Oil price cuts to force depopulation within the producing countries

by Richard Freeman

The emergency meeting of the Organization of Petroleum Exporting Countries (OPEC) which occurred March 21, 22 and 23, took place under seige conditions. Prior to the meeting's convening, OPEC was confronted with the most serious challenge to its existence to date.

During the week of March 8, Texaco and British Petroleum, two of the "Seven Sisters" oil producers, along with the Hudson Institute think tank, issued predictions that the price of oil, which was \$36 to \$39 for light crude in 1981, and had fallen to \$34 in the early part of this year, would fall further to \$25 per barrel, and possibly a floor level of \$15 per barrel. This threesome also predicted that OPEC oil production, which peaked at 31 million barrels per day in 1979, had fallen to 20 million barrels per day (mbd) at the start of the year, would collapse further to 16.5 mbd.

At the same time, papers from the *New York Times* to the Paris *Le Figaro* carried stories warning of an OPEC deficit. Stated a Texaco oil official from London March 9: "If OPEC's surplus falls sharply, money could be withdrawn from the Eurodollar market, and some big banks could go bankrupt."

Adding to the tense atmosphere was a deliberate policy by certain oil multinationals to dump oil stocks. According to Kuwaiti Oil Minister Sheik Khalifia al-Sabah, the oil multis were dumping as much as 4.5 mbd at prices below the cartel's floor. The dumping was showing up on the Rotterdam spot market, where North Sea light crude was being unloaded at \$28.50 per barrel the last week in March, and Saudi light crude had been driven down to a price of \$28 per barrel as compared with Saudi contract price of \$34. Nigeria, the largest African OPEC producer, was a particular target of the dumping, as its light crude competed directly with the heavily discounted British Petroleum light crude.

After three days of discussion, OPEC announced it had worked out an agreement to stabilize the situation. Cartel spokesmen announced March 23 that the group would work to prevent the price of oil from falling further, would cut its oil production level to 17.5 mbd to remove some of the glut that was allowing the multis to force prices down on the market.

Following the meeting, a number of forces challenged OPEC, stating that the cartel could not hold to its announced prices and production levels, and that further cuts in output would be necessary. "OPEC is facing disintegration. Cutbacks in Saudi oil won't be enough to save the cartel," stated the March 19 *Foreign Intelligence Report*. The newsletter continued: "Next month's meeting will be a 'last gasp' at saving the organization as a viable price-fixer."

The battle to determine whether OPEC can hold its benchmark oil price at \$34, or will crack under pressure to cut prices, is, though not widely understood as such, the battle to determine whether the world economy will experience a banking collapse and economic devastation greater than that which occurred during the 1930s.

The break-OPEC forces are led by British Petroleum, Royal Dutch/Shell, and their cothinkers in the other five of the Seven Sisters oil multinationals, U.S. Federal Reserve Board Chairman Paul A. Volcker, the Switzerland-based Bank for International Settlements, the International Monetary Fund, and the old-line banking families of Europe—the European oligarchs that stand behind and control these institutions. This faction plans to run a "third oil shock"—only this time in reverse. Instead of pushing the price of oil upward, as they did twice during the 1970s, the bust-OPEC faction wants to unwind the price of oil in a downward plunge.

The strategic goal of these energy crisis manipulators remains the same, quite apart from whether they are using their political and economic control of world oil prices to drive these prices up or down. This strategic goal is the wrecking of the world economy, that is, the deindustrialization of the developed West, the collapse of world trade, and the genocidal depopulation of a Third World isolated from a depression-wracked advanced sector.

Two reasons to break OPEC

The third oil crisis has already been partly implemented by the collapse of world production caused by

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the loan-shark interest rates of the Fed's Volcker. The collapse of world industrial output slashed oil demand by 11 percent in January 1982 compared to January 1981. It is difficult to maintain prices in a collapsing world oil market.

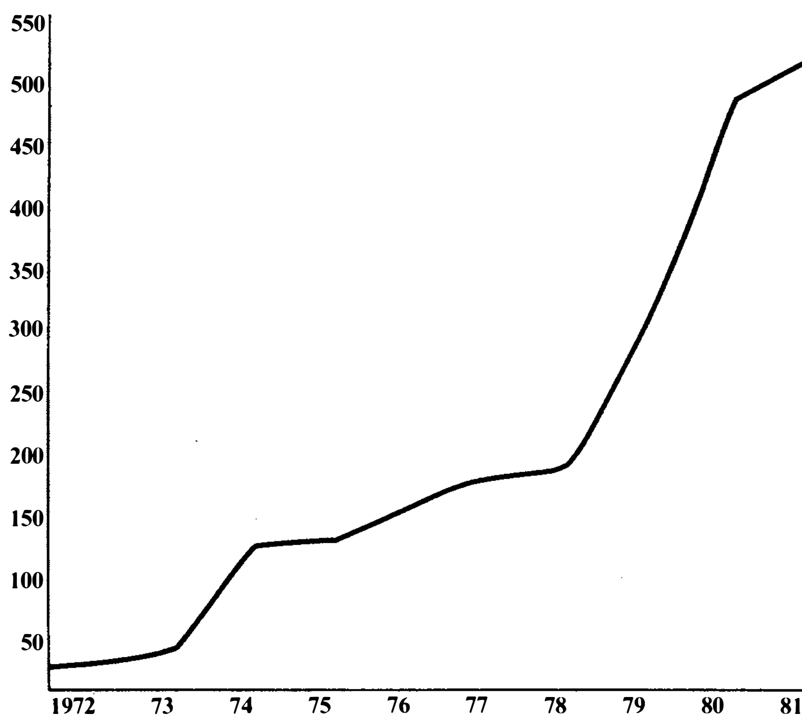
The oligarchs' tactical purpose for breaking OPEC is two-fold. First, to destroy the ambitious development plans of the oil-producing nations of the Third World, notably Mexico, Nigeria, and Indonesia, leaving those nations in the miserable straits of the rest of the developing sector. Second, to force the OPEC surplus to evaporate, creating the conditions in which the cartel will run a deficit for the first time since OPEC became a world economic force in 1972. If OPEC runs a deficit, it will be forced to pull funds out of the Eurodollar market, the $1.6 trillion unregulated international banking operation. Such a sharp contraction of funds will render the major banks unable to roll over the Third World's $550 billion in outstanding debt, including about $120 billion which comes due in 1982. Under those circumstances, Third World nations will default on their debts and the world banking system will be blown to pieces.

This strategy to bust OPEC is based on using oil as a weapon. The commodity upon which the world depends for running factories, driving cars, and heating homes, oil is indispensable to the world economy. Only if the world is prepared to deindustrialize itself into a new dark age, can the Western world do without growing oil supplies. Therefore, in the 1970s, the forces that run the Seven Sisters decided to push the price of oil through the ceiling, creating a 17-fold increase in the price over the past decade. This twice brought the world economy to the brink of collapse, and fostered a hyperinflation of energy prices to industry, agriculture, transportation, and household consumers.

The strategy of pushing up oil prices was laid out in a series of studies conducted in the mid-1970s by the New York Council on Foreign Relations, one of the centers of oligarchical influence in the United States. The council's study was released under the title *1980s Project,* published in 26 volumes, with the volume titled *Oil Politics of the 1980s* devoted entirely to the CFR's strategy for using the oil weapon. The directors of the *1980s Project* included Cyrus Vance, who became Jimmy Carter's Secretary of State and helped launch the

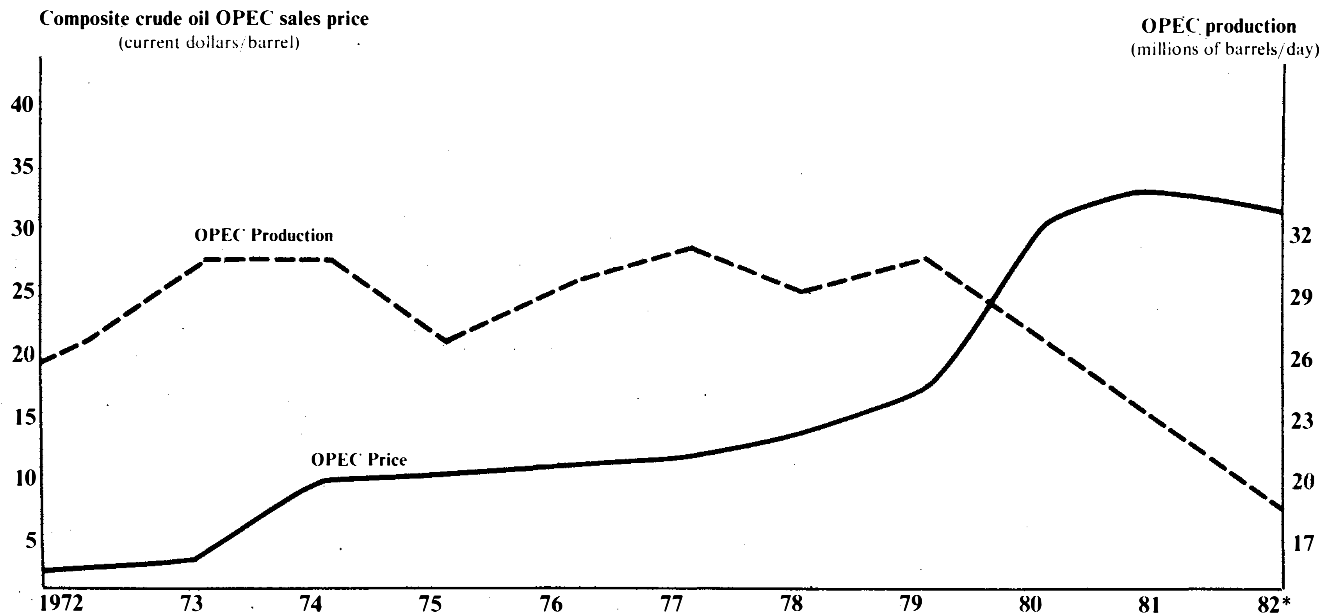
Figure 1

Annual world oil bill paid for free-world-produced oil *



* (excludes oil produced in U.S.S.R., East bloc, and People's Republic of China)

Figure 2
OPEC oil production and prices



* as of January 1982 for OPEC prices; as of March 1982 for OPEC production.

1978 Iran revolution; Michael Blumenthal, Carter's Treasury Secretary, who helped destroy the world's financial stability; and Paul Adolph Volcker, whom Carter made Fed chairman in August 1979, and who has raised interest rates to usurious levels in order to collapse the world economy.

The central thesis of the *1980s Project* is that the world of the 1970 and 1980s would be put through a series of *extraneous* shocks—oil price increases, credit cut-offs, regional wars—which will cause the world's stable political and economic institutions to unravel. After enough such shocks, the world economy would move to, first, zero growth, and then reorganize itself at a negative economic growth rate.

These shocks occurred, as predicted by the CFR study. The increase of the price of oil following the orchestrated October 1973 Arab-Israeli war was the first. Between late 1974 and 1975, U.S. industrial production fell 8.9 percent and unemployment nearly doubled to 7.8 million Americans. Inflation became double-digit. Tens of thousands died in the African Sahel and in Bangaladesh as famine, drought, and natural disaster swept the Third World as a direct result of the collapse of advanced sector exports.

By 1976-77 some form of equilibrium had been restored, although the first signs of the permanent deterioration of industry in the advanced sector appeared.

But in 1978-79, Cyrus Vance's State Department, along with British Petroleum oil company and British intelligence, overthrew the Shah of Iran and installed the Ayatollah Khomeini and the Muslim Brotherhood fanatics in his place as rulers of Iran. A second oil hoax was triggered, and once again world industrial production fell. Only the second hoax had a more devastating long-term effect. As Figure 1 shows, the world oil bill, taking into account only oil produced in the Western world (excluding the East bloc) more than doubled, from less than $200 billion in 1978 to $480 billion in 1980. This $280 billion increase, equal to 15 percent of world import levels, was a tremendous tax ripped from the output of the world economy.

Not only did the 1979 oil shock devastate the Third World a second time, sending its debt levels soaring, but it built a permanent 2 to 3 percent into the inflation rate of the world economy. The advanced sector was pushed much further down the road of deindustrialization. Producers "adjusted" to the higher oil price by moving out of industries that required a lot of energy input. Since these industries were the same ones that are capital-intensive, the advanced sector shifted down the economic evolutionary scale toward more backward, labor-intensive, but energy-conserving industries.

This shift toward labor intensiveness lowered the

overall productivity rate of the world economy, a drop which shows up in the fact that productivity for the years 1979-81 was half the rate of the previous three years in most advanced sector nations.

The Volcker shock

Then, for a third time, the world was subject to an "extraneous" shock. This time it was not oil, but high interest rates. The raising of U.S. interest rates by Federal Reserve Board Chairman Paul Volcker to record levels in late 1979 constituted the third attack against an already weakened world economy. World oil consumption plummeted (See Figure 2). In the case of the United States, oil imports, which were 6.51 million barrels per day in 1979, dropped to 4.40 mbd in 1981, and down to 3 mbd by February of 1982. The United States itself accounted for a drop of 3.5 million barrels per day of imports in less than three years, because factories and farms that use oil were shutting down.

As a result, the current "glut" of oil developed. OPEC cut its production during the course of 1980 and 1981 by 11 million barrels per day, but that has not been sufficient to offset the world oil oversupply brought about by underconsumption.

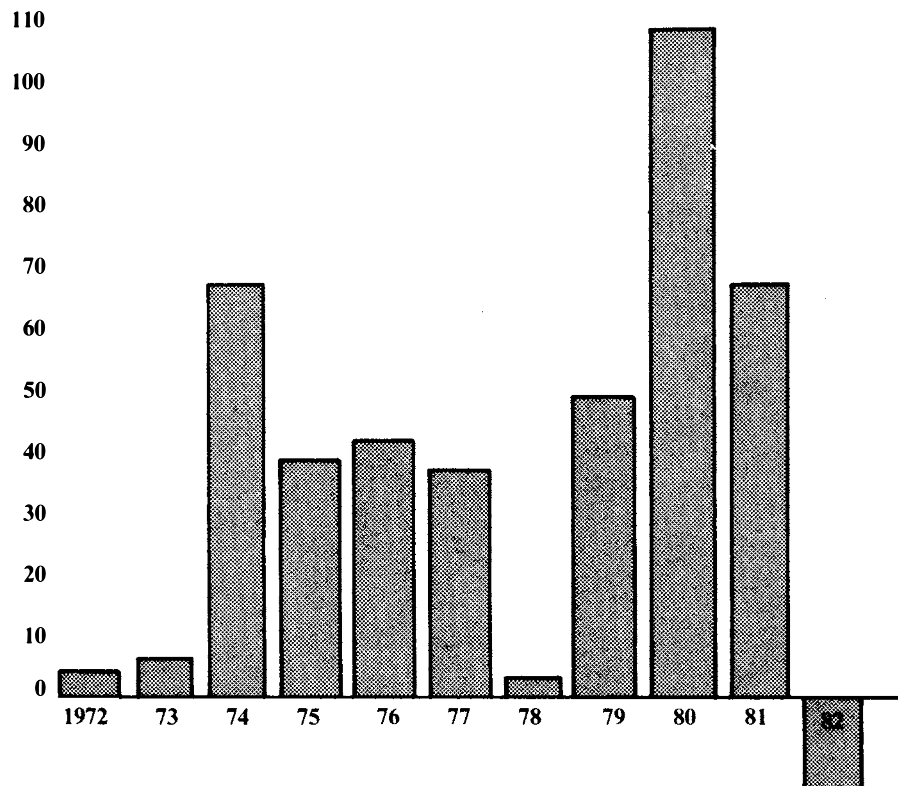
Thus, over the last ten years, more expensive oil has been used to crush industrial production, and now lowered activity in the economy is being used to lower oil production. Overall, less and less energy is flowing through the world economy.

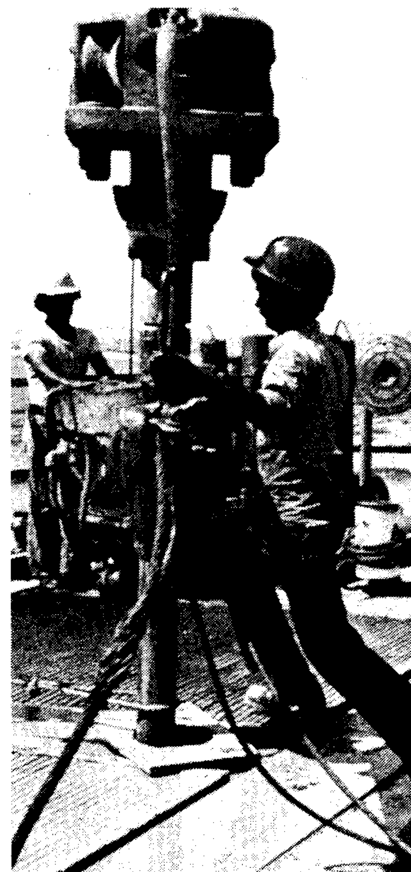
This decreasing activity—or increasing disorganization—of the world economy will soon lead to an irreversible collapse in world economic efficiency, if the oligarchy's current tactical objective is realized: the wrecking of the economies of the developing sector oil producers. This locates the reason that the British and Venetian oligarchs have for the time being shifted their efforts into bringing about a low price of oil.

Objective: population reduction

The first-line targets are those oil producing nations—Mexico, Indonesia, and Nigeria—that have sizeable populations and ambitious development programs. These nations are slated for economic destruction, and the energy crisis managers and their spokesmen make no bones about their ultimate objective: population reduction.

Figure 3
Yearly OPEC surplus (OPEC current account)
(in billions of current dollars)





Philander Claxton, one of the leaders of the Draper Fund and Population Crisis Committee, made the depopulation policy clear when he spoke with a reporter March 24. "Nigeria is already overrun with young people. They simply cannot be supported by the land," said Claxton. "Now [Nigerian President] Shagari will see, hopefully, that we were right, because they're going to have a decrease in oil revenues, and that means they will have to cut development programs, and that means that there will be less to go round, instead of more, for a still rising population. So Nigeria's future will look much worse. . . ."

Nigeria, a nation of 80 million people, (some estimates go as high as 100 million), one half the total population of Africa, earns 85 percent of its export earnings and gets nearly all of its international budget revenues from the sale and taxation of oil production. Of Nigeria's imports, which total about $22 billion per year, 50 percent consist of capital and manufactured goods—heavy machinery, power production equipment, and spare parts. These are used for port development and over-all industrialization. The Nigerian federal government has been pursuing a program of increasing wages, free public education, modernization and mechanization of agriculture, extensive medical care, and social security benefits.

With all imports slashed by Volcker and British Petroleum, Nigeria's industrialization plans, and the survival potential of its people, go out the window.

Mexico and Indonesia are being similarly ill-treated. Mexico was forced by a group of Swiss-led international bankers to undergo a 40 percent devaluation of the peso in February. The result is a vast increase in the cost of Mexican imports and the financing charges of Mexico's $60 billion foreign debt, denominated in dollars which are now 40 percent more costly. If the price of oil falls to $28 per barrel, and Mexico's production of oil for export stays where it is, Mexico's export earnings this year will be slashed by 25 percent.

In Indonesia, the agricultural programs and some of the industrialization programs the country has gotten off the ground—based on 85 percent of its export earnings coming from oil—will be similarly smashed.

A deficit for OPEC?

The other phase of this operation is the destruction of the OPEC oil surplus, which is already plunging (see Figure 3). According to some reports, the member-nations of Algeria, Iran, Ecuador, and Nigeria are running a deficit, and worse is expected. *EIR* calculates that if the price of oil were to fall to $28 per barrel, and the level of OPEC production were to fall to 16.5 million barrels per day, assuming OPEC expenditures for imports, invisibles, and aid transfers of $220 billion in 1982, OPEC will run a deficit of $40 billion this year. If oil production falls lower, and the price of oil also falls, then the deficit could be widened to $100 billion or more.

The lowering of the OPEC surplus means that many OPEC nations are short of funds, and must take two simultaneous actions. First they must cut back on their development programs; second, they must withdraw funds from banks heavily involved in the Eurodollar market. Most of that market, which has $1.6 billion in deposits, is pure paper. The hard core of the Eurodollar market is $300 billion, of which $125 to $150 billion is constituted by OPEC deposits. This "core deposit" base has been lent and relent out four to six times, creating the present "on-paper" size of the Eurodollar market.

In 1981, OPEC nations withdrew a small portion of their funds from the Eurodollar market. Each additional dollar of core deposits withdrawn means that between $4 and $6 worth of loan commitments based on that single dollar deposit is withdrawn. If this occurs at the time that the Third World has increased need for loans to roll over debts swollen by the high interest rates of Paul Volcker, the world will face a major banking crisis.

Fritz Leutwiler, the head of the Swiss National Bank and the incoming head of the Bank for International Settlements, predicted exactly this sort of credit market blowout, in a March 27 speech in Mainz, West Germany. Leutwiler told an audience that "the Third World had better cut back its lending before its creditors force them to do so." He then warned that "the world economy is headed toward a collapse," and proposed "international institutions," such as the BIS, the IMF, or "an ad hoc body may have to step into the breach" to direct the world monetary system dictatorially from the top down.

Crisis points are proliferating. On March 24, one day after the final day of the OPEC meeting in Vienna, Nigerian President Shehu Shagari announced that he was directing all commercial banks that Nigeria does business with to put a halt to all Nigeria-issued letters of credit—the instruments by which Nigeria orders goods. Shagari cited the fact that Nigeria, which had determined to produce 1.3 million barrels of oil per day, could only sell 0.7 to 0.6 mbd. British Petroleum, whose North Sea light crude is comparable to and competes directly with Nigeria's light crude, has been dumping its oil on the market at $30 to $31 per barrel, to drive Nigeria's oil off the market. At the time Shagari made his statement, Nigeria's foreign reserves had fallen by more than 67 percent from $8 billion a year ago to $2.7 billion today.

OPEC must stop this latest attack on Nigeria. If Nigeria cannot be defended, the entire OPEC pricing and production structure is worthless. And if that is so, then OPEC—and with it the world economy—is as good as through.

EIR seminars in Europe

Paris: April 28

'Re-establishing Economic Growth'

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2:30 p.m. **Registration**
3:30 p.m. **Panel I: 'Industrial Growth and Nuclear Energy'**
Jacques Cheminade, President, French National Committee for Nuclear Energy
Yves Galland, Member, European Parliament, Energy Budget Rapporteur for 1982
M. Bordes-Pages, Trade Union of Administrative Employees
Henri Ardouin, Mayor of Belleville, Co-Founder, French Nuclear Energy Society

5:00 p.m. **Panel II: 'Monetary Policy and Industrial Finance'**
Philip Golub, Wiesbaden Bureau Chief, *EIR*
Philippe Pontet, Vice-President, Club Perspectives et Réalités

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Bonn: May 5

'The U.S. Depression:
Why the Projections of All Leading Econometric Services Failed'

10:00 a.m. **Comparison of *EIR* and Leading Econometric Projections for U.S. Economy Since October 1979**
David Goldman, Economics Editor, *EIR*

1:30 p.m. **'Mathematical Basis for Successful Economic Forecasting'**
Uwe v. Parpart, Research Director, Fusion Energy Foundation

3:00 p.m. **'Why Only a Two-Tier Credit Policy and Regulated Banking Can Foster Recovery From the Present General Depression'**
Lyndon H. LaRouche, Jr., Founder, *EIR*

7:00 p.m. **Chamber music featuring the Kloeckl Quartet**

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