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Oil and the Coming Financial Armageddon

by William Engdahl

Little more than eight weeks after a widely hailed Organization of Petroleum Exporting Countries (OPEC) agreement in late March to increase oil production, the price of benchmark West Texas Intermediate crude oil has again risen above $30 per barrel. In January 1999, in comparison, oil sold for as low as $10 per barrel.

Many explanations are being conjured up to account for the sudden rebound in oil prices, from explosions in Nigerian oil pipelines, to loss of Russian and Iraqi export supply, to the temporary shutdown for repairs of a major oil platform in the Ekofisk Field in the North Sea.

Other explanations range from extraordinarily strong demand in Asia and North America amid record low stock inventory, to new U.S. environmental laws to take effect in the Summer, to seasonal buildup of gasoline stocks, as the Summer holiday season begins in G-7 countries.

While each and all of the above are factually correct as influences on commodity prices, they all miss the more crucial underlying process under way in world oil markets. To understand this better, go back to the "oil shock" of 1973, and trace the cartelization of energy production since that time.

1973: The Real Story

Beginning October 1973, when world oil prices soared by 400% over several weeks in the wake of Henry Kissinger's Mideast "shuttle diplomacy," a concerted world media campaign pointed the finger of blame for the devastating oil shock at the OPEC countries.

Then-Saudi Oil Minister Sheikh Zaki Yamani became the target of Western media attention. He was portrayed as the most powerful man in the world, because of his alleged ability to determine world oil prices, and blamed for the ensuing worldwide economic recession.

Subsequent investigation, most prominently by *EIR,* revealed a quite different background to the devastating "Oil Shock" of 1973-74. Far from being a conspiracy of greedy Arab oil sheikhs, the 400% rise in prices for petroleum, the world's most important energy source, was planned well in advance of the October 1973 "Yom Kippur" War, the ostensible trigger of the oil shock.

The price shock was laid out in detail during a secret meeting of the Bilderberg Group in May 1973 at Saltsjöbaden, Sweden. That meeting included the heads of the major British, U.S., and French oil multinationals, then dubbed the Seven Sisters. It included the leading banking voices of the City of London, and key NATO member politicians. Kissinger was among the select invited guests. That meeting planned, down to the exact amount, the 400% oil price rise of six months later, and discussed how the oil multinationals' allied bankers would use it for what Kissinger liked to call "recycling petrodollars."

That recycling of the sudden embarrassment of riches in OPEC, was carried out in the form of City of London Eurodollar loans to Third World debtor nations forced to borrow to finance their huge new oil import costs. It was the origin of what in the 1980s became known as the "Third World debt crisis."

For the Seven Sisters, the 1973-74 oil shock was conveniently timed. The Sisters had invested billions of dollars—amounts never before seen in the history of oil exploration—in the construction of large offshore oil platforms and of oil infrastructure in the new fields of the North Sea and Prudhoe Bay, Alaska, where physical difficulties were extreme. Before the 1973 price increase, the Seven Sisters faced financial disaster and unpayable debts to their bankers. Their bankers, in turn, were the same bankers who recycled the OPEC petrodollars after 1973.

Similarly, today, it would be wise to look deeper than at

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Lines at the gas pump in the 1970s. Then, as now, the reason for soaring oil prices had nothing to do with OPEC production, but rather with the political and financial manipulations of the City of London and its Wall Street confederates in crime.

the struggling OPEC producers, to find the culprits behind the 300% oil price rise since March 1999. In recent remarks, U.S. Democratic Presidential pre-candidate Lyndon LaRouche suggested a far more fruitful investigative track that would lead to the current role of the handful of giant private British, U.S., and French oil conglomerates in manipulating world oil prices for their own special purposes.

Here we should look to two aspects of the present condition of the major British, American, and French oil multis: first, their heavy levels of debt; second, their need to invest huge sums in the untapped oil Super Giant fields in the Caspian Sea.

The New Oil Cartel

Over the past two years, the world's major private oil companies have gone through a process of mergers and cartelization unprecedented since the 1911 U.S. Supreme Court break-up of John D. Rockefeller's Standard Oil Trust.

In late 1998, during the worst days of the global financial collapse which broke out in Asia, when world oil prices were falling toward new lows of $10 per barrel, British Petroleum (BP) made a bold move. It bought out the large former Rockefeller company, AMOCO—Standard Oil of Indiana. BP had already taken control of SOHIO—Standard of Ohio. The new giant, BP-Amoco, was briefly, on paper, the world's largest oil multinational, surpassing Exxon and Royal Dutch Shell.

Soon, however, Exxon and Mobil, the two largest U.S.-based members of the former Seven Sisters, carried out an $80 billion merger, creating the world's largest oil giant, and replacing General Motors as the largest company in the Fortune-500 for 1998.

Then, even before it had regulatory approval from U.S. and European authorities, BP-Amoco announced in April 1999 that it was buying the large U.S. oil company ARCO, which has a major share of Alaskan oil production, as well as important leases in the Caspian Sea and North Sea. Two months before, the U.S. government dropped its objections to the BP takeover of Arco.

In July 1999, the French private oil company Total, which only two weeks before had purchased control of the Belgian Fina Oil to create TotalFina, announced its takeover of former French state oil giant Elf Aquitaine, to create the world's fourth-largest private oil giant, TotalFina-Elf.

As of today, these four—BP-Amoco, Exxon-Mobil, Royal Dutch Shell, TotalFina-Elf—dominate the world energy market to an unprecedented degree. These four giant oil multinationals fully dominate the ten largest world oil refiners in terms of capacity, along with the two smaller refiners, Texaco and Chevron.

This process of cartelization—which, suspiciously, was unchallenged by the U.S. Justice Department's Anti-Trust division, which was at the same time fiercely attacking Microsoft—has driven a reduction of oil and oil-product inventories to "just-in-time" levels, making oil-product prices subject to supply shocks as never before. This has been one factor driving U.S. gasoline prices to $1.50-2 per gallon in recent weeks. Far from losing money, the newly cartelized oil giants are making huge profits at the expense of the consumer.

The cartelization goes even further. In Europe, BP-Amoco gas stations are jointly owned with Mobil, now part of Exxon-Mobil. Chevron owns Gulf Oil, and Texaco now owns Getty Oil.

The cost of these mergers, at the time the largest corporate mergers in history, was immense. The total long-term debt of the combined Exxon-Mobil Group as of December 1999, was $8.4 billion. Long- and short-term debt of the TotalFina-Elf Group was $25.8 billion. The amount of BP-Amoco-Arco's debt is not public data at present, but it is estimated to be at least similar in size, if not larger. However, in a filing with the U.S. Securities and Exchange Commission written in July 1999, a time when oil prices were at the $10 per barrel lows, BP-Amoco wrote, "In July 1999 we announced a new set of targets taking us through to the end of 2001. . . . We cannot, and do not, rely on oil prices maintaining their current levels."

Indeed, no sooner were the giant oil mergers consolidated, than the oil price began a steady 12- to 15-month rise from $10 per barrel, to today's $30. That 300% price rise gave the giant oil groups a huge cash windfall to reduce debt and consolidate their grip on the world's untapped oil fields. The first-quarter earnings per share of BP-Amoco in 2000 rose 300% over the same period a year ago, in parallel with the oil price rise during that time. The gross earnings of TotalFina-Elf for the first quarter rose 70%.

Controlling Future Supply

In most of the world's giant oil exploration areas, such as the Caspian Basin in Central Asia, the same giant companies are locked in consortia or complex risk-sharing joint ventures such as the Azerbaijan International Oil Consortium, which is now dominated by BP-Amoco-Arco. Exxon-Mobil and Chevron, in turn, dominate Kazakstan's Tenghiz onshore field, and Kazak offshore developments.

In early May this year, an oil discovery from a test well in the Kazak offshore Kashagan field was reported in the *Washington Post*. According to the report, which cited oil industry officials and U.S. government sources, the discovery "could surpass the size of the North Sea fields," containing possibly as much as 50 billion barrels of oil. The North Sea fields held some 17 billion barrels of crude oil. The world's largest oil field to date, Ghawar field in Saudi Arabia, contains some 70 billion barrels.

The major impediment to developing these various Azeri and Kazak fields to date has been the large costs of building long-distance pipelines capable of delivering the oil to major world markets. The Clinton Administration has lobbied strongly in recent months for construction of a pipeline from Baku, Azerbaijan, through Georgia, to the Mediterranean Turkish port of Ceyhan. Construction of that 1,080 mile pipeline alone would cost at least $2.4 billion, perhaps much more. The 300% oil price increase of the past 12 months clearly helps finance the costs of these major new fields in the remote regions of the Caucasus.

These developments potentially could also shift the global geopolitical center of oil politics from the Middle East, northward into the volatile region between Russia, Central Asia, and China, giving the handful of oil giants which control those assets enormous future power and economic leverage over the entire Eurasian land-mass. Worth noting in this connection, is that Britain's elite Oxford University on June 10 will hold the inaugural conference of the Mackinder Forum, sponsored by Britain's elite Sandhurst Military Academy (see "New Geopolitical Offensive To Be Launched at Oxford," *EIR,* June 2).

According to participants, the intent is to revive the theories of the late father of British geopolitics, Sir Halford Mackinder, who, in a 1904 essay, "The Geographical Pivot of History," argued that control of the Eurasian Heartland, as he called it, which includes the Caspian Sea region, would determine control of the planet. One participant in the founding of the Mackinder Forum noted off the record recently, that "the fulcrum of power is, and will be for coming decades, the Caspian, the Aegean, and eastern Mediterranean into the Balkans. What defines that is the combination of the vast oil and gas reserves and how those energy resources must be gotten out."

The Financial Collapse

The actions of the British, French, and U.S. oil giants to consolidate their grip on global energy supplies is taking place with an anxious eye to the looming systemic financial disintegration. At the highest levels, the oil executives and their bankers know the clock is ticking, even if they cannot time the day of collapse—nor can anyone.

At a business conference in Kuala Lumpur, the capital of Malaysia, on May 29, Mark Moody-Stuart, chairman of Royal Dutch Shell Group, predicted that the present $30 per barrel oil price would soon fall to "between $13 to $17." Oil analysts expect the oil price rise of the past year to be significantly wiped out by 2001.

Given the fact that the mergers give this tiny group of companies more control over global production, shipping, and refining than ever before in history—a cartel more powerful than OPEC could ever be—a fruitful avenue of investigation would be to examine the extent to which illegal manipulation of supplies and of prices by the oil cartel is driving prices sky-high. That, in order that the companies can pay down their debt as rapidly as possible, and insulate themselves from the looming collapse of the global financial system—which most likely will spread from a meltdown of the U.S. Nasdaq stock market bubble.

According to informed OPEC accounts, the latest price rise above $30 per barrel is also being fuelled by speculators using oil derivatives. The same banks which had lent to finance the recent oil mergers would be the most plausible sources for artificially pushing prices higher and allowing the windfall to be used for rapid debt paydown.

LaRouche recently noted that, were he President, he would move swiftly to break the economic power of this Anglo-American-led oil cartel by circumventing the power of the private companies and establishing a government purchasing agency to buy U.S. oil supplies directly, bankrupting the oil giants and the major banks behind their power.