Foundation, which played an inside role in installing Iran's Ayatollah Khomeini and advises both Libya and Algeria. Since Saudi Arabia was not amenable to the policy of a basket of currencies, Benn devised a more elaborate plan for additional indexes to determine the price of oil through the rate of inflation in the West and the cost of imported Western goods.

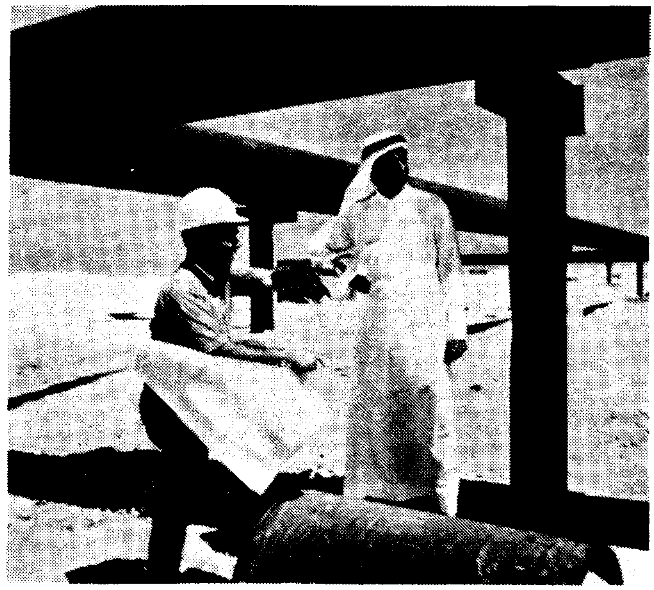
Benn's "advice" to Yamani was augmented by a number of anglophile advisers within the OPEC secretariat in Vienna, the most important of which is the Deputy Secretary General of the cartel, Fadhil Al-Chalabi. Al-Chalabi, an Iraqi who once headed the Organization of Arab Petroleum Exporting Countries (OAPEC), works closely with a prestigious grouping in England called the Oxford Energy Policy Club. Oxford University has been the center for formulating the OPEC policy of London financial interests.

Just before this week's OPEC parley, Chalabi told the press that the indexing plan would take the price of OPEC oil to upwards of $60 a barrel by 1985, and would make exotic alternative energy sources such as synthetic fuels "economical." According to a New York source, pegging oil prices to the rate of inflation could itself spark a hyperinflationary spiral which would in turn trigger a higher rate of oil price increases. Moreover, given the rate of international inflation, the costs of synthetic fuels has risen dramatically. In 1975 the estimated cost was below $25 a barrel. The source observed that the effort to raise OPEC oil prices to meet the costs of synfuels "could be like Zeno's paradox," with rising inflation and oil prices increasing the cost of synthetic fuels.

Al-Chalabi, who just completed a book published by Oxford University entitled, "OPEC and The International Oil Industry," refers to the price of oil as "rent" in keeping with the British monetarist doctrine that the world economy is based on "ground rent" from raw materials and commodities in a free market. Al-Chalabi has worked closely with Adnan Al Janabi, the head of OPEC's Economics and Finance Department, and a graduate of the University of London.

From the outside of the cartel, perhaps the most influential force on policy is Robert Mabro, the Anglo-Arab economist who presently works out of St. Antony's College at Oxford University.

A founding member and Honorary Secretary of the Oxford Energy Policy Club, Mabro has been one of the chief organizers of Oxford's annual energy policy meetings, which bring together members of the oil industry, government officials from around the world and OPEC members to discuss such topical issues as synthetic fuels, oil production cuts and, of course, higher crude prices. The Oxford seminars have served as one of London's major vehicles for disseminating policy on energy.



The world impact of the petrodollars

by Renee Sigerson

During 1980, oil-producing countries in OPEC will have accumulated $120 billion in surplus oil revenues, the largest OPEC surplus since 1974. Every day, these funds are deployed back into world capital markets as standing investments. By year-end, OPEC's total world investments since 1974 will have reached at least $360 billion.

Seventy percent of OPEC funds dispersed worldwide are lodged with Western banks as interest-earning deposits. Periodically, Western financial journals and spokesmen generate panic at the prospect that OPEC could use these deposits, as well as holdings in Western government securities, to politically blackmail Western governments. For example, on Aug. 27, Germany's prestigious *Frankfurter Allgemeine Zeitung* ran an editorial along these lines, which asked, "But what happens if individual banks are put on an Arab 'black list' and deposits are suddenly withdrawn?"

In truth, as detailed reports from sources ranging from the Bank of England to New York gold trading houses demonstrate, since 1974, oil-producing countries, and the key Persian Gulf countries of Saudi Arabia, Iraq, Kuwait and the United Arab Emirates, in particular, have pursued stringently "conservative" policies in investing their funds: "conservative" both from the strictly financial and political standpoints.

Although OPEC has not budged from this "conservative" outlook, this September, for the first time, the Persian Gulf producers did exercise "financial blackmail" against Western institutions in an aggressive way. Led by Saudi Arabia, the oil-producers cut off their subscriptions to the International Monetary Fund (IMF), the institution established under the Bretton Woods arrangements to redress balance of payments discrepancies in world financial transactions. The Persian Gulf producers asserted they would only restore their contributions if the IMF gave representation to the Palestine Liberation Organization.

The real issue involved in this fight is much bigger than the PLO. The Persian Gulf countries undertook this move to establish a bargaining position in an international fight which was first "picked" by the IMF.

In early September, IMF Executive Director de Larosiere went to the Persian Gulf to demand that OPEC lend the IMF and its sister organization, the World Bank, $24 billion in funds over the next three years. The IMF and the New York and London commercial banks which are presently pushing for guaranteed OPEC funding of the IMF, want to deploy these funds to reorganize the approximately $80 billion in currently due Third World debt payments to the Western commercial banking community.

The Persian Gulf producers answered de Larosiere by raising the PLO question. Since then, the Group of 10 finance ministers of the 10 leading industrial countries which run the IMF have joined the ranks of financial organizations demanding the other proposed alternative to direct OPEC loans to the IMF. Namely, if OPEC won't lend to the IMF directly, the G-10 announced from its Paris meeting this week, then it should guarantee that it will participate in consortia for IMF bond issues which could be floated on international capital markets.

Two centers of world finance

If OPEC were to concede to this proposal or to direct IMF financing, its six-year policy of "conservative" investment strategies will have been put to an end.

OPEC's "conservatism" is revealed by the fact that despite its vast financial resources since 1974, OPEC has never independently shaped a single monetary policy.

Its resources have been "even-handedly" meted out in two directions. Currently, due to the growing Western financial crisis around Third World debt refinancing, OPEC is being pressured to decisively throw in its lot with the New York-London camp in global finance.

There are two policy centers in the world which shape international finance: the London-New York axis, and the French-West German core of the European Monetary System. The issue which separates these two centers is economic development in the Third World. The key "innovations" in world finance which the French-German alliance is committed to implementing, and which threaten London-New York, are: 1) a greater role for gold in government related international financial transactions; 2) pooling of advanced countries' surplus currencies for long-term trade and investment credits into the Third World; 3) lowering interest rates globally, to make it possible for international debt requirements to be repayable.

Examination of OPEC surplus deployment since 1974 demonstrates that OPEC has funneled large sums of investment into both financial policy camps. Since 1979-80, however, OPEC has done that to the extent of supporting the European Monetary System set up by France and Germany to a degree which threatens London-New York's influence more than OPEC policymakers themselves want to admit.

Facts of the case

OPEC's "fence-sitting" investment strategies have been clear during 1980.

In the first half of 1980, OPEC disposed of over $60 billion in surplus reserves. The breakdown of their disbursement, based on Bank of England statistics compared to private consultants' reports, can be reliably estimated as follows:

Direction of investment (in billions of dollars)	
U.S. bank deposits, and U.S. placements	6
UK bank deposits and UK placements	13
Purchases of gold	6
Direct lending to European governments	7
Deposits in other western banks (Germany, France, Japan, primarily)	14
Total	46

This summation is $14 billion short of known total disbursed reserves. This "gap" can be mostly explained in the following way.

The major changes in surplus deployment which occurred since 1979, after the founding of the European Monetary System, were the percentage of funds deployed into gold purchases and into direct lending to European governments. Our figures for those categories here are estimates based on reliable reports of the *minimum* funds deployed. Direct lending to European governments—and some say to Third World governments, too—may actually have been twice as large as the $7 billion cited above, according to some sources.

One analyst predicts that starting in 1981, OPEC may funnel as much as 25 percent of its total surplus into direct government lending alone.

The full amount in this direction is as secret as the total funds OPEC has deployed into gold purchases. Another category which begins to fill the gap is deposits in other Western banks, which although currently declining, may have been substantially larger in the first quarter of this year.

What this chart does not show is that OPEC deposits in U.S. banks have shrunk dramatically. The Bank of England asserts that up until the end of 1979, deposits and placement in the UK and U.S. were virtually equal; this began to shift in 1978 when OPEC started dumping U.S. Treasury securities and continued through the end of 1979. In the last quarter of 1979, OPEC deployed $7 billion into U.S. placements; in the first quarter of 1980, this amount was sliced in half.

Last June, *Business Week* magazine ran a sensationalist article on the theme: where is the missing $20 billion in OPEC funds. Bankers reached in New York for comment on the item confirmed that they were panicked about the drainoff of OPEC funds, saying "We're just not getting the funds anymore."

In subsequent weeks, OPEC revealed for the first time that its purchases of gold during 1980 had risen from 5 percent of total deployed surplus to ten percent.

These gold purchases, while protecting OPEC assets, have also helped the French-German moves to give gold a greater role in the international monetary system. For example, OPEC has gone so far as to open negotiations with the Soviet Union on direct oil sales in exchange for gold payments, an arrangement which could greatly expand available international liquidity for Third World financing.

Equally offensive to London-New York is the fact that OPEC loans to France and West Germany were the keystone in allowing these countries to keep interest rates down for the first half of 1980.

As explained in recent *EIR* analyses of the European economies, high U.S. interest rates have exacted a tremendous toll on European economies. If London-New York had their way, Europe's interest rates would be much closer to the 13-16 percent regime in the U.S. and UK, since such rates would virtually strangle the European Monetary System as an effective monetary institution.

In fact, as a German banker reported in an interview this week, the OPEC loan to the German government earlier this year prevented a domestic credit crisis. If these funds had not come in, the German Central Bank would have been forced to yank rates up to the 10 percent and above level.

There is no question that since January, London-New York institutions have become alarmed at the degree to which OPEC has served as support for the EMS. However, OPEC's "moderation" in monetary affairs is demonstrated by its continuous commitment to massive support of Britain's capital markets and the British pound sterling.

As shown above, the largest single category in OPEC disbursements is placements in the UK. In the first quarter of 1980, OPEC deployed $1.8 billion into purchases of British government stocks, treasury bills and sterling deposits. This was the largest single rise in OPEC holdings in sterling since mid-1974. Add to that the fact that OPEC deposits large sums denominated in currencies other than sterling with British banks, and it remains clear that throughout the turbulences of recent years, OPEC has sustained a steady bailout of British financial markets.

From the standpoint of its own self-interest, OPEC countries do this to benefit from Britain's outrageously high interest rates (currently above 16 percent). The problem with this type of self-interest, however, is that it is very short-term. The high U.S. and UK interest rates are currently causing the world economy to go deeper and deeper into depression.

OPEC countries showed the same faulty self-interest earlier in 1980, when they purchased nearly $2 billion in high interest U.S. government paper, after virtually dropping out of the official U.S. securities market in 1979.

OPEC's financial ties to London have been a continuous, steady feature of their overall investment strategy since 1974. Leading London policymakers are keen to OPEC's investment profile, which has halted the Persian Gulf countries from more definitively backing the EMS.

For example, Bank of England Governor Kit McMahon issued an interview to the Wall Street Journal Sept. 16 showing that Britain intends to use OPEC's attraction to high-interest speculative returns to ensnare OPEC into financing an increase in IMF regulation of Third World debt.

McMahon stated that since OPEC likes high-interest instruments, the IMF should create a special financial instrument at high interest rates, whose deposits can then be used to "recycle" Third World debt.

McMahon's proposal is the exact opposite of how OPEC deposits with the European Monetary System would be activated to finance the developing sector. By monetizing gold within the EMS, the EMS has the potential to offer OPEC long-term bonds, which may have low interest rates, but which can become inflation-proof through gold backing. By introducing gold-backed, low-interest bonds, the EMS could then relend these funds to the Third World, also at low interest rates. This way, the international monetary system would finance long-term international trade, without being subject to the serious, recurrent liquidity crises and unpayable debt spirals which have wreaked havoc with the world economy since 1974. ■