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weapon to dissuade any price hawk from raising prices lest he be flooded out of the market.

The Islamic Revolution which swept the Shah off the throne, turned the tide within OPEC and opened the door to a nightmare of oil price hikes, against which the Saudis singlehandedly could not do combat.

Abundant evidence exists within the public domain to prove that British Petroleum and its sister multinational Royal Dutch Shell were the instigators of a stark speculative price increase emanating from the oil spot market (where noncontractual across the counter oil transactions are made). According to an oil analyst now with Merrill Lynch, as early as October 1978, during the heat of the Iranian Revolution, Royal Dutch Shell had conducted a detailed profile of world oil stocks, in particular, the stocks of the U.S.

Because there had been an oversupply of oil on world markets during the period leading up to the Iranian revolution in late 1978, stocks were not adequately built up to meet the needs of the winter and the crisis which ensued because of the Iranian oil export shutdown in December 1978. Shell knew that the shutdown would prompt a rush into the spot markets and trigger a serious spiraling in world oil prices. Shell's own stock supplies, insiders say, were more than adequate to meet the demands of the crisis London knew was coming.

Force majeures and market 'disintegration'

Shortly after the Iranian oil shutdown the multinational oil companies began to impose force majeures (notice of cutback in supply) on all third party contracts. These cutbacks to other oil companies not affiliated with the system of the majors began a process whereby companies and refiners were forced onto the spot markets to competitively bid for badly needed margins of oil.

It was Shell and British Petroleum who were the first multis to impose the force majeures. In January 1979, *Petroleum Intelligence Weekly* reported that the North Sea producers triggered a spiral in spot market prices. Shell and BP control a major portion of North Sea oil. Within a matter of weeks, other majors began to impose force majeures on third party contracts, and the spot market soared.

This process of undoing the integrated market is precisely what the CFR termed the disintegration of the oil markets. Throughout the course of the year the volume of oil trade on the speculative spot markets has grown from 5 percent of total world oil trade to 25 percent thanks to the imposition of force majeures on intercompany trade.

Because of the increasing volume of spot transactions, the average pricing level for crude oil purchases has not dropped below $30 a barrel. It was the momentum and volume of spot trade which triggered numerous OPEC price hikes over the course of the year.

Coinciding with the Iranian revolution, OPEC took a series of unprecedented decisions at its December 1978 price-setting meeting, aimed at stopping oil speculaton, particularly on the so-called Rotterdam spot market. The move, which was led by the Saudis, was meant to take the pressure off continental Europe which had been subject to pricing manipulations on oil through the massive Amsterdam-Rotterdam-Antwerp oil terminal and refining nexus.

OPEC announced that it would impose a net 10

Predicting the chaos of the 1980s in 1973

In March 1973, prominent international oil consultant Walter J. Levy released a report titled New Roles and Relationships in the Next Decade. *Levy's almost prophetic anticipation of future economic chaos due to OPEC policies on oil and petrodollars is no coincidence. Levy was one of the directors of the New York Council on Foreign Relations Project 80s study which concluded its basic findings in 1976. We quote from the 1973 report.*

On OPEC

Culminating with the conclusion of the participation negotiations in 1972—which may still turn out to be not the final round of negotiations—there is little doubt that the major oil producing countries, especially of the Middle East, have acquired an immense potential for power—as long as at least two of the more important producers are able to maintain a reasonably united front. In the case of Saudi Arabia alone, we face a situation which, within a few years, gives that country, with its overwhelming lead in reserves and production, a pivotal role in supply.

As dicussed, their power is based not only on their effective control over immense oil resources on which the security and prosperity of the Free World have become dependent, but will in due course derive also from their control over unprecedented financial resources which they will be able to extract from the oil purchasers. Moreover, large monetary reserves will give them the freedom to restrict their oil production for political or any other reasons, even though they would thereby forego current income....

The dilemma confronting us is acutely disturbing as any proliferation of international restrictions on

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percent price hike for 1979 to be instituted in small quarterly steps to forestall crude stock build up and hedging. by the multis.

Between January and June, the momentum of oil speculation drove the price of spot crude to over $30 a barrel. The "price hawk" North African producers responded to "the profiteering of the multinationals" by imposing premiums on their high demand light crude which created such a massive spread in OPEC prices that the traditional price differentials between the various grades of crude were destroyed.

Even after Iran renewed efforts in March, adding a margin of crude into the markets, and even with major production increases by Saudi Arabia, Kuwait and Iraq, the speculative spot price rises continued. This momentum was fed primarily by the continued imposition of force majeures by the majors, which forced crude short European state companies and Japanese trading companies reluctantly into spot trade.

As early as August, Shell initiated a program of tacking additional costs (premiums) on remaining third party contracts. According to *Petroleum Intelligence Weekly*, Oct. 10, shortly after the Shell move to impose the premiums, other majors followed suit, imposing premiums of as high as $8 a barrel over contract price.

Le Monde, Oct. 11, reported that not only was this practice of imposing premiums on third party contracts exacerbating an oil pricing spiral, but that many of the majors were competitively bidding for spot purchases of crude directly from the Middle East producers. *Le Monde* named Shell, Esso (Exxon foreign affiliate), and Gulf as the most aggressive bidders. At that time United Arab Emirates Oil Minister Mana Saeed Oteiba publicly urged on the companies not to bid so high for OPEC spot crude.

By the June meeting of OPEC, the Saudis conceded a major defeat to the price hawks by agreeing to a ceiling up to $23.50 a barrel, while the Saudis kept their oil at a base price of $18.00. A relative amount of discipline was maintained in the cartel until last month.

Again the British triggered another round of price hikes on contracted oil at the same time that spot prices for crude and petroleum products reached record highs.

The British National Oil Company announced it would raise its prices beyond the $23.50 OPEC ceiling. Immediately thereafter Mexico announced a jump to $24.60 a barrel, and Kuwait followed suit. By the end of the month, Libya, Nigeria and Algeria had all broken the $23.50 OPEC ceiling with numerous other producers in the cartel making price increases just to the ceiling. As French press sources pointed out, this recent spiral in both contracted and spot prices was the result of BNOC's move. With North African crude now selling at between $26 and $27 a barrel, BNOC again raised its prices last week to match.

Two weeks ago London made yet another move which added to the speculative pricing spiral on the spot market. The Thatcher government announced that 10 percent of the oil output of the North Sea's largest field would be cut, in order to reduce the flaring off of gas which accompanies the pumping of oil. At that time both Esso and Shell, the field's two prime producers, warned that the effect of the poorly timed move would be to drive the price of petroleum products further up and would only force these companies to make more speculative purchases on the spot market.

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capital or short-term movements of funds would, in and by themselves, be most harmful to our financial markets and monetary system. In the affected Middle East oil and capital-surplus countries, any restriction on their investments abroad would probably be accompanied by restriction on their output of oil.

On the need for an international oil alliance

Individual European countries and Japan ... might be tempted to outbid each other in an effort to curry thereby special favors with the Middle East oil producing countries and to secure a privileged position for themselves.

But whatever their motivation, the national companies of importing countries will, in any case, greatly expand their foreign supply operations. While such diversification might or might not provide a modicum of some added supply security, it should be noted that any new ventures would be subject to fundamentally the same kind of political and economic risks as those of the international oil companies.Only a coordinated approach to energy policy by the relevant importing countries could really prevent such harmful consequences.

Beyond a doubt, U.S. relations with Europe and Japan are in disarray. There are many outstanding unresolved problems on defense, burden sharing, trade policy, the whole range of monetary issues including currency realignments, capital flows, and so on.

Perhaps instead of establishing a grand design which would encompass a resolution of all major contentions and areas of conflicts, it might prove to be more fruitful to proceed pragmatically on an issue-by-issue basis and try to tackle first those problems where the chances of an Atlantic-Japanese policy, or at least of an agreed upon coordinated approach, would seem to be most promising.