

Energy Insider by William Engdahl

1979 world oil production at record high

Production is high, but refinery figures are at an all-time low.

Total worldwide crude oil production for the first 9 months of 1979, the latest period for which accurate figures are available, set an all time historic high.

The same week this significant fact was made public in the authoritative *Oil and Gas Journal*, Deputy U.S. Energy Secretary John Sawhill announced that within two months his department will make "rationing allocations of crude oil to U.S. refineries" and is considering "government takeover of certain crude stocks," restrictions on air travel, and a series of other draconian measures.

First, the facts. Worldwide crude oil production averaged more than 63.3 million barrels per day for the nine month period ending September of this year. All indications are that this record level will hold until the end of the year. By comparison, in 1978, when there was no shutoff of Iranian oil production, the world produced an average of 59.7 million barrels daily.

This means that the world is swimming in oil. With 6 percent more crude production, demand for petroleum products such as gasoline and home heating oil is down by a substantial 4.2 percent from the previous time last year. This is primarily due to forced conservation via an almost 100 percent rise in the pump price of motor gasoline and other refined products.

Despite these record supplies of

crude, there has been a relative downturn over the same period last year in U.S. refining of crude, meaning a process of worldwide inventory stockpiling on an enormous scale. If Mobil, Shell, BP and the other multinationals holding the bulk of world crude can hold this until after a substantial price rise is affected at the mid-December OPEC ministers meeting, the value of their inventories on paper will increase enormously. This will mean another major ratchet in world inflation.

A closer look at production levels in different areas of the world in this "year of the great oil shortage" is also highly significant. The 9-month reduction by half of Iranian production, from 5.6 million barrels per day (bpd) to just over 2.9 bpd, has been more than offset by increases in OPEC production, especially Saudi Arabia, OPEC's largest producer. The Saudis—despite intense speculative pressures from the London-New York run "spot market" in Rotterdam—have increased their output by 22 percent over 1978 to an average of almost 9.2 million bpd. A number of trading sources have reported to this journal on the nature of the intense speculative pressures the Saudis have been under to raise their benchmark price from its present \$18.00 per barrel price to the ceiling OPEC level of \$23.50.

The pressure stems from the

fact that the primary beneficiaries of Saudi Arabia's holding to the lowest end of OPEC price schedules is the consortium of four oil majors, constituting the Arabian-American Oil Company.

For example, Mobil has been widely charged with taking advantage of its favored position with the Saudis to buy its crude at \$18.00 and reselling it covertly on the now substantial Rotterdam market for as much as \$40.

Aside from OPEC increases noted, some interesting facts emerge from a study of the worldwide figures released Nov. 26 by the *Oil and Gas Journal*. Output from the British North Sea fields of such majors as BP and Shell rose a whopping 54 percent. U.S. domestic production, by contrast, declined by more than 1 percent to 8.6 million bpd, due to environmental restraints on further Alaskan flows and deemphasis by the majors on domestic production. Ironically, the so-called Windfall Profits Tax-decontrol package about to clear the Senate will not touch such companies as Mobil, who will benefit from decontrol. Rather, it will diminish domestic independent producers through a tax of 60 percent on all categories of domestic oil at the wellhead. As one producer quipped "The federal government will reap the biggest windfall of all from oil decontrol."

Meanwhile, Mexico reached almost 1.5 million bpd in September for an increase of 21.5 percent, an amount equal to Alaskan output. The Soviet Union, the world's largest producer (which has recently confirmed discovery of new "super" fields in the Vargan area) averaged almost 12 million bpd in August, up 2.1 percent.