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Consequently, the first reaction to Carter's trade ban among European (and perhaps Japanese) industrialists may be to break out the champagne and toast the American President who has given them such exclusive access to the world's biggest market.

There is a far more important issue, however, than the question of exports to the Soviet Union, and it is waiting like a submerged rock. It is generally agreed that the Soviets have attained a measure of strategic superiority to NATO by sustaining high levels of military spending at considerable cost to economic growth rates, a decision that the West has been unable to make. How is the United States to finance a real, hard, arms race, after the advent of a "post-industrial society?" Under generally much better economic conditions, the United States, from 1965 to 1971, financed about $33 billion, or roughly one-third the cost, of the Vietnam war by dumping official liabilities on foreign central banks. Will Europe accept the burden this time? It is difficult to estimate what a serious military balance would cost. But a good place to start might be the $40 to $60 billion required to reinforce China, according to a Pentagon study.

The question is not whether Europe *could* finance such an operation, but whether it likes what it would be buying. In the Western European view, a major NATO initiative of this sort leads directly to a thermonuclear battle in which Europe ceases to exist virtually immediately. West Germany accepted the Pershing missiles at the December NATO meeting, almost ruining its relations with Moscow, but it will not deliberately wreck its economy to prepare for its physical destruction.

That puts the West Germans in the peculiar position of conspiring with the French for monetary stabilization, including a role for gold. That country may be incapable of a strategic decision for or against NATO, in the midst of that organization's worst strategic debacle. But it can make a set of "business decisions" which, implicitly, tilt the answer to the strategic question.

Preparations for realizing Giscard's pre-Afghan crisis pledge for an early spring initiative for a new monetary system center on a March meeting in Sardinia of European Community officials to prepare for the EC heads of state summit in Venice. In charge of preparations are the just-retired French and West German central bank governors, Bernard Clappier and Otmar Emminger. But this timetable must not be taken too literally, because the strategic events determine the timetable. The façade of dollar stability, so vital now to NATO's aura of strength, could go at any moment. At that point efforts to hold the price of gold down, or to hold the dollar up, may prove useless. "If anyone is so stupid as to want to sell gold," a senior Bundesbank official in Frankfurt told *EIR* this week, "then we will buy it."

If a gold monetary system comes into being under present conditions, the Soviets could well dominate it.

Despite a glut

Zbigniew Brzezinski's oil price increases

What has most stymied oil market observers about the newest round of OPEC price increases, which brought African crude up to $34 a barrel, is how the OPEC price hawks and Britain could get away with it under conditions of general market glut. After the substantial increases announced disparately by members at the Caracas OPEC meeting last month, the average price of OPEC oil has risen to $27 a barrel, and is still climbing. This has occurred despite what are acknowledged to be glut conditions, to the point of exhausting storage capacity, on the world oil market.

One suggestion of an answer is now being circulated by the State Department Office of Fuels and Energy, which predicts a shutdown of Iranian oil capacity due to some military disruption. The current strategic situation makes that statement impossible to evaluate. Much more interesting is the question: Why has Saudi leverage over the market not pushed the other producers into line? The answer is that Zbigniew Brzezinski's overt commitment to an alliance with the Muslim Brotherhood puts the Saudis in real trouble, particularly since the Muslim Brotherhood is currently trying to overthrow the Saudi regime.

First, the events on the oil market.

The Libyan lead

OPEC's leading hardline price hawk, Libya, enacted its second increase in less than a month last week with an announcement of a new price of $34.50 a barrel, the highest in OPEC. During the mid-December OPEC meeting, Libya suddenly raised its price from $27 to $30 a barrel as a show of defiance to a bloc of pricing moderates led by Saudi Arabia. Libya and its OPEC ally, Iran, who jointly contested the Saudis call for moderation, are both under the dominant influence of the Muslim Brotherhood, i.e., Great Britain.

Following Libya's second price increase, a new round of sharp price jumps occurred. According to the *Financial Times* of London, Dec. 28, Britain will raise the cost of North Sea crude from between $2 and $4 to about $30 a barrel. On Jan. 1, Algeria and Nigeria announced new crude prices of $33 and $31 a barrel, respectively. Tradi-

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tionally the price of Algerian and Nigerian high demand low-sulphur crude has been pegged to those comparable grades of Libyan and North Sea crude. The non-OPEC producer, Mexico, this week followed Libya's lead by hiking its price from $24.60 to $32 a barrel.

Britain's dilemma

Since this latest round of oil price increases, the British government has been posed with a dilemma. If the Thatcher government follows its 1979 pricing policy for North Sea oil, setting the highest prices on the international markets for contracted oil, then London will face renewed condemnations from continental Europe.

The London *Guardian* recognizes this, stating on Jan. 4 that a North Sea oil price hike, especially an extreme one to the $35 a barrel level, is "bound to bring further protests from Britain's Common Market partners. West Germany and France have been arguing that Britain should jump off the OPEC escalator, set a special North Sea price and earmark more suuplies for the EEC."

Because of this dilemma, Thatcher late last week dispatched British Energy Secretary Howell to Iran, Iraq and Saudi Arabia to "coordinate" pricing policy, and to line up additional supplies of Mideast oil for Britain.

An industry source reveals that London would "be in a much more comfortable position" if the Saudis would raise their price even another $2 a barrel. "This would make it easier for London to take the price jump it wants," the source stated.

OPEC oil prices—then and now
(per barrel)

	1st Qtr. 1979	1st Qtr. 1980	% Increase
Saudi Arabia	$13.34	$24.00	**82**
Kuwait	12.83	26.00	**103**
Qatar	13.80	27.42	**98**
Libya	14.50	34.72	**139**
Iraq	13.50	25.00	**85**
Algeria	14.50	33.00	**127**
Nigeria	14.50	34.00	**134**
Venezuela	12.50	28.75	**124**
United Arab Emirates	13.75	27.56	**100**

The Iraq-Saudi bloc

Iraq has done a dramatic about-face from its longstanding price hawk stance in OPEC, allying with Saudi Arabia to hold down prices while maintaining high production. While at least four producers in OPEC—Venezuela, Abu Dhabi, Indonesia, and Kuwait—are reported to be preparing production cutbacks in the first quarter of 1980, Saudi Arabia and Iraq have declared their commitment to continue their above average production levels. Throughout most of 1979, the Saudis have maintained a production level of 1 million barrels a day (mbd) over their official ceiling of 8.5 mbd. Iraq's oil Minister Abdul Tayeh Karim vowed in Caracas that Iraq would continue to pump its record 3.7 mbd into 1980.

By a joint commitment to keep exports at a high level, Saudi Arabia and Iraq hope to provide sufficient surplus crude on world markets to perhaps cause a slight decline in prices or at least to soften the markets sufficiently to stabilize prices. By pumping additional crude into the markets, Iraq and Saudi Arabia aim first and foremost to soften the price of oil sold on the international spot markets. This is the significance of Saudi Oil Minister Zaki Yamani's repeated statements to the press since the Caracas meeting that a surplus would occur in early 1980 which would deflate the oil pricing bubble.

During a visit to Paris last week, where a new Saudi-French three-year state-to-state oil sales agreement was signed, Yamani told the press that his country would not concede to the new price jumps in the cartel by raising Saudi prices beyond the $24.00 level.

A Saudi destabilization?

The first major sign of Saudi vulnerability to the type of corruption charges that helped bring down the Shah of Iran came in early December, when the Saudis cancelled a supply contract to Italy's state-owned oil company ENI following charges that the contract had been procured through bribery. In a lead editorial Jan. 2, the *New York Times* wrote, "...the Mecca attack demonstrated another danger bothering Saudis and one that Americans must understand in making realistic policy: the vulnerability of the regime to charges from within of impiety, Westernization, greed, in other words, and in a broad Islamic sense, corruption."

Saudi sensitivity to the "corruption" charge was the motivation in last week's shake-up in the Saudi armed forces, which included the dismissal of the chief of staff.

If London fails to undermine the Saudis in the near term, there is another option open which would insure oil market instability and concomitant price hikes for this year: a full-scale Iranian civil war.