CHAPTER XVI

CONCLUSIONS

(1) World dependence on Gulf Oil.

(2) Oil producers have a reason for forcing the U.S.A.

(3) Inflation and OPEC'S Rule.

(4) Quarterly prices Hikes Approved by OPEC.
It is necessary for Iran to further reduce its oil production to preserve the natural resource for coming generations.

Iran must maintain independence by standing clear of the sphere of influence of Europe as well as that of superpowers the Soviet Union and the United States. After the Revolution, economic control by foreign powers was cut off, but Iran still has to rely on oil.

The amount of oil produced in Iran was decreased to 40% percent of that of the pre-revolution days and Iran is earning about 23,000 million dollars a year from oil export. But is it necessary for us to further reduce our oil production to preserve it for the next generation.

World dependence on Gulf oil.

A prolonged cutoff of oil from the Persian Gulf would slash U.S. oil supplies by as much as 40 per cent and propel the United States into the worst depression in its history. The United States cannot afford to be strangled by the loss of Persian Gulf oil. Any cut off of Middle East oil or just Saudi Arabian oil alone would mean war. After the Soviet Invasion of Afghanistan, she pushed Russian Troops to within 300 miles of Persian Gulf. President of U.S.A. warned that the United States would use force, if necessary, to protect the vital oil-producing region from attack by a hostile power.

About 19 million barrels a day or 40 per cent of the free world's oil flows through the Persian Gulf to the

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United States, Western Europe and Japan, according to U.S. Energy Department figures.

Saudi Arabia — America's largest foreign oil supplier — Iran, Iraq, Kuwait, Qatar and the United Arab Emirates border the Persian Gulf and account for two-thirds of the Organization of Petroleum Exporting Countries production.

United States which imports 2 million barrels a day from the Persian Gulf, normally would be in a better position to weather a stoppage than its allies because Americans have more leeway to conserve and U.S. wells provide 55 per cent of domestic oil needs. But U.S. participation in the International Energy Agency's emergency plan under which 20 nations have agreed to share oil supplies during a major disruption would subject the United States to a 40 percent oil shortage and severe economic hardship.

The United States could withstand the loss of 2 million barrels a day of Persian Gulf oil, which amounts to about 10 per cent of U.S. consumption, by rating gasoline, lowering speed limits setting thermostats below 65 degrees and burning more coal. United States has to cut back from current consumption of 18.5 million barrels a day to about 11 million barrels and sharing a 40 per cent crude-shortage with every other country.

The economic consequences would be a good deal worse than the worst depression the United States has ever had.

The 1973-74 Arab oil embargo which lasted five months, reduced U.S. oil supplies by 15 per cent, caused a severe
recession in the United States and quadrupled world oil prices. A disruption in the flow of Persian Gulf oil and its nightmarish impact on the industrialized world can not be ruled out.

The Iranian forces had guarded the vulnerable strait of Hormuz, which connects the Persian Gulf with the Indian ocean, until the withdrawal of Iranian Naval patrols last spring. Although 26 United States Navy units are stationed in the Indian ocean, the 24 milewide strait remains for all practical purpose unguarded.

Persian Gulf officials are holding talks with the United States on measures to secure the Strait of Hormuz against a Soviet takeover or Terrorist strike but most Arab States are opposed to U.S. presence in the Gulf.

The United States oil industry readily admits that it has no contingency plans to offset a Persian Gulf Cutoff, which would remove 19 million barrels a day from the world's oil pool and leave very little uncommitted crude for grabs.

The U.S. Government and the International Energy Agency (I.E.A.) would inherit immediate responsibility for handing the oil stock. But there is doubt that the U.S. would honour the I.E.A. sharing agreement in the event of a Persian Gulf catastrophe. If only half of the Persian Gulf oil were affected, there would be a fair chance of the I.E.A. mechanism working and, hopefully, exerting quite a bit of discipline.

But if the whole of Persian Gulf oil were lost, U.S.
Governments would panic and there will be economic war for crude oil from Africa and Indonesia and GCC and almost total breakdown of foreign commerce.

Even if the United States back out of the IEA if the United States agreement, the loss of 2 million barrels a day of Persian Gulf oil imports would exact a heavy economic toll.

Oil Producers have a reason for forcing the U.S.A.

In spite of dangerous situation which has been created because of Afghanistan occupation by Soviet Union, it is a suitable time for Arabs and Islamic world to force the U.S.A.

The positive point of Afghanistan occupation is that it can provide means for the Arabic countries. If could be recognized through the following points the importance of the means for the oil producers countries.

1. America tried to mobilize the international thought against the Soviet Union but was not successful and the Afghanistan occupation created this opportunity for the U.S.A.

In fact if there was not Islamabad commission America could not do any other thing except boycotting the Olympic games. In Islamabad Commission U.S. tried to mobilize the Arabs countries' thought against Russia.

2. It is clear that America wants to oppose Russia with Arab oil's income and Afghanistan occupation is a means for the opposition.

Arabs oil income can be invested for purchasing of
military weapons by Arab and Gulf countries for Soviet Union opposition. It means that Saudi Arabia must pay the expenses of purchasing the military weapons which America wants to give to Pakistan, and the first installment is one milliard U.S. Dollars by Arab countries.

3. The U.S.A. wants to give any type of army means to ISRAEL without any money requisition, while insisting on Arabs to pay army expenses. Now in this position Arabs countries have a reason to force U.S.A. to diminishing the military equipping (Preparation) rate of ISRAEL through their means (Oil's Income).

From this point of view, the occupation of Afghanistan by Soviet Union is the only opportunity of oil producer countries especially for the Saudi Arabia. From the recent speeches of king Jahad (kind of Saudi Arabia) it could be guessed that this medium will used by Saudi Arabia and Foreign Affairs Minister of Saudi Arabia notified that they would not give permission to any country to establish the foreign military base or military facilities in his country and this could be a good representative statement of using this means. Saudi Arabs or oil owners because of their oil have a strong position. But they should use this card properly. The Arab countries should instead of purchasing army production they should invest their oil's incomes in industry fields, to improve their economic situation, so that after oil resources run dry, they can survive.

_Inflation and OPEC's Rule (U.S. Claim)._
U.S. President's economic message stressed the importance of stopping the spillover of 1979's inflation into higher wages, which would turn the price spiral up another notch. Yet the new standard was an invitation for steeper wage settlements this year and more inflation later.

In answering charges that this anti-inflation policy has not worked, the President has adopted a blame-it-all on OPEC strategy. All the increases for practical purposes of inflation rates directly attributable to increased OPEC oil prices. But it is clear that OPEC was not the sole cause of inflation. But Economic Adviser Charles Schultz was again using the OPEC alibi and blaming price problems again on oil-led inflation.

Of last year's 13.3% inflation only 2.2% was traceable to OPEC price rises (see chart). This year one of the senior economist at Data Resources Incorporated says, that number may rise to 3%. An equally important factor in inflation has been the Administration's self inflicted economic wounds. The rise in the minimum wage from $2.30 to $3.10 per hour. $132.1 billion worth of deficit spending in the past four budgets in the U.S.A. encouraging the general reserve to follow an easy-money policy; and the cheap dollar tactic that fostered the buck's 26% fall against the west German mark since Carter's inauguration. The economic report conceded that since 1976 the underlying inflation rate, independent of all temporary factors like oil and food price increase has risen by some 3% to about 9%.
Carter aides figured a 15% to 20% run-up in oil prices as part of their 1980 forecast. M.I.T. oil Economist Morris A. Adelman argues that OPEC has adopted a tactic of "Permanent brinksmanship" which will keep the oil supply just short of world demand, while continuing to raise prices. The U.S. must fight back by substantially cutting consumption. But Adelman fears that U.S. national rhetoric is balanced by reluctance to do anything.

**Quarterly Price Hikes Approved by OPEC**

The six member long term strategy committee of the organization of petroleum exporting countries approved a plan for quarterly oil price hikes pegged to currency-market fluctuations, inflation and economic growth in the western 22nd February 1980.

The price plan would seek to restore a single oil pricing system, and would replace the past year's oil market free-for-all in which OPEC prices doubled to around $30 per 42 gallon barrel as nervous buyers built up stockpiles in the wake of the Iranian Revolution. The OPEC prices strategy panel also recommended keeping the cartel's 30 million to 32 million barrels-a-day oil output essentially unchanged at least for the next few years.

OPEC's 1979 output has been estimated at 30.8 million barrels daily. The third highest production level on record. The plan also includes various forms of financial assistance to permit developing countries to meet the rising cost of imported oil.