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Energy Insider by William Engdahl

Saudis try to stop oil-price collapse

The crisis in oil is not so much a matter of price, but of the future of the dollar and the Western strategic alliance.

The informal "mini-OPEC" pre-meeting on Oct. 21-22 in Geneva has resulted in an apparent strategy to stabilize the 18-month-old official OPEC benchmark price for crude oil of $29.00 per barrel in the face of last week's unilateral cuts by Britain, Norway, and Nigeria. The full OPEC ministerial meeting of Oct. 29 in Geneva is expected to endorse the Saudi initiative.

As reported last week in *EIR*, Saudi Arabia has agreed to further slash its once-formidable output by an additional 1.5 million barrels per day (bpd), from present levels of 4.5 million to 5 million bpd. The remaining 1.5 million is to come from those others present in Geneva, including Kuwait, Libya, Algeria, Venezuela, and the United Arab Emirates. Although not in OPEC, Mexico was a specially invited guest at the Oct. 22 Saudi meeting.

For the moment, the Saudi initiative appears to have stabilized what during the week of Oct. 15 threatened to become a new internatonal oil price war with devastating consequences for the Western banking and monetary system. "In fact," one close Mideast channel told *EIR* during the week of Oct. 22, "we could see world oil shortages as early as next month if the cuts occur. If I were a speculator, I would buy North Sea Brent oil futures." The winter peak-demand season is beginning, and oil company inventories are reported to be at the lowest levels since the 1979 Iranian "oil shock."

It is a calculated gamble on OPEC's part, even assuming the Saudi oil minister can persuade his colleagues to sacrifice production revenue of 1.5 million bpd. "If Nigeria had not cut its price last week," one London-based Mideast consultant told me, "the Saudi strategy might have worked. Now I am doubtful the others will agree to sustain the cuts beyond, at most, two months. Then, if things haven't improved, all hell could break loose. Even before this, Libya and Qatar have been cheating like hell on their production ceiling agreement."

If Yamani succeeds in holding OPEC's price steady at the Oct. 29 Geneva meeting, it will last, at best, for a matter of a few months until the spring slack-demand season of March-April forces a new crisis.

EIR warned last week that the pressure was not so much against oil prices as such, but against oil prices denominated in the wildly overvalued U.S. dollar. The *London Times* ran a front-page story on Oct. 20 with the provocative headline "OPEC Could Sever Oil Price Link with the Dollar." The *Times*, as well as the London *Financial Times*, notes that the OPEC members are seriously weighing a dramatic shift from pricing oil in dollars to a "basket-of-currency" proposal for pricing oil according to the IMF's Special Drawing Rights. According to OPEC sources, the idea was recently interjected into the OPEC Long-Term Strategy Committee, a relatively inactive group nominally headed by Yamani. The specific proposal was reportedly drafted for OPEC by the Boston-based think-tank A. D. Little.

An SDR scheme may or not be successful. Just as likely is a breakup of the pricing structure, resulting in regional currency deals replacing dollar pricing of oil.

But it is significant that the SDR proposal has surfaced just now. Decoupling oil from the U.S. currency might be sufficient to collapse the U.S. dollar in the period following the U.S. elections.

"The SDR scheme from OPEC's standpoint would only be cosmetic. The underlying problem facing prices today is lack of industrial demand" in the OECD countries, according to the above cited London Mideast consultant. But it would grease the skids for the massive reorganization of world financial and monetary markets in the event of some projected Euro-Soviet move to try to destroy the role of the U.S. dollar as the world reserve currency. Similar decoupling motives lie behind recent discussion of Britain's joining the German-dominated European Monetary System (EMS). Moscow has just begun making teasing overtures to the EMS Central European countries, especially West Germany and France, by taking out a loan last month denominated in European Currency Units (ECUs) rather than dollars. OPEC's pricing even a significant portion of its approximate $170 billion dollars of annual oil export in SDR's could dangerously undercut, not only the dollar's role, but the very future survival of the West.

Oil, the future of the dollar, and the Western alliance are all strategically intertwined. The surprise move last week by Norway, probably under influence from certain multinational oil companies—such as British Petroleum, Royal Dutch Shell, and Exxon—is a deliberate part of a much bigger game than any of the players would dare to admit.

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