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Anglo-Soviet plan drives down oil price

by David Goldman

The British government's lame attempt to disguise its effort to drive down oil prices as a passive response to market conditions was ruined by Europe's unusually cold weather this year. Heating oil prices rose, supporting crude-oil spot market prices for the first time in months, exactly at the point that the British National Oil Corporation decided to de-link its price for North Sea oil from OPEC's battered $29 per barrel level.

In combination with the Soviets, Britain has triggered the scenario which U.S. intelligence-community
the most nightmares about: a drop in oil prices knocking the financial props out from under the U.S. "recovery," precipitating a financial crisis that would also wreck U.S. defense efforts.

Although BNOC has not changed its official price, virtually all North Sea oil has changed hands at the lower (roughly $27 per barrel) spot market price since Jan. 7, virtually destroying OPEC's chances to hold together. Nigeria, virtually bankrupt and at loggerheads with the International Monetary Fund over "conditionalities" which would permit Nigeria to borrow money from international banks, may be the first to break ranks. Nigeria is reportedly producing at a level considerably higher than OPEC agreed on late last year, and reportedly is considering leaving OPEC altogether.

In a related development, the Soviet Union did a 180-degree turn in oil pricing policy, offering some customers "retroactive discounts" of up to 75¢ per barrel on Urals crude. Since December, the Soviets had virtually shut down sales of Urals crude on the European spot market, insisting on their $28 per barrel contract price while buyers refused to pay more than the $27-and-change spot-market price. While the Soviets normally sell one or two cargoes of Urals crude per week, 500,000 barrels apiece, the London-based *Petroleum Argus,* which watches the Rotterdam market closely, says it only caught sight of one such cargo during December and the first week of January.

The report that the Soviets are suddenly willing to provide discounts to customers on their Urals crude (which accounts for a very small portion of the Soviets' total 1.7 million barrels-per-day provision of oil to the West) is politically embarassing for them. This week, says the *Wall Street Journal,* the price for Urals crude tipped above $28 per barrel for the first time in weeks.

Evidently, the Soviets' apparent hard line with respect to oil pricing was merely a dodge, and Moscow's decision to push oil prices down—in concert with London—merely waited for the most propitious moment. Apparently, the British and Russians decided that mid-January was the right time at which to make an impression upon OPEC, whose ministers will assemble in Geneva at the end of the month for a second emergency conference, hoping to avert a price fall.

In the estimation of most London oil market observers, the entire oil pricing structure is likely to come down to the $25-26 per barrel mark, a substantial decline with respect to Saudi Arabia's current $29 benchmark. The major pricing pressure is coming from the United States, where the futures market price for West Texas crude oil had already dipped to just above $25 per barrel in the first week of January.

Despite the reported 3.5% rise in total U.S. oil consumption during 1984, oil is subject to the same world depression that afflicts all other commodity markets and national economies. There is still a glut of distillate products on the U.S. market, largely because of the financial misery of petroleum refiners. The refiners need to process every barrel of crude they can lay hands on to keep cash flow going, keeping the market in a perpetual state of depression. Even the cold European weather does not help the European distillates market much, since demand for heating oil forces additional refining of lighter distillates which are already in oversupply.

Nonetheless, the spell of cold weather at least made it possible for the major oil exporters (Britain is number four) to hold the line on prices for the time being. That the opposite is happening tips the Anglo-Soviet hand.

As *EIR* has reported regularly since last fall, a drop in oil prices represents an enormous strategic danger to the United States, given the dependence of the world debt structure, and of U.S. banks in particular, on debt-service paid for by oil. Most of the problems in the American banking system not caused by the farm debt crisis were due to bankruptcy in the oil patch, most prominently those of Continental Illinois.

As Sheikh Yamani warned bitterly on Dec. 31 as OPEC gathered in Geneva in an unsuccessful effort to reform the cartel's ranks, the consequences of a price war for big debtors like Mexico and Venezuela would be devastating. The British know that perfectly well.

The $25 to $26 per barrel oil price likely to be in place once the dust has settled represents the borderline at which the financial system could survive. A further ratchet down to the $20 or so level would provoke Mexico's bankruptcy and a great deal more. The $25 to $26 level, however, is sufficient to strengthen Britain's bargaining position at the April meeting of the International Monetary Fund's Interim Committee, where the IMF and its friends from Margaret Thatcher's government will demand massive U.S. defense budget cuts.

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