OPEC's raw deal from the 'free market'

by Judith Wyer

Following the collapse of the late-January 1983 OPEC meeting, the long-awaited acceleration in the two-year decline of world oil prices commenced, triggered by the British National Oil Corporation (BNOC).

On the last day of the OPEC parley, BNOC sent out the word that it was "considering" dropping its $33.50 a barrel price by $2.00-$3.00. That news sparked chaos. All bets were off on OPEC achieving a production quota agreement in order to firm up the price.

As early as 1979, in fact, certain financial elites in London had announced that the oil price had gone high enough. Lloyds of London released a curious report calling for a $28.00-a-barrel level. Today, the Lloyds target may soon be met.

The London-centered strategists pushing a controlled oil-price drop are not concerned about the welfare of the world economy; far from it. They are attempting to use the erratic fluctuation in petroleum costs to shake out and streamline the oil markets in order to consolidate control over them.

A look at who is behind the current decline in oil prices reveals the same network of oil multis and trading companies which triggered the buying panic in late 1978 and led to the 150 percent jump in oil prices. Perhaps the largest single force in non-contracted "free-market" spot oil trade today is British Petroleum. Spot trade is thought to comprise well over 10 percent of the total volume of non-communist world oil consumption, which is now just below 45 million barrels a day. BP alone moves 1 to 1.5 million barrels there. Other major forces on the spot market are the giant raw-materials conglomerate Philip Brothers (Phibro), and Royal Dutch Shell, a firm which interlocks with Phibro.

Within hours after the collapse of the OPEC meeting, the spot market took about a $2.00 plunge, as companies began to unload stocks in anticipation of an imminent break in the OPEC benchmark price of $34 a barrel. The average spot price leveled off during the week of Jan. 31 at a price of between $28 and $30.

The same day the European spot market bottomed out, the U.S. domestic oil market began to see a comparable price drop. This process began on Jan. 31 when Gulf Oil announced it would no longer buy domestic crude for its refiners at a price higher than $31 a barrel. Within three days, 10 other U.S. major oil companies had followed Gulf's lead.

On Feb. 2 the U.S.S.R. joined the fray, offering cargoes of Soviet crude to France and Italy at about $28.25 a barrel, a $2.00 discount, for the first time making the Soviets a marked force in European oil markets.

OPEC paralyzed

Meanwhile the OPEC nations continue to be deadlocked on what course of action to take, since all agreements on pricing and production limits have gone out the window. Amid a flurry of consultations between Saudi Oil Minister Ahmed Zaki Yamani and other producers, there was not even a sign of a new meeting as of Feb. 5. Even the OPEC Committee on Market Monitoring, which was scheduled to meet Feb. 10 to work out a strategy in the face of falling prices, has been cancelled, and a Feb. 9 "informal" meeting of OPEC called by Venezuela is now in doubt.

Most oil industry sources concur that Saudi Arabia would not object to seeing the OPEC benchmark price, which is pegged to Saudi Arabian oil, sink to $30 a barrel, if it would revitalize demand. But Saudi Arabia, for security reasons, is not about to be the first OPEC exporter to make the official announcement. Neighboring Iran, which is preparing a new military offensive against Saudi ally Iraq, has issued a stern warning Feb. 1 to Riyadh not to lower its price.

Yamani cautioned during the last day of the OPEC meeting that Britain would soon lower its price, but this has not occurred. BNOC says it is waiting for companies that buy North Sea crude to exercise a contract option, requesting lower prices, which became effective Feb. 1. So far only Gulf Oil has made such a request.

The question now remains which oil-exporting nations will be the first to break the OPEC price by lowering contract prices. Both European and American financial press concur that Nigeria will be forced to make the move, even though it could jeopardize the political stability of the Shagari government.

A deal announced Feb. 3 between Gulf Oil and Kuwait, whereby Gulf sold a slice of its refining and marketing apparatus in the Benelux countries for 4 million barrels a day, was another jolt pushing the price down. The 4 million barrels was sold at $28.50 a barrel.

The oil markets have now reached a pricing level which would dictate that OPEC come down to $30 a barrel in the short-term in order to move in line with the world markets. In short, the oil industry both East and West has given OPEC a *diktat*. Now it is only a matter of time until OPEC will have to drop its price either multilaterally or unilaterally. Otherwise the cartel will find itself with dwindling markets. Whether OPEC accedes to a price drop now or waits, the London-centered financial oligarchy has decided that for the time being its oil revenues must be reduced.

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