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HIGHER CRUDE-OIL PRICES AND YOU

How destabilising for the economies of many of the countries of the world will be caused by the problems in North Africa and the Middle East only history will record, but it is obvious that the problems are not going to vanish overnight and, in their wake, as the Americans like to say, there must be collateral damage.

That collateral damage could well be felt, very materially, in the United States of America and in many of the capital cities of Europe.

It is now confirmed that Libya, where the daily fighting between pro-Gaddafi forces and anti-Gaddafi insurgents is hotting up, day after day, has reduced the country's production and exports of crude oil by between 63 percent and 69 percent, from about 1.60 million barrels daily to between 500,000 barrels daily and about 600,000 barrels, daily.

Just Wednesday, it was reported that the oil terminal at Ras Lanuf, called the Es Sider Terminal, had been devastated by Libyan Air Force bombers that destroyed the terminal, leaving it a smouldering wreck.

The dead and dying insurgents were too numerous to count, with the international Press, not being permitted into the area which is under the control of anti-Gaddafi insurgents.

What Colonel Muammar Gaddafi will do next, nobody can say, not even, no doubt, this (off-his-rocker) leader of Libya.

Meanwhile, the leaders of the United States and the United Kingdom are talking daily about getting the United Nations to take definitive action, such as surgical air bombardments of strategic targets in Libya with emphasis on air strikes in and around Tripoli, the fortified stronghold of Colonel Muammar Gaddafi and his troops.

Whether or not this is a good idea, also only history will be able to record, but, to **TARGET**'s thinking, it is a frightening prospect because one never knows where it could lead: A civil war in the country; Arab and South American friends of Colonel Muammar Gaddafi, joining in the fight against the infidelic Western World, etc, etc, etc.

One thing is absolutely certain: The present United States Administration does not want to commit another faux pas, such as happened during the time of the former US President, Mr George W. Bush, the man, who had his finger on the *'go'* button of the largest and most-powerful, super-power of the world, when he sent his troops to invade Iraq on the mistaken premise that Iraq's former leader, Saddam Hussein, was harbouring and producing weapons of mass destruction.

It is very questionable that President George W. Bush was acting legally when he pushed that green button that resulted in more than 2,000 US servicemen to be killed. And the killing continues in Iraq.

The cost of a barrel of crude oil, these days, is greater than $US100 on The New York Mercantile Exchange and, as one may imagine, if the oil installations at Libya are damaged, to a great extent, the price of crude oil could well continue to rise, past the last record high in 2008 when it touched $US150 per barrel.

On Tuesday, The **O**rganisation of **P**etroleum **E**xporting **C**ountries (**OPEC**) went on record to state that it would consider boosting crude-oil production.

To this statement, one heard from OPEC's Secretary General that the call had gone out with the intent to have OPEC members reach a consensus as to whether or not it was advisable to hold an emergency meeting on the matter of the present, high crude-oil price.

However, Iran did not agree, stating that there is *'no shortage* (of oil) *in the market'* and, therefore, there is *'no need for further OPEC supply'*.

Thus, Iran would reject, one must suppose, the calling of an OPEC emergency meeting at this time.

Saudi Arabia's Oil Minister has offered his country's crude-oil, spare capacity of 3.50 million barrels per day in order to take up the slack, caused by Libya's crude-oil cutbacks.

On learning of this offer, last Tuesday, the price of crude oil fell on international commodity exchanges.

By Wednesday morning, OPEC announced that there was no need to hold an emergency meeting since there was no shortage of crude oil on international markets.

If the price of crude oil continues to rise – and some people have suggested that it could reach as high as $US200 per barrel before the end of this year, the way that things look, today – it could be devastating for many economies of the world.

That such a situation would be inflationary need not even be written because it is only too obvious.

It has been calculated that, for every $US10 increase in the price of a barrel of crude oil, it represents about one half of a percentage point, being sliced off the world's economic growth; and, it raises the risk of another worldwide recession, considerably.

As the price of crude oil rises, so the added costs will, directly or indirectly, have to be passed on to consumers.

This will, inevitably, lead to demands by labour for increases in take-home pay; managements of many a company may not be able to pass on the additional costs of producing goods and services to customers.

One recalls that, in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), Oasis Hongkong Airlines Ltd (), the first, long-haul budget airline, after just 34 months of operations, had to declare insolvency due, in large part, to the unexpected high cost of jet fuel when crude-oil prices rose to $US147 per barrel in 2008.

Reverend Raymond Cho Min Lee () and his wife, Priscilla Hwang Lee (), the founders of Oasis Hongkong Airlines Ltd, had to bite the bullet to the extent of about $HK1 billion with the failure of this enterprise.

They are, both, undischarged bankrupts, today.

<u>Unemployment Around The World</u>

In the last statement of The Commissioner of The Bureau of Labour Statistics, a branch of the US Government's The Labour Department, one was told on Friday, March 4, 2011, inter alia:

- In February, non-farm payroll employment rose by 192,000 and private-sector employment increased by about 222,0000;
- The *'unemployment rate was little changed at 8.90 percent, following large declines in December and January'*;
- Manufacturing employment continued to add 33,000 jobs in February;
- Construction employment rose by 33,000 jobs in February, following job losses of 22,000 in January;

- In the service-providing sector of the US economy, employment expanded by 47,000 jobs in February; and,
- '*Employment in both state and local governments edged down over the month. Local government employment had declined by 377,000* (jobs) *since its peak in September 2008*'.

While one could not be overjoyed with the above statistics, nevertheless, the situation in the US did appear to be improving as far as the February statistics are concerned.

But unemployment levels have to come down considerably more in order to keep the proverbial wolves away from the doors of US industry.

A recent survey of US industries points to the prospects of many companies, planning to add more jobs to existing Establishment Levels in the second quarter of this year.

If this situation continues, one may expect to see more and more consumers, going to the High Street in order to purchase goods and services, thus giving the US economy an added boost.

This rather bullish situation of the US economy precludes the present, fast-moving price of crude oil because, should crude-oil prices continue to rise – as seems likely – then, as the Americans would say, all bets are off.

Only if US businesses' profit and loss accounts and balance sheets are healthy and only if consumer spending in the country continues its upward momentum will managements of enterprises continue to hire more staff.

If the managements of enterprises cannot pass on the additional costs to manufacture/create their products and/or services to consumers, then, of course, the reverse situation will predominate with the unemployment level, rising closer to the 10-percent level, once again.

Such a scenario is quite likely if the situations in Libya and in many parts of the Middle East continue to fester.

In Spain, Italy, Greece and Ireland, the employment situations are critical; and, there is no indication of amelioration of the present state of affairs in these fiscally hamstrung economies.

In Spain, alone, the overall unemployment level is known to be greater than 20 percent, but the youth unemployment level is a staggering 40 percent.

In Italy, the overall unemployment level is about 8.40 percent.

In Greece, what is frightening is that unemployment level of males and females between the ages of 15 years and 24 years is about 36 percent. The overall unemployment level, today, is thought to be in excess of 14 percent.

In Ireland, the overall unemployment level stands at about 13.80 percent, but about 22.50 percent of males and females between the ages of 18 years and 24 years have not been able to find work for at least 12 months.

The above statistics were compiled by such reputable, independent entities as the **O**rganisation for **E**conomic **C**o-operation and **D**evelopment (**OECD**) and may be taken as being accurate, as accurate, that is, as the statistical departments of the various governmental agencies that supplied the intelligence.

These statistics, of course, did not take into account the present chaotic situation in North Africa and the Middle East and, also, what is not factored into any equation with regard to unemployment levels is the 30-month, high cost of crude oil, a strategic commodity without which the world cannot function.

The next few weeks could be very telling: They could well be critical weeks, in fact.

In Japan, earlier this week, it was reported that the price of a litre of petrol had risen to ¥145.50 (about

$HK13.68).

That price was an increase, Week-On-Week, of about 5 percent.

One does not need to be an economist to realise that the housewife will feel the pinch when she goes shopping for the basic necessities for life.

Japan is the third-largest economy of the world with a human population of more than 140 million.

This economy has experienced more than a decade of economic regression – and it looks very much as though the economy will continue to regress.

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