

The Director of Central Intelligence

Washington, D. C. 20505


Trip File

16 October 1979

MEMORANDUM FOR: The Secretary of the Treasury
The Secretary of Commerce
Chairman, Board of Governors of
the Federal Reserve System

SUBJECT: Oil Price Outlook (U)

During our discussions at The Homestead last Friday and Saturday on the state of the economy, the prospects for further rises in the price of energy figured prominently. I thought you might like to see the attached memorandum, written last Thursday, which states our view that a price rise in December is highly likely. (C)



STANSFIELD TURNER

Attachment
NFAC 5470-79,
11 October 1979

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NFAC 5470-79
11 October 1979

MEMORANDUM

SUBJECT: Oil Price Outlook

Oil prices are likely to creep upward during the remainder of 1979 and to be increased at the December OPEC meeting.

Even though Free World oil stocks are near normal levels, spot market prices are running up to \$15 per barrel above official prices and the volume of oil traded on the spot market is increasing. The conditions are likely to persist at least through the remainder of 1979, giving the OPEC nations a strong incentive to again increase their official prices. Collective action by the cartel to raise crude oil prices will almost certainly be taken at December's ministerial session in Caracas. Even before that, however, more members may follow the lead of Kuwait, Venezuela, and non-OPEC producer Mexico and raise prices unilaterally. Nigeria reportedly has received agreement from some customers to a \$3 per barrel price increase at Lagos' option.

There are several sources of market price pressure.

° Buyer apprehension over future supply availability and, in particular, future production levels in Iran, Saudi Arabia, and Kuwait is still the dominant factor.

° This apprehension, together with expectations of further OPEC price increases, is driving oil companies and other stockholders to seek larger than normal inventories.

° Disparities in the OPEC crude price structure encourage those nations with relatively lower prices to try to catch up with the others. The latest price hike by Kuwait has increased the disparities. In particular, Iran now finds itself charging less than Kuwait for comparable oil. The recent changes also leaves Saudi prices even further out of line with other suppliers.

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SUBJECT: Oil Price Outlook

The OPEC governments have not yet focused on the size of a price increase for 1980. Some will wait to assess market conditions on the eve of the Caracas meeting. Price increases ranging from \$2 - \$5 per barrel were discussed by several OPEC representatives at an early October seminar in Vienna. Such increases would raise the average price of OPEC oil by 10 - 25 percent.

Uncertainties about future supplies will contribute to price pressures into early 1980. Iranian instability poses the most serious risk. Given these uncertainties, stockholders will not allow their inventories to be drawn down as rapidly as normal in first quarter 1980. Even if demand eases as the US economic downturn takes hold, any price increases can be expected to stick since the Saudis as well as the Kuwaitis would take the opportunity to reduce output to their desired levels.

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