The Soviets enter the oil price war

by Chris White

Russia re-entered world oil markets as a seller the second week of April for the first time in three months. The Russian move was prompted by the first signals from Washington that the Reagan administration may be considering an alternative policy to Donald Regan's "free market, free market, free market," to avert the negative consequences of the approximately 60% reduction in the price of oil. That collapse has sent tremors through the U.S. banking system.

Speculation on this question was first aroused as Vice-President George Bush prepared to leave for his visit to Saudi Arabia and the Gulf. Bush had told reporters that he was going to discuss "stability" of the oil market with his Saudi Arabian hosts.

Bush's remarks at the time prompted an uptick in the price of oil, bouyed by the rare administration assertion of the relationship between national security and economic policy.

On the other side, there was a chorus of anguish from the pro-Soviet lobby, who also happen to be the most vociferous of the opponents of the only means available to stabilize the oil market, the imposition of what economist Lyndon LaRouche has called an "oil import parity tariff," triggered when world price levels fall below $20 per barrel.

The voice of Russia's allies in the United States, the *Washington Post,* devoted its lead editorial on April 6 to an "explanation" of why the administration's "free marketeers are right" in opposing a tax or fee on imported oil. Despite the fact that "a sense of real desperation is spreading among the [U.S.] producers about the oil price decline," the *Post* says an import fee wouldn't work, because there would have to be so many exceptions made for countries like Canada, Mexico, and Venezuela.

"If prices remain down in the present range for long, American oil production will cer ainly be hurt. . . . Unfortunately, there isn't much that the federal government can do about that. The oil industry seems to have entered a period of radical instability." The paper's editors recommend a "minor but helpful interim remedy"—continuing buying oil for the Strategic Petroleum Reserve.

Bush's remarks were subsequently backed up by the President in his televised press conference April 9.

Perhaps not so coincidentally, a strike by Norwegian catering workers shut down the entire output of Norway's North Sea fields, more than 900,000 barrels per day. Norway, one of the non-OPEC producers whose agreement is needed to stabilize prices, had entered negotiations with the Saudis on the terms that such stabilization could occur. The strikers, unusually funded by bank loans and other kinds of support, reported that they could stay off the job for two months at least. The near million barrels taken out of production, it was thought, might keep the price in the $11-13 dollar range long enough to let negotiations proceed.

Then, the Russians moved. Crude oil prices resumed their fall after a five-day pause on April 10 on news that Moscow has begun selling oil on world markets under "netback" term contracts rather than dumping onto spot or futures markets. According to trading sources, the Moscow move is expected to more than offset the removal of 900,000 barrels per day from Norway due to the labor dispute. This Soviet intervention demonstrates that the oil price situation, and its potential sequelae, are indeed a national security matter.

Though Russia had cooperated with British interests up through the end of last year in bringing the spot price of oil below the $30 a barrel mark, as this magazine reported and the government of Venezuela charged, Russia kept out of the market this year.

While staying out of the markets the Russians kept up a barrage of articles blaming imperialist and U.S. circles for organizing the collapse in the commodity's price. This propaganda permitted those with short memories to argue that Russia's principal concern was the loss of their hard currency earnings. Therefore, it was stated that the oil price drop would further weaken the domestic Soviet economy.

Typical of this is a study released April 1 by the U.N. Economic Commission for Europe, which calculates that Soviet hard currency earnings in 1986 will fall by 17 to 22% on the assumption that world oil prices stabilize at between $15 and $20. The report claims that 80% of Soviet hard-currency earnings derive from oil and gas export to the West, and that the sharp drop in these earnings, which began to appear in the third quarter of 1985, will make financing of Five-Year Plan technology and machinery imports to Soviet industry more problematic. According to the report, the Russians will either have to turn to the West for finance, or abandon Gorbachov's ambitious military build-up plan.

The April intervention shows such thinking as the nonsense it actually is. It shows equally that it's not enough to keep options open for a later move. Policy statements, and rigged strikes, may help buy time. But it's not time that's needed. It's a new policy. The oil parity tariff is the only way to stabilize financial institutions, and begin to shift national economic policy back in favor of the producers. Otherwise, the Russian moves indicate that they will now proceed to exploit the accumulated vulnerabilities built up under Donald Regan's policies.

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