down of OPEC deposits in the world banking system encourages continuation of that reduction at an accelerating pace. Additionally, if OPEC must borrow $10-$30 billion in 1983 from international banks, this will withdraw funds available to the developing countries. Most European countries have already become heavy borrowers on the private international markets due to their serious internal deficits, and are already taking such funding sources away from the Third World.

The shrinkage of the world economy

As the 1982 decline in world trade forewarned, the world economy is shrinking—despite the fact that the real development needs of nations for expanding production of capital goods and manufactures have never been greater.

The collapse of world trade helped pave the way for the City of London to trigger the oil price decline in January. Constant British efforts to rig the price downward over the last two years had been successfully thwarted by Saudi Arabia. It became impossible for Saudi Arabia to hold the cartel together behind a constant price at the point that the demand for OPEC oil began collapsing precipitously.

The depression-induced scaling down of world economic activity has cut into world energy and oil production. During 1982, U.S. consumption of energy fell 10.8 percent compared to 1981. The United States is importing half the petroleum it imported in 1979. West German imports of crude oil fell 9.1 percent last year; Japanese imports fell 10.4 percent.

When economies go into depression, they lose, at rapidly accelerating rates, their ability to absorb energy. Thus, even though the price of oil is declining, consumption of energy sources will continue to decline during 1983 because there will be less economic activity. In eliminating the OPEC surplus, the City of London has successfully undertaken to cut the world banking system "down to the size" defined by the world depression. Rather than being "recycled," the displaced funds previously identifiable as the OPEC surplus are now being "vacuumed" up by the world's debt.

A dramatic shift in world oil trade

by William Engdahl

The backdrop to the unfolding drama of future world petroleum prices is a profound if little-discussed strategic shift over the 1979-82 period in global oil power. The best way to dramatize the situation in which Saudi Arabia has retreated and Britain, the Soviet Union, and Mexico have emerged as power brokers is to examine the following facts:

- Total world production of crude oil has plummeted from an average of almost 63 million barrels per day (bpd) in 1979, the year Iran's 5 million barrels a day were forced out of the picture and Federal Reserve Chairman Paul Volcker began his usury policy against industrial production. World output averaged 53 million bpd in 1982. This is more than a 15 percent market shrinkage, or almost 10 million barrels daily.
- Total U.S. demand for petroleum for the same 1979-82 period shrank some 4 million bpd from 18.9 million to 14.8 million at the end of 1982. This is almost a 22 percent decline in consumption. The United States is the world's biggest single market.
- U.S. imports of crude and petroleum products for the 1979-82 period have been halved from 8.6 million bpd in December 1979 to 4.4 million bpd in December 1982. This means a drop of 4.2 million barrels daily in consumption of imports.

Now, in this context of overall shrinkage of world oil consumption, a much less noticed structural shift in trade flows of world oil has occurred. Within its greatly reduced import regime, the United States has lowered its imports of Saudi Arabian oil, in fact of *all* Arab OPEC oil, since 1979. As recently as 1981, Saudi Arabia was the largest single supplier to the United States, with 1.1 million bpd. By September 1982, this had dwindled to less than half that volume, 546,000 bpd, and by the end of last year, Mexico and Nigeria had both surpassed the once-influential Saudis as the number-one and number-two suppliers, respectively, to the U.S. market. Mexico today is officially sending 852,000 barrels of crude north to the United States each day, double the volume of a year earlier. With a sizeable chunk of those imports soon due to be dumped into the salt domes of the U.S. Strategic Petroleum Reserve, this means that Mexico has become dependent on the United States, a dependence linked to attempts by Armand Hammer and others to grab ultimate control of the most precious oil reserves in the known world outside of Saudi Arabia.

Currently, of the top seven suppliers to the United States, Saudi Arabia, the number-three supplier, is the only Arab OPEC member. This shift is coherent with the British "New Yalta" plan of pushing the United States out of the strategic Middle East. In fact, at present, the United States imports approximately the same amount from Great Britain as from Saudi Arabia.

The Soviet role

With the shrinkage of total Saudi production in only the past 13 months from slightly over 10 million bpd to an estimated 4.2 million bpd at present, the role of Soviet oil in the world market has for the first time become substantial. Moscow has moved dramatically in the past year to maximize its influence in the world oil market. It was unprecedented when on Feb. 1 Moscow announced that it was cutting the posted price of its Urals blend by $2.15 down to $28.50 a barrel; London had been hoping for this move, so that the onus for breaking the price structure would not fall on the British.

More important is the fact that for almost the last year,

© 1983 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Soviet crude has been flooding depressed European spot markets, worsening over-supply conditions and helping prepare the stage for the present price manipulation.

In the first six months of 1982 alone, Soviet exports of crude to the OECD countries soared by 36.6 percent over the previous year. Although exact figures are not available from any government agency East or West, highly reliable industry estimates are that the Soviets have been quietly unloading 500,000 barrels or more daily into Western Europe in particular, most of it through the London futures market.

If this is accurate, it means that total Soviet crude exports to the West, the U.S.S.R.'s major source of hard-currency earnings, are now at the substantial level of 2.5 million bpd. Total Soviet crude production is running at about 12.3 million bpd, making the U.S.S.R. far and away the world's largest single producer, now that the Saudis have fallen to 4 million bpd.

Also interesting, given the enormous efforts under way by the Andropov regime to turn West Germany into a satellite of the Warsaw Pact, is the dramatic increase in Soviet exports to West Germany. Over the past year, Germany increased its Soviet oil dependence by 129 percent, to 188,000 barrels daily, much of this with a new contract signed by the Anglo-German Veba company.

Although Saudi Arabia is still West Germany's largest supplier, the Soviets moved from eleventh place to sixth last year, with 5 percent of their crude imports from the U.S.S.R. Significant both economically and politically is the fact that 20 percent of all German natural gas last year came from the Soviets, before a molecule of the controversial gas pipeline is yet on line.

Italy increased its Soviet imports 45 percent to 165,000 bpd, while the Dutch increased 100 percent to 240,000 bpd.

By moving to drop prices in the present period, Mr. Andropov is presumably attempting to guarantee that the U.S.S.R. will retain its share of this extremely important Western European market.

Worth noting is the fact that Moscow has largely increased its OECD exports of crude by cutting back on supplies to its Eastern European Warsaw Pact allies. The difference has been largely made up by a series of Byzantine secret barter deals between various Eastern European countries and certain OPEC members. *EIR* has highly reliable information that since Washington imposed its blockade on Libyan oil imports, up to 300,000 barrels a day have gone from Libya into Eastern Europe, reportedly in barter for large shipments of weapons. Libya and Iran are thought to be the two largest suppliers at present to Eastern Europe. But reports have been heard that even the arch-conservative Saudis are making certain secret third-party deals by way of Swiss cutouts to sell spot to Eastern Europe.

All in all, perhaps the most profound strategic shift of the power relations of oil since World War II is well under way. This is the framework in which to understand why Moscow was a "pacesetter" this month.

ANGLO-SOVIET DESIGNS ON THE ARABIAN PENINSULA

EIR has just released a new Special Report on **"Anglo-Soviet Designs on the Arabian Peninsula."** The report is the companion to the **"Prospects for Instability in the Arabian Gulf,"** an invaluable counterintelligence manual.

"Anglo-Soviet Designs on the Arabian Peninsula" looks at the prospects of a decline of U.S. influence in the Middle East. It evaluates the impact of the international global monetary crisis on the Arab oil producers of the Gulf. The role of Secretary of State George Shultz and of the Morgan banking group in squeezing additional funds from Saudi Arabia for a purported global bailout of the banking system is fully developed.

The report details evidence of increased Soviet presence in the region, and the cooperation between London and factions of the Soviet leadership to gain dominance over the Gulf states. The final section examines the potential for a "new Yalta Conference" on world energy supplies, at which the Middle East would be carved up between East and West.

Anglo-Soviet Designs on the Arabian Peninsula $250

Prospects for Instability in the Persian Gulf $250