Britain's strategy forces a turning point for oil producers

by Judith Wyer

The surprise move by Britain last week to chop over $4 a barrel from its $39.25 oil price was not motivated by economic altruism, but is part of a scheme to restructure the world energy markets.

Though Britain is not an official member of the OPEC oil cartel, it has increasingly become a dominant force in setting world oil prices. This is made evident by Britain's alliance with Libya and other pricing militants, which over the last two years doubled world oil prices to a ceiling of $40 a barrel.

The decision was in fact made by the Bank of England, which, according to European reports, calculated that the loss of oil revenues would be made up by continued high interest rates, which would maintain high parities for the dollar, in which Britain conducts oil trade.

One of the objectives was to realign British oil-pricing policy with the moderate stance of Saudi Arabia and in so doing strengthen the Saudi bid to reunify oil prices by forcing countries like Libya to drop their price to the Saudis' $32 a barrel range.

Over the last 18 months, Saudi Arabia has sustained a record level of nearly 2 million barrels a day (mbd) over its official production ceiling in order to flood the world markets and force a drop in prices. Since the OPEC meeting last month, that strategy has begun to pay off.

However, Britain's motivation in lowering its price differs from that of Saudi Arabian chief policy-maker Prince Fahd. Oil Minister Zaki Yamani was speaking for Fahd last month when he declared that his country wanted to lower oil prices to stimulate demand for oil and give the flagging world economy a boost.

Britain's strategy is to ally with Saudi Arabia and strengthen its effort to lower oil prices in exchange for gaining Saudi backing for a scheme to index the price of OPEC oil to a monetarist formula based on a combination of a basket of Western currencies and the rate of inflation in the industrial nations. There is no way that such a plan can be implemented without Saudi support, since Saudi Arabia is the largest exporter in OPEC.

Saudi King Khalid led a high-powered delegation to Britain days before the British price drop, where he conferred with not only the Thatcher government but also Britain's most powerful noblemen. Whether or not the talks touched on oil policy is not known. However, it is known that during a brief stopover in Geneva, Khalid conferred with Venezuelan Oil Minister Humberto Calderón Berti, a staunch supporter of indexing.

A week later the OPEC Long Range Strategy Committee, headed by Saudi Oil Minister Zaki Yamani, met in Geneva to work out long-range pricing plans. The only other oil minister present was Calderón Berti, who is reported to be aggressively pushing the indexing scheme.

The indexation plan would infringe upon the rights of sovereign nations to determine their own oil policies. In its place, the Bank of England, and its oligarchical ally, the Swiss-based Bank for International Settlements, favors the creation of a supranational authority to regulate oil prices along strict monetarist guidelines. According to this plan, the indexed oil price would eventually serve as a benchmark for all world energy sources and create the foundation for what is referred to in elite banking circles as a mega-energy cartel.

It is known that a faction within the Saudi Supreme Petroleum Council favors this pricing formula but that Crown Prince Fahd has been ambivalent toward it. Since the death of King Faisal in 1975, a London-allied faction associated with Prince Abdullah within the royal family and Saudi technocrats has gained influence. It is this group which is thought to have influenced Saudi Oil Minister Yamani to adopt the indexing scheme back in 1978 during lengthy meetings with then British Oil Minister Anthony Wedgwood Benn. Together Benn and Yamani drew up the OPEC Long-Range Planning Strategy which advocates the indexing scheme.

This indexing plan has been enthusiastically pushed by the Brandt Commission. It was endorsed two years ago by the prestigious New York Council on Foreign Relations in a controversial 30-volume study known as the *1980s Project.* But in fact, the plan goes back to 1971 when Treasury Secretary John Connally, working with the Bank of England, depegged the dollar from gold. At that time the scheme was introduced into OPEC by London, and it has been a recurrent negotiating subject for the cartel ever since.

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Figure 1
Big Seven crude oil production
(millions of barrels per day)

	1977	1978	1979	1980	Percent change 1979-1980
United States	18.4	18.8	18.4	16.4	-11%
Japan	5.0	5.1	5.2	4.8	- 7%
West Germany	2.5	2.6	2.7	2.3	-15%
France	2.0	2.1	2.1	2.0	- 4%
Britain	1.7	1.7	1.7	1.5	-12%
Italy	1.5	1.6	1.6	1.6	0%
Canada	1.7	1.7	1.8	1.7	- 6%

Source: OECD

In the last month the world marked downward slide to the point where even the price of Saudi crude on the spot market (where small noncontracted oil sales are conducted) has slipped even below the Saudi $32 a barrel price. This is not, as the financial press reports, the result of some natural glut resulting from an imbalance of supply and demand, but is the result of the high interest-rate policy of U.S. Federal Reserve Chairman Paul Volcker, himself a director of the CFR *1980s Project*. High interest rates, which have stifled capital formation and industrial growth along with the so-called second "energy shock" of 1979-80 which Britain rigged, has forced a precipitous drop in world oil consumption. Unless the usurious interest-rate policy is reversed, the likelihood that lower oil prices will reverse the world slide into depression is very remote.

This is in part because oil trade is conducted in dollars, the value of which has been artificially pumped up by the high interest rates. In real terms oil importers must pay more to purchase dollars to pay for oil imports. Though oil importers are buying less crude even at lower prices, they will be paying more to buy expensive dollars with their own devalued currencies.

Moreover, should there be no substantial rebounding of oil consumption, it will have a potentially disastrous impact on a number of "second-tier" oil exporters such as Mexico, Nigeria, and Indonesia, which depend on oil income for their development plans.

A study just concluded by Salomon Brothers concludes that over the next 18 months world oil consumption (minus the communist countries) will level off at about 47 mbd. The study concludes that demand for OPEC oil will not exceed 23.5 mbd over this same period as compared to OPEC's production high of over 31 mbd in 1977. A 23.5 mbd average will leave roughly 13 mbd of unused production capacity within OPEC.

This means that these developing countries will not be able to export the quantities of oil their long-term development programs forecast as long as the Volcker

Figure 2
Big Seven imports of crude oil
(millions of barrels per day)

	1977	1978	1979	1980	Percent change 1979-1980
United States	6.6	6.3	6.5	5.2	-20%
Japan	4.8	4.7	4.8	4.4	- 8%
West Germany	2.0	1.9	2.1	2.0	- 5%
France	2.4	2.3	2.5	2.2	-12%
Britain	1.4	1.3	1.2	0.885	-26%
Italy	2.1	2.2	2.3	1.7	-26%
Canada	0.68	0.62	0.62	0.58	- 7%

Source: OECD

dictatorship continues to depress economic growth. Moreover, even with built-in oil price increases based on indexation, these countries will lose revenues. This will occur because they will be forced to borrow vast sums of money at prevailing interest rates to maintain their development momentum. Moreover, London and the World Bank are aiming to restructure oil flows from these "South" countries increasingly away from the industrial "North" nations and toward other developing countries, in what the Brandt Commission refers to as a "South-South" economic relationship. Because non-oil-developing countries cannot pay the full market price for oil, this will further cut into the oil income of the larger oil exporters.

At the same time, the Brandt Commission and the World Bank are promoting increasing "energy self-sufficiency" south of the equator. Their plan calls not only for redirecting oil flows but for investment in backward forms of energy such as peat moss and other nonsense. In fact this "South-South" energy relationship is principally aimed at breaking any oil-for-technology relationship existing between the oil producers and the industrial states in order to stifle the industrial development of these oil producers.

This Brandt Commission-World Bank scheme is designed to leave countries like Mexico with nothing but a pile of unpayable debt by the end of the decade.

The price drop by Britain, and the comparable drop by its ally Norway, have thrown down the gauntlet. particularly to the North African producers and Mexico to either lower their own prices or cut production. In either case it means a loss of billions of dollars in development income. Already a number of New York banks are predicting that these countries will be forced to borrow several billion dollars at prevailing interest rates to make up the difference.

Britain reportedly will raise its oil production now that its price has dropped, to attract new buyers. Lawrence Goldstein of Petroleum Industries Research Foundation commented after the British price drop that "if the African producers aren't responsive, they're going to be hurt even more."

Nigeria is the most vulnerable of the African producers. Official Nigerian reports show that its production for May 1981 was at 1.3 mbd, 800,000 bpd less than May 1980. Unofficial industry sources report that at present Nigerian exports are about half of what they were this time last year. Though Nigeria and its fellow African producers Libya and Algeria vowed last month not to cut their prices, each of these countries is unofficially shaving its price up to $4 a barrel. Various banking sources concur that if the downward pressure on oil prices lasts only through this year, Nigeria will feel no serious effects. However, if the situation prevails into 1982 Nigeria will be forced to cut into its development budget, a move that could provoke instability among Nigeria's delicately balanced factions. The Muslim Brotherhood—a secret fanatical Muslim cult—working through Libya is known to be building influence in northern Nigeria. A full-scale economic crisis there would provide the pretext for an Iran-style blowout that would set back all of black Africa.

In late June, Indonesia announced that it would cut 10 percent of its oil production and, following a meeting with Indonesian Oil Minister Subroto, President Suharto, announced that in the future Indonesia would "depend less on oil" as a source of income.

Last month the World Bank issued a confidential 600-page document urging Indonesia to "decontrol" its economy and let the private sector take over. It also urged the Indonesian leadership to exact harsh austerity, such as doing away with all fuel subsidies to prepare for future waning oil income. The report has caused a furor within the Suharto regime, and the Jakarta leadership is fighting such dictates.

Last month, the board of the Indonesian state oil company Pertamina was shaken up and new management associated with the former head of the company Ibn Sutowo was installed. Sutowo has been the most outspoken advocate of full-scale heavy industrial development, which led to his ouster in 1977 by the World Bank. Indonesia in recent weeks has been moving aggressively to seal a number of multibillion-dollar deals, particularly with Japan, to ensure its continued industrial development.

Like Nigeria, Indonesia is plagued with Muslim Brotherhood networks which, in league wih the Chinese merchant class, could pose a threat to Indonesia's stability should an economic crisis due to declining oil income persist.

In Mexico, a showdown is expected to come July 1 when six American oil companies will renegotiate new oil contracts. It is expected that the oil companies will not accept the price Mexico is asking. The situation is complicated by the fact that Díaz Serrano, the former Pemex director, earlier this month announced an across-the-board decrease in Mexican oil prices by $4 a barrel. A few days later Díaz Serrano was ousted, and there are press reports that Mexico will try to raise its oil price back up by $2 a barrel, but it is expected that the oil companies will refuse to accept a significant price hike.

Should Mexico be forced to accept terms dictated by the oil companies, Mexico City Mayor Hank Gonzĺez and his Anglo-Jesuit allies will be strengthened in their bid to prove that President José López Portillo's plan for an oil-funded industrial development perspective cannot work. This could provide them with political ammunition to name the next president, and undermine Mexico's prospects for industrial development, at least for the next decade.