

Winners and losers in the third 'oil shock'

by William Engdahl

"The countries we are most worried about are Eastern Europe and the U.S.A.," said a well-placed Japanese policy spokesman recently, when asked about the impact of the Iraq-Kuwait oil embargo. "Eastern Europe will be hit at the time their economies are most fragile. The U.S., well, this may push them finally over the edge."

Which economies will be most adversely affected by the third "oil shock"? On the surface, it will be the economies whose industrial production is already running at near-capacity levels, and which are most dependent on oil imports for energy. This means Japan and West Germany most immediately.

The impact of the West's economic embargo against Iraq and occupied Kuwait means the loss of an estimated 3 million barrels per day of the total daily world oil consumption of approximately 65 million barrels. Panic buying and outright opportunism by multinational oil companies sent crude oil prices soaring to levels close to \$29 a barrel for North Sea Brent oil, a jump of more than 80% from the low of \$15.50 in April of this year, and fully 60% over the average price for 1989.

Japan's dependence on imported oil for driving its industrial and transport economy, despite a growing nuclear energy capacity, is still considerable. Tokyo economists estimate that a 15% share of Japan's Consumer Price Index of inflation is today composed of the oil price—the highest of the seven leading industrial nations. West Germany reckons an 8% share, while Britain, an oil producer, only 5%. This new oil shock means an almost 1% inflation increment in Japan, if oil stays at present levels. With severe shortages of skilled labor and with industry running, as in West Germany, at full capacity, it is almost certain to result in a further rise in Japanese interest rates. This is the principal reason that the Tokyo stock market has been the worst hit of the OECD industrial countries since the Iraqi invasion of Kuwait on

Aug. 2. But, despite the unwelcome news, Japan will not suffer the dislocations it did in 1974 or 1979 with the two earlier oil shocks.

Nor will West Germany, where nuclear energy now comprises almost 40% of all electric power generated. This is a significant change from the early 1970s. France is in even better shape, producing almost 70% of its electricity from nuclear energy today.

But the real shock will hit in the present efforts of continental Europe to rebuild the battered economies of Eastern Europe. "The impact of this latest oil shock will be relatively to increase the political power of Britain at the expense of continental Europe and especially West Germany," said senior City of London economist Stephen Lewis in an interview. East Germany, Poland, and the other newly liberated economies of Eastern Europe must import almost all their oil and gas. In recent months, Moscow has ended former below-world-market oil prices for Comecon states, which must now buy at the soaring world price, at a time when their struggling economies are most vulnerable to any inflation shocks. Oil prices could increase for these economies some 400% over 1989 levels, as a result.

"By imposing higher interest and inflation costs on especially the booming West German economy, and more seriously, East Germany, this will slow the dynamic in Central Europe. This benefits circles such as those of [former Foreign Secretary] Lord Carrington or Midland Bank's Sir Michael Palliser, who want to bring Britain into the European Monetary System in order to dominate and control developments on the continent to their advantage," Lewis said.

The Six Sisters cash in

The economy of Britain will itself be hit with at least another 1% increase in inflation. But strategists of the Royal Institute for International Affairs in London reckon that the

British economy is already in such depressed shape that this will not be unbearable, a small price to pay for gaining hegemony over Europe. Central to such policy circles inside the British liberal foreign policy establishment, is the institutional power of two giant multinationals, British Petroleum and Royal Dutch Shell. By some calculations, Shell has cunningly positioned itself in the past decade to become the world's most powerful energy multinational. On its board sit Sir Michael Palliser; the Dutch former head of the International Monetary Fund, Johannes Witteveen; as well as the influential Earl of Cromer who was British ambassador to Washington during the first Anglo-American oil shock in 1973-74, and is now associated with the Bank of England-linked Barings merchant bank.

The second powerful group of British-based multinational interests which will benefit from the new oil price shock is British Petroleum. Traditionally intertwined, like Shell, with the British Foreign Office and Secret Intelligence Services, BP holds major resources from the North Sea, Nigeria, and Alaska. It is linked through directorships to National Westminster and Lloyds banks, J.P. Morgan bank of New York, and also Barings.

Since the mid-1980s, when Chevron Oil of California bought up Gulf Oil Co., there have been only four major U.S.-based "sisters": Exxon, Texaco, Chevron, and Mobil.

According to informed London oil traders, BP, Shell, and the other majors are presently engaged in a form of consumer "rip-off," whereby the oil that was bought and loaded on tankers up to the time of Iraq's invasion, when some oil could be bought for as low as \$16 per barrel, is being sold today from the high seas, by telex, to, say, Shell, from a BP tanker. The new recorded price shows up at, say \$26 per barrel. BP simultaneously is buying the same volume from a Shell tanker. The net effect is that the multis record the oil as high cost and sell it to refiners as such, while pocketing the \$10 a barrel profit. BP and the other majors have been trying for months to push the price of oil up, without success, sending signals of \$25-35 prices. Now they have their goal. But it is not a mere paper profit which is the aim of the operation. BP and Shell, with the apparently witting cooperation of compliant American majors, are an integral part of the British foreign intelligence and economic warfare strategy to use the Middle East, as in the 1970s, as the lever to destabilize an industrial and political development on continental Europe and Asia which threatens their malthusian "steady state" world strategy.

Moscow and the Bush administration

One word about the role of Moscow in this. The Soviet Union, which for almost 20 years has considered Iraq as its "client state," has made an effective show of its remarkable cooperation with the West against Iraq. But, the question is, why they did not *stop* Iraq before it moved against Kuwait. Could it be the badly needed windfall of dollars that Moscow

will reap from \$30 oil? If the world price stays at that level, the Russians could pocket an added approximate \$15 billion oil windfall this next year. In addition, now major Western oil companies are beating a path to Moscow's Oil Ministry to negotiate attractive joint venture oil and gas development projects, in order to lessen their dependence on the Gulf.

The Bush administration has lost relative control of its financial and economic policy. The oil shock will now ensure this. Some people in Washington already see this crisis as a convenient way of blaming the depression on the Iraqis. Here, there is a certain irony. Increases in the price of oil are the economic weapon the Anglo-Americans have deployed against their enemies.

However, as Lyndon LaRouche pointed out in an analysis released on Aug. 5 (see article, page 32), if there is one economy in the world which has benefited from the low oil prices that have prevailed since 1986, when for a time, the price went below \$10 per barrel, it is the United States. Cheap oil prices have been among the manipulations that have permitted the reality of depression collapse to be covered up for so long. It was George Bush who went off to Saudi Arabia in the summer of 1986, to conclude an agreement which stabilized the price at above \$15 per barrel. The price collapse wiped out the U.S. oil industry, but it was a key component in Bush's 1988 election victory. Bush negotiated an agreement for cheap oil prices. Now, the cheap prices are over.

In the longer view, the price increases that have just been effected, are not actually price increases at all. The political shocks in the Middle East have produced a correction in the price, bringing what had been an artificially low price back into line with the average over the last 30 years. In this respect, the weapon launched against Europe and Japan may well blow up in the United States too, with perhaps more devastating effects.

Compare the ratio of the dollar price for a barrel of oil with the dollar price for an ounce of gold. The comparison partially discounts the effect of inflation in the United States. Back in the late 1960s, when the per barrel price of oil was around \$3 per barrel, the officially fixed gold price was \$35 per ounce. Now, with gold at around \$370-380 per ounce, an oil price in the range of \$30 per barrel, would be back within the parameters of 30 years ago.

Over the past four years, the price of oil has actually been about one-half to two-thirds what it was in the late 1960s, before the oil shocks of 1973 and 1979. The cheapness in the price, relative to gold, is a measure of the economic subsidy afforded essentially bankrupt sectors of industry and the economy in order to maintain the pretense that there is no depression. Now, the political shocks restore the price to the average level of the last 30 years, and eliminate the subsidy. Industries like the airlines, trucking, and farming will be among the first to feel the effects. The chain reaction set off may well turn out to be what ends the presidency that was established, in part, on the basis of cheap oil prices.