Economic warfare: the true story of the 1970s Great Oil Hoax

by Robert Dreyfuss, Middle East Editor

I. The Muammar Qaddafi Factor, 1969-71

The event that ushered in the 1970s oil crisis was the September 1969 coup d'état by Col. Muammar Qaddafi against Libya's King Idris.

The setting was as follows: During the 1960s, Libya emerged as the world's leading oil exporter. During this period, Libya was run by the Swiss banking clique and the newly established Propaganda-2 Freemasonic secret society in Italy, whose banks and insurance companies in Venice and in Switzerland controlled King Idris's corrupt regime. Virtually every Libyan official, from the king down, received huge oil-company bribes deposited in secret Swiss bank accounts.

The man who almost single-handedly built the oil industry in Libya was Occidental Petroleum's Armand Hammer, whose ties to Swiss banks and the Austrian and Italian underworld, and to the Soviet KGB, gave him an inside track to develop Libya. Purchasing the obscure and bankrupt Occidental Petroleum Corporation in the 1950s, Hammer used his Libya connection to become one of the world's most powerful oilmen almost overnight. Along with Hammer, Exxon and the Max Fisher-controlled Marathon Oil Company also had a large position in Libya.

In 1961, oil exports from Libya were a mere 20,000 barrels a day. By 1966, they reached 1.5 million barrels a day; by 1968, 2.6 mbd; and by 1969-70 over 3.5 mbd. In September 1969, the month of the coup d'état by Qaddafi, Libya exceeded even Saudi Arabia in daily oil exports! The key to this process was that major Western nations, especially in Europe, became heavily dependent on Libya for oil supplies, thus giving the P-2 controllers of Libya enormous leverage among the consumers. Becoming dependent on Libya too quickly, Europe was suddenly vulnerable to blackmail.

It was a setup.

On Sept. 1, 1969, Qaddafi's junta seized power. It is now generally recognized that the coup was sponsored by the U.S. State Department, the CIA, and certain Italian and Swiss agencies linked to P-2 and Armand Hammer. Official U.S. government documents reveal that David Newsom, the Exxon-linked American ambassador in Libya, in 1970 intervened to block a proposed coup against Qaddafi. Orchestrating the entire Libyan affair was the British Secret Intelligence Service (SIS), who had picked up Qaddafi during his training at the elite Sandhurst military school in Great Britain. Qaddafi's first prime minister, and the man who subsequently conducted the oil negotiations for Libya, was a slick former lawyer for Exxon.

Taking advantage of the 1967 closure of the Suez Canal, Qaddafi "demanded" that Hammer's Occidental cut back its production. Throughout early 1970, as Libya had Europe's consumers over a barrel, Qaddafi reduced Libyan production sharply and demanded higher prices for Libyan oil. The Libyan action was first resisted both by oil companies and consumer governments, but on Sept. 4, 1970, Hammer announced in Los Angeles that he had unilaterally accepted Qaddafi's terms. The other companies quickly followed suit—having no choice—and Libyan price rose from $2.00 to between $2.30 and $2.90.

Libya leads OPEC renegades

Closely coordinating with Libya were Algiera and Syria, which received Libyan subsidies. In fact, the Libyan victory in September 1970 was only made possible by the July 1970 Algerian action in unilaterally raising its export price to France to $2.85 from $2.08.

An official adviser to Libya and Algeria at the time was John Connally, the P-2-linked U.S. lawyer who represented Algerian interests in the United States. Connally later became U.S. Treasury Secretary, a position in which he would continue to represent (more discreetly) the identical policy. The Arthur D. Little consulting firm and Washington fixer Clark Clifford were also hired by Algeria.

Said Libyan Oil Minister Mabruk at the time, "A totally new situation has arisen in the oil market," and indeed it had. Throughout OPEC, nationalists put heavy pressure on OPEC governments to follow Libya's lead. In Janauary 1971, after an OPEC meeting in

Caracas, Venezuela, Libya presented Hammer with renewed demands for price hikes. In New York, John J. McCloy, a long-time Rockefeller associate, organized the U.S. oil companies into an officially recognized cartel to confront OPEC. At meetings in Teheran in January and February 1971, the oil companies under McCloy's direction, acting provocatively and boorishly, forced OPEC moderates like Saudi Arabia to support the radicals out of exasperation; particularly galling to the OPEC countries was the companies' action in passing on the price increases to consumers, since OPEC was seeking merely a fairer share of oil profits and *not* price increases. After highly controversial negotiations, on Feb. 14 a Teheran settlement was reached with Iran, Iraq, and Saudi Arabia.

But when the Teheran Agreement was suggested to the Libyans, representing Mediterranean producers, it was immediately rejected. "When we received the cable from the companies with their first offer, we laughed and laughed and laughed and laughed," said Libya's Maj. Abdessalam Jalloud. Once again, Libya demanded, and received, higher prices, and the Teheran Agreement was rendered worthless.

The stage was set. Using Libya's leverage on the world oil market, thanks to Armand Hammer's 1960s seduction of European consumers, and using their power within the London-New York oil cartel, the Anglo-Americans succeeded in sending shock waves into the world oil market.

What had been established in 1969-71, by the Libyan revolution, was the link between politics in the Middle East and the "energy crisis." And it was still the calm before the storm.

II. The First Great Oil Hoax, 1973-74

The *capability* established during 1969-71 was activated after the 1973 Middle East war.

The story of the Great Oil Hoax has been told in detail and at length in the pages of the *EIR* and in a U.S. Labor Party Special Report on Henry Kissinger published in 1978. In essence, what occurred during the 1973 crisis was an elaborate plot to use the war in the Middle East to quadruple the price of oil and enforce drastic austerity measures through phony energy shortages.

That Henry Kissinger, acting as an agent of the British Foreign Office, stage-managed the Middle East war is beyond question. Kissinger convinced Anwar Sadat of Egypt that a "limited war" against Israel would open the door for Egypt's recovery of the Sinai, occupied by Israel since the 1967 Arab-Israeli conflict, and he assured Egypt that Gen. Moshe Dayan would guarantee that Israel would pretend to be "surprised" by the war. Together, Kissinger and Dayan ensured that Israel did not launch a pre-emptive strike against Egypt and Syria, and Kissinger masterminded the step-by-step diplomacy that followed the war.

Meanwhile, ex-CIA Director Richard Helms was sent to Teheran as U.S. ambassador in the spring of 1973, with the job of convincing the Shah to demand drastic oil prices. The outbreak of the war coincided with an OPEC meeting in October, where the shocked Saudis allowed a price jump from $2.50 to about $5.00. With Libya in the lead, backed by Iran's Shah, who was dazzled by Kissinger's promises of immense wealth and power, prices again doubled from $5.00 to $11.65 in December 1973. The Arab oil embargo that lasted until mid-1974 and the production cutbacks by Arab producers enabled the oil companies to manipulate the world oil market at will.

Figures available since the embargo prove that the Arab oil embargo failed completely to cut oil deliveries to the United States, with proof that despite the oil embargo the level of U.S. oil imports actually *rose* during the 1973-74 crisis! The gasoline lines and fuel shortages were hoked up by the Seven Sisters as part of an economic-warfare assault against the industrialized countries.

Some documentation

We cite as evidence here only the following portion of reams of testimony and documentation of the oil hoax. First, in a letter to Treasury Secretary William Simon, (among secret documents made available to *EIR*), U.S. Ambassador James Akins in Saudi Arabia wrote during the crisis that Saudi Oil Minister Yamani had told Akins that "there are those amongst us who think that the U.S. administration does not really object to an increase in oil prices, and there are even those who think you encourage it." Added Yamani, according to Akins, "It is also thought that the hard-line U.S. policy toward Saudi Arabia is designed to discourage us from continuing our present efforts" to lower prices. Akins reported to Kissinger: "Yamani said he had long suspected that some in the U.S. administration really wanted oil prices to go up. . . . Yamani knew that I had taken another position, and he also had no doubt that this was the policy favored by the Treasury Secretary and by the President, but others, he said, seem to be playing a different game."

Another remarkable statement came from President Saddam Hussein of Iraq, then Vice-President, who condemned the Arab oil-production cutbacks and the price increases, and refused to have Iraq participate. The oil cutbacks, said Saddam Hussein, were devised by "reactionary ruling circles well-known for their links with America," and he said that the cutbacks "generally harmed other countries more than America" and "led

to results which run counter to its stated purpose." The Iraqi leader warned that the Arab oil weapon would force Europe and Japan under the American umbrella, and he attacked the oil-price increases as far too extreme and "conducted in a hysterical manner."

When the suspicious Shah of Iran announced that he had figures to prove that more oil was getting into the United States than before the Arab embargo, Simon accused the Shah of "inexcusable and reckless remarks," then quietly classified all data on oil imports!

Genocide placed on the agenda

The quadrupling of oil prices wreaked havoc on the world financial market as consumers scrambled to be able to pay huge new oil bills. In the Third World, oil became almost impossible to purchase, and for the first time outright genocide in the developing sector was placed on the agenda. In the aftermath of the 1973 oil hoax, the developing countries threw away their plans for growth and were reduced to begging the IMF for money to stay alive. The IMF, in turn, doled out credit to the Third World only in exchange for drastic austerity measures, a policy exacerbated under the post-1979 Volcker regime. Recycled petrodollars became the tax that preserved the bankrupt monetary system.

West Germany, Japan, France, and Italy were also severely destabilized by the oil hoax, to the direct advantage of the Anglo-American faction and the Swiss and offshore banking apparatus that controlled the Eurodollar market. The ability of national governments to control their own financial destiny was eliminated with the creation of a huge, uncontrolled pool of financial resources that sloshed around the world. The power of a Robert Vesco or a Meyer Lansky rivaled the strength and influence of the head of the German Bundesbank.

III. Khomeini Raises Prices, 1978-79

From 1974-78, as the effects of the Great Oil Hoax were felt cumulatively, the price of oil remained almost stable, drifting slowly up from $11.65 to between $13.00 and $14.10. In real terms, however, this reflected an actual decline in oil prices. Such a price decline not only jeopardized the Malthusian plan behind the original crisis of 1973-74, but it threatened to undermine the investment in "alternative" energy schemes that had been concocted after 1974.

Enter the Ayatollah Khomeini.

In 1978, Iran was producing about 6 million barrels per day, and its neighbor, Iraq, exported over 4 mbd. When the Iraq-Iran war began two years later, after the fall of the Shah and Iran's takeover by the Islamic fundamentalist mullahs' regime, the full 10 mbd was knocked out and the price of oil had soared from $13 to between $34 and $40.

The revolution in Iran was launched by the same forces that ran the Great Oil Hoax of 1973. In the Middle East, that force is represented on the ground by the Muslim Brotherhood, a Freemasonic secret society which is dedicated to Malthusian economics and a return to the Dark Ages. Since the 19th century, Muslim Brotherhood cults have been controlled by the British SIS and by the heirs of the Propaganda-1 Masonic lodge that established the "Young Europe" movement, headquartered in Switzerland.

Established in Cairo in 1929, the Muslim Brotherhood of today spans the entire Middle East and stretches into Africa, South Asia, and Southeast Asia. From the beginning, the Muslim Brotherhood was controlled by the British SIS and by the Italian Masonic predecessors of today's P-2. Khomeini and the "Qom Mafia" that runs Iran today are all members of the Iranian lodge of SIS-linked Masons that participate in the Muslim Brotherhood fraternity.

The Iranian revolution was thus run directly by the British Crown. Having enormous influence in Iran accumulated over centuries, the British SIS and its religious arm, run by the Anglican Church Council for Foreign Relations in London, used a network of fronts to build the movement that toppled the Shah. Aiding the British was the duped Carter administration, which was itself installed by London through the agency of the Trilateral Commission, Jimmy Carter's electoral committee. Cyrus Vance, Zbigniew Brzezinski, and virtually the entire Carter cabinet—drawn from the ranks of the elite Council on Foreign Relations and the Trilateral Commission—were guided by the commission's policy papers prepared in London.

Together, London and Washington established secret contacts with Khomeini and his entourage—including Ibrahim Yazdi, Sadegh Ghotbzadeh, Abolhassan Bani-Sadr, and Mohammed Beheshti—in order to provide political backing to the revolution. As the British Broadcasting Corporation broadcast Khomeini's speeches into Iran and thus provided marching orders for the anti-Shah forces in the countries, the Khomeini circles maintained close contact with U.S. and British officials, via a network of Iran specialists. British SIS-linked academics in the United States, such as Bernard Lewis, Richard Cottam, Marvin Zonis, and James Bill were the architects of the Islamic revolution's tactics.

London's Socialist International network—such institutions as Amnesty International, the Geneva human-rights lawyers' apparatus,
Amsterdam—and former Attorney General Ramsey Clark's friends in the United States provided crucial flanking support to the Iranian revolution. The CIA-

and SIS-linked Muslim Student Association in the United States and the London-based Islamic Council of Europe provided the personnel for the Iranian Muslim Brotherhood "government-in-exile" in 1978, and opened the doors for contacts with co-thinkers in the Arab world, Turkey, Pakistan, and India.

The full story behind the Islamic revolution in Iran is told at length in this author's book, *Hostage to Khomeini.*

Spread of Islamic revolution

Within a year of the fall of the Shah, the price of oil had tripled again. But the revolution in Iran was meant to be only a first step. Coinciding with the Iranian revolution was the appointment of Paul Volcker to the chairmanship of the U.S. Federal Reserve Board, whose high-interest-rate policies served to collapse industrial production rapidly and create the current oil "surplus." Khomeini's assignment, however, was to spread the "Islamic revolution" to the other states of the Middle East and the Islamic world, replacing the pro-development outlooks of Iraq, Saudi Arabia, Nigeria, and Indonesia with the backward-looking fanaticism of Khomeini's Iran; and for this the Muslim Brotherhood network is ideal.

Under London's tutelage, a hundred new Muslim Brotherhood institutions have been established in the last few years. Dozens of Islamic banks, such as the House of Islamic Money of Saudi Prince Mohammed Faisal, have spread their tentacles—usually from bases in London or Switzerland. Glossy pro-Muslim Brotherhood publications like *Arabia* magazine have sprung up, and conferences on the alleged opposition of Islam to the process of "Westernization" have provided rationales for the spread of Malthusian doctrines under "Islamic" guise.

There is no question that today Saudi Arabia itself is threatened by the Muslim Brotherhood coalition. The open emergence of the Israeli-Iran axis—with Israel admitting that it supplies weapons to Khomeini's hordes—and the support for Khomeini by Arab and Palestinian extremists like the Popular Front for the Liberation of Palestine represent a threat to Saudi stability. Within the House of Saud, there are reportedly factions prepared to join with London against the United States. These Saudi forces are led by Prince Abdullah ibn Abdel-Azis, commander of the Saudi National Guard, a British agent of influence who recently won an endorsement from Col. Muammar Qaddafi of Libya for his factional opposition to Crown Prince Fahd and his brothers. Should Saudi Arabia, currently producing half of OPEC's entire output, collapse to an "Islamic revolution" of London's making, the energy crisis of 1980s will make the 1970s look like the good old days.

A profile of the multinationals

by William Engdahl, Energy Editor

"The problem with the American majors is that they still tend to think too bloody much like national oil companies, and not the way the British companies do, as truly multinational organizations." This was the evaluation of a prominent member of British peerage to a group of friends in New York on the eve of the British Petroleum-run destabilization of the Shah of Iran in February 1979. The British peer's complaint, although to some extent outdated today, is a very useful point of departure for looking at the oil multinationals, the giant corporate entities which comprise seven of the world's top ten industrial companies.

In addition to their absolutely essential role as energy and technology organizations in the running of world industry, the major multinationals also have a higher-order role as controllers of the largest single cash flow in the world economy. Since the nearly 1,700 percent rise in the price of crude oil beginning with the 1973 "oil shock," the cost to the world economy of its crude trade has become a *one trillion dollar* annual business. Through sophisticated political manipulation of strategic world events since the 1969 coup against Libyan King Idris, the handful of London-led multinational petroleum companies, the so-called London group (nicknamed the Seven Sisters in the late 1960s) which has met secretly since 1934 under the aegis of British Petroleum and its cousin Royal Dutch/Shell, has accumulated global economic power of hitherto unimaginable scale.

Leaving aside for the moment the direct effects on world industry and trade of a forced price increase of 1,700 percent for vital energy feedstocks, this has given the multis enormous power to shape the events which will determine the future health or collapse of both the industrialized and developing sectors of the world. As other sections of this report document in detail, the men who dictate policy to the oil multis have, throughout the 1970s, used the energy price jack-ups and the enormous new financial power of the multis to bring about what the Council on Foreign Relations' *Project 1980s* series of publications characterized as the "controlled disintegra-