Business Briefs

Oil markets

OPEC crude output hits 1976 low

Total crude oil production by OPEC last month hit its lowest level in four and a half years. A precipitous drop in world demand for crude oil is the cause. In the United States alone, oil imports are down 14 percent from this time last year. OPEC production has decreased by over 3 million barrels per day from the same period of 1979. With the exception of Saudi Arabia and Iraq, other cartel members have cut output over the past six months, trimming total production to just over 27 mbd.

A New York oil analyst with a fairly good track record thinks the "slump in the world oil markets will continue through 1981." He projects continued oil-price softening, which has already forced a marginal drop in the price of gasoline in the U.S. and in Europe.

Oil company sources in the U.S. say they are stunned by the degree of petroleum consumption decline in the wake of price hikes earlier this year. American consumption for the first half of 1980 is down by over 8 percent from 1979. As a result, many U.S. companies are taking price cuts on their crude and petroleum products contracts.

Gold

Long-term investment and panic buying

Reflecting investors' fears of a possible East-West confrontation over either Poland or the Middle East, the world gold price jumped $22 on Aug. 20. European buying was particularly heavy.

According to a source at a leading West German bank, Israel's annexation of the Arab sector of Jerusalem is regarded in Europe as an especially ominous sign of Israeli intransigence. The same source predicts that gold and the U.S. dollar will continue to rise in tandem because the major Western European economies are more vulnerable to a shutdown of Middle East oil supplies than is the United States.

A Zurich-based bank, the Privatbank und Verwaltungsgesellschaft, has estimated that the OPEC nations now hold nearly 15 percent of their total portfolio in gold. The bank reports that OPEC's gold assets equal approximately $33 billion worth of gold, when valued at $600 an ounce. OPEC investments representing the members' cumulative surplus since 1973 are placed at $220 to $260 billion. A Bank of England estimate earlier this year put OPEC's gold holdings at only 10 percent of its total investments. The Privatbank predicts that OPEC nations will continue to expand their gold holdings, and therefore the price will be "solidly supported."

Food relief

Supplies diverted to marauding troops

Reagan campaign manager William Casey and Leo Cherne, formerly of the Foreign Intelligence Advisory Board, are using relief organizations for population-control and population-reduction purposes in eastern Africa, *EIR* has learned. The main refugee and resettlement agency active in the region is the International Rescue Committee (IRC), directed by Cherne with input from Casey. Working with the League of Red Cross Societies, the IRC, according to Cherne's assistant, is involved in "very sensitive work" in Uganda, Somalia, and the Sudan. Together with Ethiopia, these countries are the worst hit by famine.

In Uganda, relief supplies have been funneled to an army made up of remnants of dictator Idi Amin's troops, criminal elements, and rebels from neighboring countries including the Sudan. This makes it impossible to provide real relief for the starving Karamojan tribesmen, whose food is captured and whose livestock is decimated by the invaders.

The Somalian army has also been built up by the IRC operation, according to numerous African sources. The army has conducted raids into drought-stricken Ethiopia, systematically destroying livestock, hospitals, and schools. Ethiopian officials say that the military hardware captured from Somalian troops is extremely sophisticated. A full report will come in next week's *EIR*.

Energy policy

Carter's statistics are all wrong

In each major campaign speech since he delivered his energy proclamation last year, President Carter has promised that by 1985 his alternative energy program will produce 500,000 barrels per day of oil equivalent. Now sources at the Department of Energy disclose that promise to be unmeetable by a wide margin.

"There is no way that Carter can attain this objective," said one Department of Energy source. "The coal gasification and liquefaction programs will produce a few thousand barrels by 1985. This will be coming from demonstration plants. Commercial plants for these processes won't be started until the late 1980s." Oil shale, the other major energy supply for synthetic fuels, is more advanced than coal liquefaction or gasification, "but it still won't kick in much." "Oil shale will produce 100,000 barrels of oil equivalent per day by 1985, but not much more," added another DOE source.

"From day one, I've found no one in the administration who believes the 500,000 per day figure. When we were drawing up the Synthetic Fuels Corporation bill, we dismissed these figures," complained one congressional source. Still, the U.S. government plans to spend up to $88 billion on synthetic fuels during this decade. Private industry plans to spend tens of billions of additional dollars.

Housing finance

Savings bankers plan anti-Volcker campaign

The U.S. League of Savings and Loan Associations will launch a media blitz this autumn to demonstrate that housing construction is being decimated by the policies of Federal Reserve Chairman Volcker and the recently established Depository Institutions Deregulation Committee. (DIDC).

With housing starts about to be hit again by a new increase in long-term interest rates, leaders of the Savings League met informally with officials of the National Association of Realtors over the Aug. 15-17 weekend.

"The public has a point beyond which they cannot afford to buy homes. At mortgage rates of 12 to 13 percent, they stopped taking out mortgages—we're now at 12 percent," said the president of one large S&L. Housing starts, totaling 2.2 million units in 1978, fell to 900,000 units in April, then rose to 1.3 million units in July as interest rates came down. That situation is now likely to be reversed.

The Savings League—plaintiff in a lawsuit against Volcker and the DIDC—asserts that the new regulatory decisions will create a $17 billion outflow this year from the S&Ls that fund most U.S. housing construction.

Food additives

Nitrite ban lifted as election ploy?

"There is no basis for the FDA or USDA to initiate any action to remove nitrite from foods at this time," read a statement issued jointly this week by FDA commissioner Dr. Jere E. Goyan and Agriculture Secretary Bergland's assistant for consumer affairs, Carol Tucker Foreman. The issue has been a delight for environmentalists and consumerists. Moves were made to ban the use of sodium nitrite, the preservative used in 7 percent of the nation's food, particularly processed meat and poultry products, after a 1978 study purportedly showed nitrite to be a cancer-causing agent.

The sudden about-face on this issue, though welcomed in the meat industry, is widely viewed as an electioneering ploy by President Carter. The Carter move caught some partisans by surprise, but it was generally agreed that moves to reduce the use of nitrite will continue in any case.

Transportation

Rail decontrol on administrative track

Deprived of unanimous support from railroads and shippers, rail deregulation bill sponsor Rep. James Florio (D-N.J.) withdrew the legislation from the House schedule this week. "For all practical purposes the bill is dead," Florio told the *Journal of Commerce*. Spokesmen for the railroads have indicated to Congress that they prefer to rely on the Interstate Commerce Commission to implement decontrol administratively, rather than accept any sort of legislative compromise that may tie their hands.

At the last moment, a coalition of shippers, port interests, short-line railroads, some farm shippers, and others tried to lower the ceiling at which the ICC would be required to ratify newly set rates. The bill mandates the ICC to investigate rates when they go above 200 percent of variable costs. The coalition, whose spokesmen was Rep. Bob Eckhardt (D-Tex.), proposed investigation of any rate over 160 percent above variable costs. Also at issue was the provision enabling railroads to levy surcharges on international traffic—opposed by the coalition as "just a license to steal."

Meanwhile, last week the ICC struck down the railroads' collective ratemaking agreement in a move designed "to enhance competition in the ratemaking process."

Briefly

- **RONALD REAGAN** has formed a new advisory committee on economics under the direction of Bechtel chief George Schultz. New faces include Morgan Guaranty chief economist Rimmer de Vries in a panel on international economics chaired by former Fed Chairman Arthur Burns.

- **ROBERT ABBOUD** told a great deal about First Chicago's near bankruptcy in an interview with *Forbes* magazine. (His archrival Harvey Kapnick will tell all to the Chicago *Sun-Times*). One thing Abboud didn't mention is that he was in negotiation with the same 25-bank consortium that bought a chunk of First of Pennsylvania in an April bailout.

- **ONE SENIOR** Wall Street economist believes Fed policy will be guided by fear of a runoff of "massive foreign dollar liabilities" into European and Arab hands. He predicts slowly rising interest rates to keep dollars in the country.

- **IMF MANAGING DIRECTOR** de Larosiere's upcoming trip to Saudi Arabia won't produce the $10 billion cash contribution to the IMF he is looking for, IMF sources say. De Larosière is in no position to offer the PLO observer status at the next IMF annual meeting, the Saudis' condition for cooperating.

- **JACEK KURON,** the key dissident leader of the Polish strike movement, is the author of a 1964 pamphlet, "A Revolutionary Socialist Manifesto," that became one of the founding documents of the European "New Left." Kuron's pamphlet indicted Polish bureaucrats for orienting too strongly toward economic growth. One conservative Frankfurt businessman declared: "I know this may sound strange to you, but I think we should support Gierek in this situation. When you look at the alternative, you'd have to be crazy not to."