

Energy Insider by William Engdahl

Wall Street's new oil manipulations

Behind the extraordinary recent price rise, there are a number of curious elements.

The March 24 *Exxon Valdez* oil tanker disaster off Alaska's Port Valdez gave a further "up" shock to world oil prices. The pattern is remarkable. Since Occidental Petroleum's Piper Alpha rig fire last summer, North Sea oil production has been hit by an incredible string of "accidents." Now the major oil supply for the lower 48 U.S. states, Alaska's 2 million barrel per day pipeline had been cut back to 0.8 million barrels. This helped shoot the price for North Sea Brent up almost \$0.50 to \$19.30 by March 27, the first day of trading after the Good Friday disaster in Alaska.

Beginning late last December, platform after platform in the North Sea closed down. Typical of such was the closing of the Eider platform late in February because of "faults in the loudspeaker system." The net effect of all this has been a cut in North Sea crude oil output for the first three months of this year of fully 26%, at about 1.9 million barrels.

But now things become interesting.

According to industry experts in London, there has been a little-noticed shift in world oil demand in recent months. Strict new environmental laws in several U.S. states and similar measures in Italy and France against sulphur emissions have created extraordinary demand for what oilmen call "sweet and light" grades of crude oil. This refers to the specific gravity and the low sulphur content. There are three major production centers for this type of oil: Nigeria, the North Sea, and Libya.

With the howls from well-fi-

nanced international environmentalist lobbies about the evils of sulphur pollution, auto gas emissions, and the like, there has been a definite shift to the refining of North Sea and such oil. And a rash of new emission laws in several large East Coast U.S. states which come into effect this spring have, coincidentally perhaps, added new pressure to North Sea demand.

Royal Dutch Shell and British Petroleum, Western Europe's two largest corporations in gross sales, have not been caught sleeping. Perhaps from years of financing leading "environmentalist" groups, they have inside information. In any case, they have poured an impressive \$8 billion over the past 12 months into grabbing most of the remaining independent companies operating the North Sea.

Shell, said by oil industry sources to be by far the shrewdest and perhaps by some measures the largest of the "Six Sisters" oil giants, quietly went back into Libya. This Shell "coup" apparently sparked a dramatic reversal by the Reagan-Bush administration toward Libya as well. In January, in one of his last official acts, President Reagan, who had previously ordered Libya bombed, announced a decision to allow U.S. oil companies to resume operations in Libya. Conoco, Amstar, Hess, Marathon, and Occidental scrambled to Tripoli to negotiate. As all of Nigeria's oil is already sold to U.S. refiners, Libya is the one major remaining source of the oil.

But there is another element as well: Wall Street. According to several well-informed industry sources, over the past two months, almost the

entire market for North Sea Brent for delivery in April has been grabbed by one single Wall Street investment house. According to these reports, as of mid-March, Salomon Brothers-Phibro had control of an astonishing 35 cargoes of the North Sea crude, currently the key crude to price most of the world's trades in oil. This is some 17 million barrels of oil.

A year ago, a mysterious trader, John Deuss, tried such a maneuver and virtually went bankrupt. Given the volatility of today's oil futures speculation, it is suicide to "bet the ranch" on such an "unpredictable" situation. Unless, of course, one can be sure it's a one-way bet.

Washington, D.C. sources are telling me of rumors floating in that rumor swamp. It seems that George Bush, through his Texas oil chum Commerce Secretary Robert Mosbacher, has decided to "encourage" world oil prices to rise this year to a level of around \$20-22 a barrel. One effect would be to help "green the Texas desert"; the other, to give, without the fuss of grants or credits, an enormous boost to Mikhail Gorbachov.

Soviet oil and gas make up 75% of all their hard-currency earnings. Since the price collapse in 1986, Russian export earnings have been severely depressed. Since October of last year, the price they are able to get for their sales of some 2 million barrels a day to Western markets has risen a hefty 50%. As well, Bush would take some of the pressure off the explosive Mexican and Venezuelan debt crisis: Both depend on oil revenues to service their debt.

Whether these rumors are true or not, I can't say. But there is no reasonable explanation for the behavior of world oil prices since 1988. Something strange is afoot.