look at the tumultuous oil markets over the last year in light of the CFR's published plans. Evidence cited here will prove that London has been a prime mover in rigging the oil crises this year, just as elements within the City of London have been the advocates of using rising energy costs to destroy the dollar and impose in its stead the IMF's Special Drawing Right, based on a basket of currencies, as the world's reserve currency.

The year 1971 marks the beginning of a series of OPEC oil price rises beginning with the Teheran agreements and campaigns on the part of London to induce the cartel to break with the dollar. According to noted Washington oil analyst, Melvin Conant, just after President Richard Nixon broke the gold/dollar link and imposed wage and price controls in the U.S., "London proposed to OPEC that it adopt a basket of currencies as a means of pricing its crude." On numerous occasions since then, the OPEC cartel has considered the policy as the value of the dollar continues to slide.

Even before the dramatic 1974 four-fold increase in OPEC oil prices, the cartel had begin to demonstrate its militancy on the pricing front primarily as the result of the takeover of Libya in 1969 by Muamar Qadaffi. But OPEC's zeal for higher prices changed following the four-fold price increase as the Saudis began to recognize that radical price increases or breaking with the dollar as the pricing currency for OPEC oil would only devalue their growing dollar-denominated reserves.

Throughout the period up to the end of 1978,

Spot and OPEC prices over 1979



The June price of $18 is the base price set with a ceiling of $23.50 per barrel. By November, the price was up to $21.00 per barrel due to individual price increases and premiums imposed by individual OPEC members since the June OPEC price-setting meeting.

Saudis enforced pricing moderation over the cartel. The Saudi effort to hold the line on prices was given strong backing by the Shah of Iran in 1976. The crude producing volume of Saudi Arabia and Iran comprised over half of OPEC's total output and served as a

The best allocation of resources in the energy sector can be ensured by cooperation and, to a certain extent, through reintegrating the international oil companies. They are vital not only because of their technical, organizational, and financial resources; they are also valuable intermediaries in the international economy.

The break up of the integrated structure of the oil markets in the oil revolution (prompted by the Second Regime which, the report states, began following the 1974 four-fold price hike for OPEC oil—ed.) created serious problems for both sides. The international oil companies and several national oil companies of the consuming countries lost many of their sources of oil. Even though several companies made large profits on inventories during the oil crisis, many are now in an extremely tight financial situation. This is especially so for the Western European national oil companies.

In recent years, oil companies have increasingly moved into other sources of energy, such as coal, oilshale, and uranium. This type of diversification, called horizontal integration, has been defended because it centralizes capital and expertise, thus furthering the development of new sources of energy.... Restricting horizontal integration would reduce the risk of an international energy cartel, but at the cost of slowing down the development of new sources of energy, and thus also create pressure for new price increases. Thus the resources for the oil companies are needed for expanding energy production, but there is also a good case for stronger political control over them....

The solution envisaged here is the use of the international oil companies as the cornerstone of a new oil regime. Their expansion and involvement in other types of energy should be encouraged under closer public control.