

How George Bush ruined the Texas oil and banking industry

by William Engdahl

George W. Bush, son of former President George Bush, is running as a Republican for governor of Texas, projecting the image that he is a "successful oilman" like his father before him, or like former Gov. Bill Clements. Indeed, the younger Bush in 1986 did become involved with an oil venture called Harken Energy, a quite curious operation whose chairman was New York attorney Alan G. Quasha. Quasha was earlier the attorney for the defunct Australian drug-laundering Nugan Hand Bank, documented to have been run by a group of people with intimate ties to the CIA and the Laos opium business of the Meo tribesmen during the 1970s.

But what is not generally known about young Bush's business career, is that when he was getting "sweetheart" deals with Harken Energy in 1986 as a young, aspiring Texas oil independent, his father was in the middle of a Washington ploy whose direct byproduct was the virtual destruction of the once-thriving Texas independent petroleum industry, and with it, the entire Texas banking system, leaving it prey to aggressive asset-strippers from out of state—all at taxpayer expense.

EIR has obtained Freedom of Information Act (FOIA) documents, as well as documents from a thorough review of the public record of the years 1983-86, which demonstrate conclusively that George Bush, as vice president in the Reagan administration in the 1980s, played a decisive role in a Reagan-Bush policy to deliberately *collapse world oil prices*.

Why, many people often ask us, would George Bush, a man who owes his early wealth to Texas oil, deliberately pursue a policy which he knew would bankrupt tens of hundreds of companies in the U.S. independent oil industry, most of all in his state of Texas?

We would like to shed some light on just this point.

Reverse oil shock is prepared

We must preface our analysis of these FOIA documents and related events by stating clearly our view that a government is entitled to legitimate classified or non-public actions with foreign governments when circumstances require that details be kept confidential for reasons of state. And we do not reveal here any more than the United States government itself has been willing to release to the public. Within these restraints, however, the documents deliver a stunning indict-

ment of the actions of then-Vice President Bush on international oil policy, and suggest that the higher objectives of state policy had been severely distorted by a small group of people determined to see Bush in the White House. The domestic economic and other consequences of this distortion of state policy to personal political ambition have remained grave to this day.

By 1986, the devastation to domestic investment, construction, and job creation imposed as a consequence of the three-year-long interest rate shock by Federal Reserve Chairman Paul Volcker, had hurt the American economy severely. A deeper crisis, beginning in 1986, without doubt would have ruined the plans of Vice President Bush to become President in the 1988 elections.

Already as early as 1983, there had been discussion within the Reagan administration about the possible domestic economic impact of a world decline in oil prices. An inter-agency task force was set up to study those implications for the U.S. economy, and a report was delivered to the cabinet. But, because of inter-agency policy arguments between the State Department and Treasury, the task force, headed by then-Deputy Treasury Secretary R. Tim McNamar, remained in the background through 1984 and into early 1985.

Throughout the first half of the 1980s, Saudi Arabia, the largest oil producer in the Organization of Petroleum Exporting Countries and whose oil policy was then in the hands of Sheikh Zaki Yamani, made strenuous efforts to maintain a firm oil price, which by 1984 was at \$29 a barrel. Saudi Arabia, which had been producing as much as 10 million barrels per day (bpd) in the beginning of the 1980s when prices were close to \$36 per barrel, had steadily lowered its production, taking the role of "swing producer" within OPEC. Output dropped to only 5 million bpd by 1985, as the Saudis attempted to stop a further price fall. A major reason for the soft oil prices in the early 1980s was the collapse in worldwide energy consumption as Volcker and British Prime Minister Margaret Thatcher simultaneously raised interest rates to levels of 20% and higher, plunging most of the world into the deepest decline since World War II.

A byproduct of those soaring U.S. interest rates from 1979 through 1982, was a flood of foreign investment into U.S. assets including Treasury bonds, real estate, and stocks during the early 1980s, which pushed the dollar up 40-60%

in relation to the major Group of Seven industrial trading partners. Under rigid OPEC rules set up with encouragement from Washington during the first 1973-74 oil price shock, OPEC countries agreed to sell their oil in exchange for only one currency, the U.S. dollar. The soaring dollar made oil imports 40-60% more expensive to Germany, Japan, and other non-dollar countries in terms of their currencies. Together with high imports, the high dollar was contributing to industrial decline in most of the world economy in 1985, which now threatened to impact the United States as the crucial 1988 election neared.

The Saudi visit

In February 1985, Saudi Sheikh Yamani accompanied King Fahd on a state visit to Washington. On Feb. 13, 1985, according to FOIA documents, Yamani met with Vice President Bush, Secretary of State George Shultz, Treasury Secretary James Baker, and Energy Secretary John Herrington. Washington's purpose at that meeting was to convince a skeptical Saudi Arabia to follow what Bush and the others chose to term "more market-oriented pricing and production policies," as Assistant Secretary of State Richard Murphy, a participant at the Yamani meeting, revealed in one internal memo.

At the time, Saudi Arabia had made clear it viewed any significant fall in oil prices or weakening of the dollar as very undesirable. Saudi Arabia had invested billions of dollars of their oil revenues during the previous decade in U.S. dollar-denominated Treasury bonds, and they feared a dollar fall would weaken their profits, while the lower oil price, of course, would cut oil revenues to the kingdom. Bush, Baker, and the others advanced strong arguments to persuade the reluctant Saudis to shift policy. Among them was a secret U.S. commitment to import much more Saudi oil.

Shortly after those talks, Sheikh Yamani and other Saudi officials worked out details of Washington's so-called "market oriented" pricing and production with the four former Saudi Aramco partners—Exxon, Mobil, Texaco, and Chevron. The policy, known as "netback pricing," was to be used to lower Saudi prices while at the same time compensating for revenue loss by increasing the volume of purchases of oil from Saudi Arabia under "netback." Netback was an ingenious method devised to encourage the oil multinationals to buy ever greater volumes of Saudi crude, regardless of how low world oil prices fell as a result. Buyers of Saudi oil were guaranteed a set profit margin based on their final refining costs, so the more they bought, the greater their profits—put simply, an ingenious method of triggering a free-fall in world oil prices with the support of the world's major oil companies.

In March 1985, in an internal telegram stamped "secret" to the American Embassy in London, the assistant to Secretary of State Shultz wrote, "The Secretary is *extremely interested in the department producing quickly a study of the*

impact of a precipitous drop in the price of oil" (emphasis in original).

The netback bomb

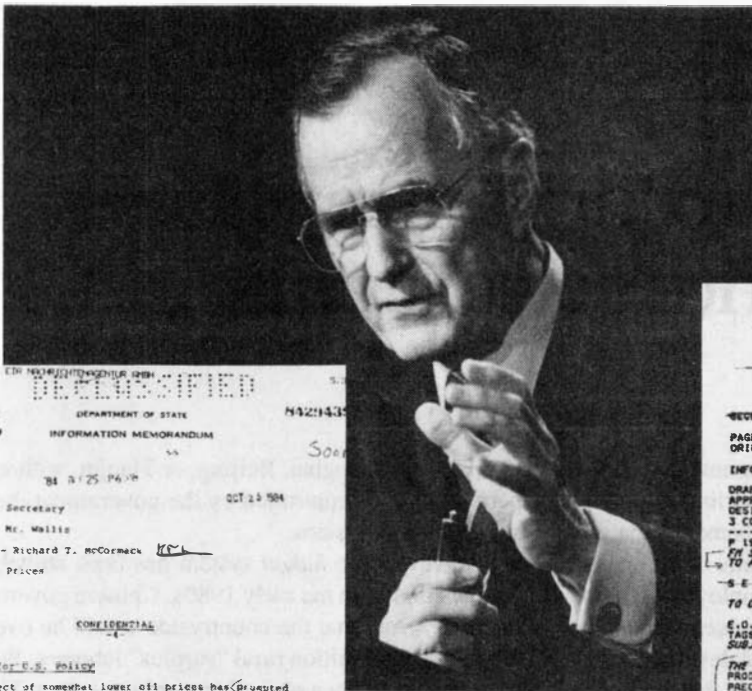
The deadline to produce the memo was March 21, 1985, and it specified evaluating the impact of an \$8 per barrel drop in oil prices during 1985. Prices were then averaging \$28 per barrel, meaning almost a 30% fall in oil revenue. By the time of the Dec. 7, 1985 OPEC ministers meeting in Geneva, the plan was ready to go, and Saudi Arabia abandoned the OPEC production quota system and announced it would sell as much oil as the "free market" wanted. Saudi oil production began to climb, as the four American companies who had been the prime Saudi oil buyers since the 1940s began to increase their purchases on the newly agreed "netback" terms.

At the time, Saudi Arabia held the world's largest petroleum reserves, and by far the cheapest, with cost at the well-head estimated at 50¢ to \$1 per barrel. The Saudis had the capacity to double output, and even if prices worldwide fell by half, their revenue would be constant—or so they were convinced by Vice President Bush and the Reagan administration. Saudi production began to climb relentlessly from December 1985 into spring 1986, from 5 million bpd, to 6 million bpd, 7 million bpd, and toward 8 million bpd by June 1986. World oil prices as a result went into a free fall. The Washington gameplan was working. Before the Saudi netback plan, North Sea Brent oil sold for an average of around \$28 per barrel in early 1985. By late spring 1986, Brent prices had plunged to \$8 a barrel. The world oil industry scrapped plans to invest in new capacity, cancelling tons of high-specialty steel for oil pipe. North Sea oil drilling came to a halt, where a price of at least \$14 per barrel was needed to break even.

But in the United States, the impact on domestic oil production was a crisis unlike any in modern memory. Drilling by U.S. small to mid-size independent producers, historically the lifeblood of the American oil industry, ground to a halt. Oil companies went bankrupt in record numbers in Texas, Oklahoma, Louisiana, Colorado, and elsewhere. Only the major companies with their netback deal with the Saudis and, later, other OPEC members, could afford to stay in the game.

Price collapse impact

The impact of the oil price collapse on the United States stock markets was electrifying. The falling oil price led to lower inflation projections and falling interest rates. Headlines about rising stocks, rising economic confidence, and such were used to convince Americans that the country was in the midst of some kind of economic "upswing." Investors bought stocks and bonds in record amounts on borrowed money to pay it back at even lower rates later. This laid the seed for the U.S. stock market bubble which burst violently on Oct. 19, 1987, an event which almost unravelled the carefully planned election strategy of Bush and fellow Texan,



U.S. government documents reveal that the Reagan-Bush administration conspired in the mid-1980s to drive oil prices down. At the same time, a campaign was carefully crafted on behalf of George Bush's (inset) presidential ambitions, to give the impression that the administration was the innocent victim of Saudi actions. U.S. oil and banking interests, and the U.S. taxpayer, paid the price.

145 OCT 24 1984

UNCLASSIFIED

DEPARTMENT OF STATE
INFORMATION MEMORANDUM

CONFIDENTIAL

TO: The Secretary

THROUGH: S - Mr. Wulfe

FROM: SA - Richard T. McCormack

SUBJECT: Oil Prices

OCT 24 1984

CONFIDENTIAL

Implications for U.S. Policy

The prospect of somewhat lower oil prices has prompted Treasury to review the 1983 interagency study on that subject. The conclusion remains that lower oil prices would be good for the world economy, and that the problems such a development might create for oil exporters do not present a threat to the world leading of transition system. We have taken essentially this line in public discussions of this issue. It is important that the market be given maximum freedom to determine the price. Our policy should be not to attempt an intervention to force prices down, but rather to discourage OPEC and other producers from artificially propping up prices that are out of line with the basic supply/demand balance.

Department of State TELEGRAM

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TO OCM RAY SEITZ FROM WASHINGTON

E.O. 12356: DECL. OADR
TAGS: PREL, ENRG, UK
SUBJECT: OFFICIAL-INFO

THE SECRETARY IS EXTREMELY INTERESTED IN THE DEPARTMENT PRODUCING QUICKLY A STUDY OF THE IMPACT OF A PRECIPITOUS DROP IN THE PRICE OF OIL. WOULD THE ENAGASY PLEASE PROVIDE BY WOOD LONDON TIME, THURSDAY, MARCH 21, A ONE-TWO PAGE ANALYSIS OF THE ECONOMIC AND POLITICAL IMPLICATIONS OF A DOLLAR 8 DROP IN PRICE OF OIL DURING 1986. WE ARE INTERESTED IN THE IMMEDIATE EFFECT AS WELL AS THE LONGER TERM IMPACT (1 YEAR OR MORE). THE SECRETARY SEEMS TO WANT THE PAPER WHICH RIF IS PUTTING TOGETHER TO FOCUS ON REGIONAL CONCERNS.

SORRY FOR THE SHORT DEADLINE, BUT WE APPRECIATE THE ENAGASY'S INPUT ON THIS. SHALZ
SECRET

then-Treasury Secretary James Baker for 1988.

Bush, however, was not unaware of the devastating impact the higher oil prices were having on independent oil producers in Texas and elsewhere. The Reagan-Bush administration carefully prepared a media strategy to calm the howls of protest from hard-pressed domestic oilmen, slyly leaving the clear impression that the administration was the innocent victim of Saudi actions, all the time keeping hidden its role as the architect of that!

As part of their cynical game, on March 31, 1986, Energy Secretary Herrington delivered a speech in which he voiced "concern about the danger of lower oil prices for the U.S. oil industry," while conspicuously omitting any proposals to deal with that danger. It was politics at its most cynical. Then, Vice President Bush gave a Washington press conference on April 1 in which he declared his reason for an unusual personal 10-day trip to Saudi Arabia and the Persian Gulf oil states. Bush stated, "Stability in the market is a very important thing, and I will be selling very hard in terms of our domestic interest . . . and thus the interest of our national security. . . . I think it is essential we talk about stability and that we not have a continued free-fall." Bush was sent to Saudi Arabia to divert and calm domestic U.S. oil producers who were hopping mad at Washington. An FOIA declassified State Department summary of the talks revealed what Vice President Bush actually told King Fahd in a two-and-a-half-hour meeting some days

later: "Vice President Bush explained our energy policy, emphasizing our belief that *market forces* could best set oil price and production levels." In short, the netback arrangement was to continue. Bush did suggest a moderating of the Saudi oil sales in order to bring prices above the dangerously low \$8 per barrel levels, but only slightly.

The results of this "brilliant" strategy in which George Bush and James Baker played a central role during 1985-86, were devastating. Major oil companies and refiners reaped huge netback profits, despite the fall in oil prices. Independent oil producers and refiners were devastated. The domestic oil industry was cartelized into an ever greater concentration of power among a small handful of companies. Thousands of domestic oil producers in Texas and elsewhere were ruined. Oil-well drilling fell to levels not seen since World War II. In 1986, the output of wells which had to be shut down or were simply abandoned totaled 700,000 bpd. This loss was made up by increased import of Saudi oil by Exxon, Mobil, and the other majors.

But perhaps an even more devastating loss for which American taxpayers are still paying the bill, was the onset of a major regional banking collapse. One after another, major Texas banks went under and had to be bailed out by the Federal Reserve and, ultimately, the taxpayer, as Texas was plunged into the worst economic downturn since the Great Depression.