

The year was 1974—the height of the Arab oil embargo—the year America wimped-out in front of the whole world.

It was in the winter of the previous year that the Organization of Petroleum Exporting Countries—an international oil cartel more commonly known by its acronym, OPEC—suddenly shut off the flow of the black lifeblood of industrial civilization and brought the infidel West to the brink of chaos. The price of a barrel of crude oil quantum jumped from three dollars to \$15 practically overnight, hiking the price per gallon of Arab gasoline from an average of 35 cents to close to three dollars in some states. Fuel expenses for industry and private homes skyrocketed. The first oil shock hit like a hard right to the jaw, sending the industrialized nations of the world toppling to the canvas with their noses bloodied.

From New York to Seattle, long lines of cars queued-up at the nation's overtaxed pumps. Motorists hit the predawn streets and found 50 commuters ahead of them at the gas station. Those who arrived too late didn't drive to work that morning. Oil suppliers hired shotgun-toting muscle to ride with the drivers of their delivery trucks. As the Northeast and Midwest froze, the Sun Belt found itself rolling in petro-wealth. While one of OPEC's petro-potentates gleefully boasted that "Allah has given us the Sword of Oil," cars from the oil-rich sections of the U.S. began sporting bumper stickers proclaiming "Drive 75—Freeze a Yankee" and "Let 'Em Walk and Freeze in the Dark."

Gasoline prices kept going up with no ceiling in sight, as the cost of a barrel of crude rose to a record high of \$35, and then as high as \$40 in the second oil shock, following Iran's bloody Islamic Revolution of 1979. (Gas prices peaked in 1981 at a national average of \$2.20 per gallon for unleaded regular, according to the American Petroleum Institute.)

OPEC's oil embargo coincided with one of the coldest winters in ten years. In the Northeast and Midwest especially, many homeowners had to choose between heating their home or paying the grocery bill. While every week brought new reports of shootings, stabbings, and beatings on the gas lines, increasingly the poor and elderly were freezing to death in unheated dwellings. Already hurt by foreign competition and deteriorating and obsolete capital equipment, energy-intensive industries—from automobile manufacturers to steel plants to the manufacturers of durable goods—were being put out of business by the exorbitant price of crude.

Like a giant under attack by a tribe of desert pygmies, the U.S. economy went into convulsive seizures as its energy lifeline was abruptly cut. The Arabs followed up their oil-embargo tactics by investing billions of petrodollars into every type of American institution. They attempted to use their immense wealth to control U.S. government policy by buying up everything from banks to the media. At one time, Americans were worried about having to speak German or Russian—now it looked like we'd all have to learn

OVER A BARREL

**OPEC is refueling
its oil machine**

BY DAVID ALEXANDER

In 1981 there was a startling reversal. The fat-cat sheiks of OPEC began undercutting each other by cheating on their quotas. Saudi Arabia, OPEC's largest oil producer, was forced to become a "swing" producer—artificially maintaining prices by either cutting back or increasing production to make up for long- or short-falls by fellow OPEC members. In 1985, the Saudis got fed up with having to bear the brunt of their fellow member-nations' bickering, and halted the practice. Swing production was costing the Saudis an estimated \$2 billion a day and Saudi oil production was at a 20-year low. Recession had the royal family panicked. They fired Sheik Zaki Yamani (the man many feel was the prime player behind the Arab oil embargo) as OPEC's president and began to accelerate oil production to undercut the prices of their competitors.

It was largely because of this, that in 1986 the bottom dropped out of the world oil market. In four months, the price of a barrel of crude plunged by 50 percent, then nosedived again to a

significance. Some states, like Texas, asked for government intervention. At one point, in Oklahoma, the entire state legislature considered a mass exodus to Washington to beg for aid. Remembering how the Sun Belt gloated when it held the whip hand, the rest of the country's attitude was summed up by one observer who remarked, in a take-off of a popular Carter-era slogan, "Let 'em rot in the sun."

But the euphoria of the oil-poor regions now wallowing in the luxury of cheap energy may be short-lived. For one thing, there is the threat of a new, stronger OPEC, rising like a phoenix from its own ashes. In December 1986, the cartel met in Geneva to outline a strategy aimed at hiking the price of crude to its former levels by drastically cutting production. To the amazement of Western observers, the normally bickering members of OPEC agreed to push prices up from a little over seven dollars to \$18 per barrel. The move has left industry observers stunned. Record

omics for Chase Econometrics. "By 1989 or 1990, when more than half of the free world's oil consumption could come from OPEC sources, substantial price increases or even [a third] oil shock could be possible."

A second reason why the next few years could witness a return to the days when the critical flow of fuel slowed to a trickle, and put a hostile foreign power in an unprecedented position to use political blackmail to force America to bow to its capricious whims like a subservient harem girl, is that U.S. oil production is currently at a virtual standstill.

Many analysts now think that so much domestic oil production has been lost that there's no way to put the brakes on the downtrend. Last year, oil-industry figures showed a decline of more than one million barrels per day, or some ten percent of total production over the previous year. The number of active rigs has plummeted from 2,900 in 1984 to a current total of 826. And, as spending on exploration and development has fallen from a high of \$57 billion in 1981 to a low of around \$19 billion in 1987, America is importing nearly 1.25 million barrels a day more than in 1986.

The bleak picture of the once-indomitable U.S. oil industry has made it the kind of high-risk venture investors have shunned like doing business with lepers. Where Big Oil had once magnetically drawn brains and talent toward it with the promise of lucrative careers, other high-tech markets now have absorbed capital and manpower.

All of this lends credibility to the prospect of another major OPEC power play in the near future. Although several major oil fields have been discovered here and abroad in the past decade, the Saudis and their cohorts can still suck it out of the ground faster and cheaper than the U.S., where most drillers need between \$20 and \$30 per barrel just to break even. And so, the Sun Belt states, which screamed for no quotas on oil imports and a free-market economy during the oil shock of the 1970s, are now running scared, knowing they stand to lose even more with the advent of more expensive crude.

Legislators from those states are calling for import quotas and even outright fees to prevent them from going under in the coming oil megashock.

"I think it's critical for the average consumer to recognize that it's his welfare that's at stake here," says H.B. Scoggins, president of the Independent Petroleum Association of America. He asks, "Are we going to allow ourselves

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new low of \$7.20 a barrel for North Sea crude produced by Great Britain. American oil barons worried that the oil fields of Texas would be plowed up for pig farms. Rock-bottom fuel prices pulled the underpinnings from inflation, bringing it to 1.1 percent, and the price of a gallon of gas fell below 99 cents at many stations. The economy was stimulated by an injection of cheap energy that fueled the economic recovery and added momentum to a bullish Wall Street market which seemed to set record highs with every trading week. The power of OPEC appeared smashed forever.

The Saudis gloated as OPEC's 13 member nations were knocked off their camels by the revenue reduction of cheap oil. OPEC met three times in 1986, but failed to agree on across-the-board cuts to halt the free-falling price slide. Here in the U.S., the big losers were the oil-producing states. Across the Sun Belt, from Florida to California, oil companies were laying off workers and shutting down operations. Banks in those states were closing down, as the unemployment rate scaled the double digits. Businesses were going belly-up as state revenues were crumbling to in-

oil prices could bring the curtain crashing down on low inflation and the stock-market rally.

By the first week of February 1987, the price had gone up to \$19 per barrel. By late March, according to data compiled by the Middle East Economic Survey, OPEC's production sank to approximately 14 million barrels a day—1.8 million below the organization's self-imposed ceiling. Even non-OPEC producers were cooperating. The new Saudi oil minister, Hisham Nazer, made a visit to the Soviet Union, the world's largest oil producer. The Russians, themselves hurt by cheap oil, agreed to support the cutbacks.

With the oil cartel aiming at \$25 per barrel by early 1988—and even higher by the early 1990s as the West's massive petroleum stockpiles begin to dry up—OPEC could again be holding all the aces, and be ready to impose a new Arab oil embargo that would cripple oil-dependent countries.

"OPEC has an excellent chance in the long term, with prices rising to more than twenty-two dollars a barrel by 1990 and to more than thirty-five dollars a barrel by 1995," asserts Scott T. Brown, vice president of

Russia, which is where we're headed long term in the oil situation?"

There's little question that blackmail is very much on the cartel's agenda. Formed in 1973, OPEC was expressly created as a political tool to further Mideast politics. It was the self-avowed hand that wielded Allah's "Sword of Oil." The petro-dollars pouring into the coffers of the Saudis allowed them to dictate terms to the superpowers and to finance international terrorism.

Many analysts, including A. Vanders Smith of the Middle-Eastern Studies Department at the University of Texas, believe that free-falling oil prices, which began in 1983—ostensibly brought about by bickering between Libya, Algeria, Iran, and Saudi Arabia—were actually part of an international conspiracy engineered as a deliberate attempt by OPEC to quash U.S. production by flooding the country with cheap oil, putting domestic oilmen out of business, then hiking prices to create an oil shock many times more severe than the two which OPEC had manufactured in the 1970s.

Now that the first phase of this scenario has largely been achieved, the Saudi-controlled OPEC has succeeded in jacking up the price of a barrel of crude by nearly 300 percent. The speed and ease with which the group's members, usually at each others' throats, arrived at a consensus, confirmed the suspicions of many observers.

Others believe this theory to be far-fetched, and claim that Saudi Arabia maneuvered for higher oil prices to wage an internal power play that would return to her a leading share of OPEC profits. That and fear of military reprisals by Iran, which desperately needs increased revenue to finance its six-year war with Iraq. "It would be incredibly unwise in the long run for the Saudis to play a shell game with the world oil supply," states Peter S. Chappel, an energy expert at the Center for Strategic Studies in Washington. "They stand to lose more than they gain in such an arrangement."

As far back as 1980, however, then-OPEC chairman Sheik Zaki Yamani, like some nefarious Grand Vizier out of a Sabu movie, predicted with an enigmatic smile on his face, that an oil glut would begin within a year. After which, the sheik flatly stated, a unified pricing system by OPEC would be established.

Rashid Suleiman, an Iranian dissident living in California, who now acts as a free-lance consultant on Mideast affairs, claims that the new OPEC increase was masterminded by Colonel

Moammar Gadhafi of Libya in an attempt to retaliate against America for its devastating raids on his country by humiliating the U.S. with the Islamic Sword of Oil. "Gadhafi believed he could turn the world oil glut to his own advantage," claims Suleiman. "With the blessings of his Soviet masters, for whom the two oil shocks financed a policy of global expansion by pouring hundreds of billions of dollars into their coffers, he and other Islamic radicals pressured the more moderate Saudis into agreeing to drastic production cuts. The agenda called for a strategy designed to reduce the 'satanic' people of the United States to total oil starvation by 1990."

Millions would be out of work. Industry would grind to a halt. Massive inflation would make the dollar worth so little that a week's pay couldn't buy a plate of beans in Tijuana. With civil unrest orchestrated by OPEC-backed terror squads, a near-total collapse of American society could conceivably take place.

The scenario calls for massive Arab buyouts of banks, businesses, and property, on a scale vastly greater than that which followed the first Arab oil embargo of the 1970s. At that time, an enormous infusion of petro-dollars was fed into the U.S. economy in a deliberate attempt by the oil-rich Saudi Arabian sheiks to buy up America.

"The Ayatollah Khomeini and Moammar Gadhafi would like to see an Islamic-fundamentalist revolution here in America, but they're not naive enough to expect it to happen," Suleiman explains. "However, they do believe that by first dealing a staggering economic blow to American society, and following up with terrorism in this country on a mammoth scale, they can bring 'Satan' to its knees." Suleiman adds, "There is an ancient Koranic prophecy that the Mahdi (the Arabic Messiah) will come to defeat Satan at the end of this decade. Nothing men like Gadhafi or the Ayatollah Khomeini do is without some religious significance. I believe they are trying to make certain of the Mahdi's arrival in their own way. This argues that the late '80s and early '90s will see the U.S. subjected to economic and political terrorism unlike anything witnessed before. Nothing short of the domination of this country will satisfy them."

Regardless of which explanations you listen to and what scenarios you choose to accept, the fact is that in only a few years we've gone back to relying heavily on cheap, plentiful oil. The energy-saving mea-

asures of the Carter era now seem as distant as the gasoline rations of World War II. But it happened only yesterday. And could easily happen again tomorrow. Consider the following:

- U.S. oil resources are being depleted more rapidly than the rest of the world's. The U.S. reserve-to-production ratio is the lowest among the major non-OPEC producers. There are 1.2 wells per square mile in the U.S., while only a fraction of that number in the rest of the world. We're pumping out our reserves, but storing little.

- Domestic exploration and development has been cut by 50 percent. Cheap energy has kayoed efforts to develop many new fields. Production has dropped and will keep on dropping steadily. As yet, there is no national energy policy and none is on the political horizon at this time.

- The demand for OPEC oil has increased to some nine million barrels per day, up 20 percent from last year. At an existing total of some 250 billion barrels, the world-oil reserve will run out in a matter of a few years.

- At present levels of U.S. oil consumption, OPEC can maintain effective control over world oil prices when the demand reaches 80 percent of OPEC's capacity to produce. At a level of roughly nine million barrels per day—or 40 percent of capacity—we have just about reached the halfway mark.

"We're going back on an energy binge," warns former Rhode Island Governor Charles J. Noel. "People have started buying Cadillacs and power boats again. We should have learned our lesson."

What we're seeing today is a kind of mirror image of what occurred a decade ago: an era of massive economic stagflation that virtually shut down entire regions of the country overnight. It doesn't take Koranic prophecy to understand that what comes 'round, usually goes 'round. Today's situation has laid the groundwork for a return to an earlier one.

Our homes may be insulated, but we're turning the thermostat up to the max. The 55 mile-per-hour national speed limit is in jeopardy of repeal. And U.S. industry used 18 percent more oil last year, which amounts to a three-percent jump in overall demand in 1986 against 1985—nearly three times what the experts had predicted before prices fell, and a backslide to the levels of 1980. A recently released study by the U.S. Department of Energy projects that by 1995, the U.S. will rely on foreign oil for 50 percent of its needs—far above the 33-percent rate

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during the first oil shock and exceeding the peak dependency of 48 percent in the aftermath of the second.

Even if OPEC's coalition falls apart and the price of crude returns to \$7.20 per barrel or less, by some estimates, the world glut will disappear in as little as three or as much as ten years down the line. "Continued dependence on Mideast oil will pose a security threat for the rest of the century or longer," continues the Department of Energy study, which many, such as Oklahoma Senator Don Nickles, criticize as being far too optimistic.

With foresightful planning, the worst brunt of the coming oil megashock might be averted. One proposed scheme is the creation of a Strategic Petroleum Reserve to stockpile domestic fuel against the oil glut's inevitable end. Another is floating price controls, adjusted to market fluctuations on a day-to-day basis. A third is government aid, maybe in the form of tax credits to beleaguered oil-producing states like Texas, Arkansas, Oklahoma, and Colorado in an attempt to increase domestic production, or a repeal of the Carter-era Windfall Profits Tax, which many petroleum advocates call an excise tax on oil production and exploration. Finally, a continued policy of energy conservation, and increased efforts in the development of synthetic fuels and other alternatives to fossil fuels, could help the country ride out the next Arab oil cutoff.

The disturbing consensus of energy analysts is, however, that U.S. oil production has declined catastrophically over the last decade with little, if any, hope of recovery. Efforts to manufacture synthetic fuels, cheap nuclear power, and to effectively utilize solar power and wind energy have fizzled. The surplus in world markets, which had exceeded 250 million barrels, is dwindling fast as the new OPEC production cutbacks kick in. Some think the surplus could be history by as early as October.

While the sheet-headed honchos of OPEC sharpen their holy petroleum saber on the whetstone of rising crude prices, and weave hashish fantasies of an Islamic America, we're revving up our engines and peeling off into the sunset of our nation's freedom and self-sufficiency. One day soon, the road might abruptly come to a dead end. Just when that day will arrive is now in the hands of Allah—and his OPEC oil ministers.

