ing Countries—has increased by 3.5 million barrels a day to 16.6 million last year, the highest since 1980. And OPEC as a whole, which adds in such countries as Nigeria, Indonesia, and Venezuela, presently is pumping an estimated 80% of its present capacity. Most of the remaining 20% is in the hands of Saudi Arabia.

According to informed accounts, present OPEC production is still well over 23 million barrels in the face of an estimated 22 million bpd demand, drawing prices steadily lower since the spring. As a result of the surplus of world supply, North Sea Brent crude prices have plummeted from $22 a barrel in January to slightly more than $15 per barrel today.

Kuwait and the United Arab Emirates have led the push to flood world markets with excess crude. Iran and Iraq are pumping at peak capacity and badly need large investment in infrastructure in order to expand. The economic impact of the OPEC overproduction thus hits Iraq and Iran severely, which have no margin to pump more in order to increase their cash flow. Some say this is the intent of the overproduction.

Supply disruption scenarios

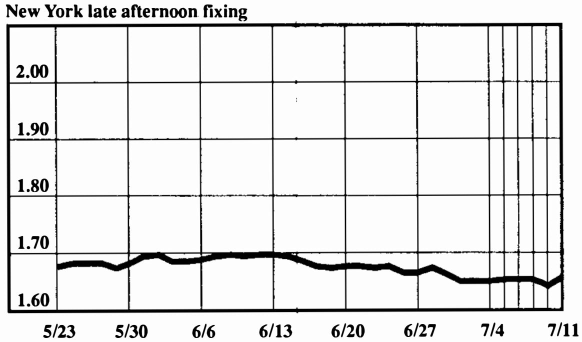
With such an apparently abundant supply and high output of crude on world markets, what, then, would be the hypothetical impact of a new military outbreak in the Middle East, perhaps between Iraq and Israel initially?

Experts estimate that a first strike by Israel would perforce include knocking out Iraq's main export capability, its 1.5 million bpd capacity pipeline, which runs through Turkey to the Mediterranean. If this were hit, for example, in September when normal maintenance in Alaska and the North Sea brings on tight supply anyway, the loss of Iraq's 1.5 million barrels per day could push prices up by $3-5 per barrel. But this would have nothing to do with medium-term security of crude supply to world OECD nations. It would be a short-term dislocation. How long a dislocation would last, by all informed estimates, would be a function of how widely the Middle East hostilities expand.

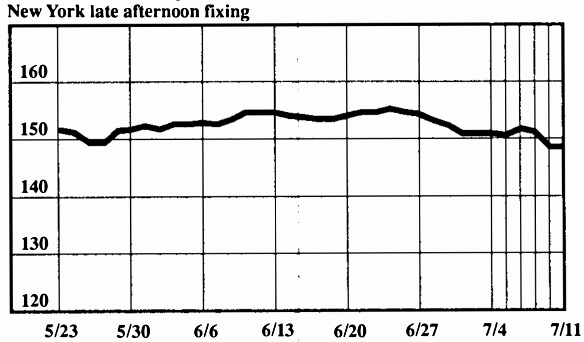
But the real issue is: To what extent could Western Europe and the Pacific growth economies of Asia, centered around Japan, withstand the shock? "This time, unlike during the shocks of the 1970s," notes senior City of London economist Stephen Lewis, "Western Europe and Japan would be far better prepared to absorb the shock. We could expect more direct bilateral moves on the part of European or Japanese governments to estalish direct bilateral ties with OPEC producers, not mediating this time through Washington." Indeed, in recent months, with growing worries about the security of their future oil supply, Japan has taken unusual steps to strengthen its ties with OPEC, including an extraordinary invitation last February for Saudi Petroleum Minister Nazer to come to Tokyo to discuss future bilateral trade and petrochemical investment in Japan.

Currency Rates

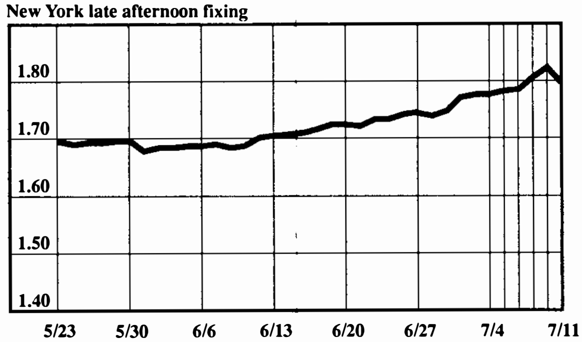
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing