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World Oil prices Soar, Stocks Tumble on Fears of Widening Unrest in North Africa and Middle East

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In-depth Report: ARAB PROTEST MOVEMENT

Global stock values fell broadly for the second day on Tuesday and crude oil prices surged as the social upheaval in Libya disrupted petroleum exports and ongoing protests in Bahrain and Yemen threatened to spread to Saudi Arabia.

All of the major Western oil companies operating in Libya reported cutting back or suspending their operations Monday, reportedly causing a decline of more than 8 percent in the country's normal output of 1.6 million barrels per day. In addition, Libya's ports were closed.

Hard information on the situation within Libya is scarce, as the regime of Muammar Gaddafi has banned foreign reporters and shut down Internet and cell phone service. However, there are indications that worker strikes, as well as voluntary production cutbacks, are playing a role. Al Jazeera reported Monday that Libya's Nafoora oil field had stopped production because of a strike.

Benchmark oil prices shot up Monday and Tuesday to near three-year highs. The price of Brent crude, a European benchmark grade, jumped $3.22 a barrel Monday, or 3.2 percent, to settle at $105.74. US oil prices surged over 7 percent early Tuesday, coming to within $2 of $100 a barrel. This followed a 6 percent increase on Monday.

Within the context of already spiraling food and commodity prices, mounting trade and currency wars, and continuing mass unemployment in most of the advanced industrialized economies of North America, Europe and Asia, a new oil price bubble poses the simultaneous threat of renewed slump and uncontrolled inflation. Either outcome would likely result in major banking failures and sovereign defaults, and further fuel social unrest.

USA Today on Tuesday cited US industry analysts as warning that gasoline prices at the pump could hit $5 a gallon by this year's peak summer driving season. The newspaper wrote of the role of speculation in the oil price spiral: "Speculators are also propelling oil. After profiting on soaring cotton, coffee and corn futures, traders are exploiting the energy market." It quoted Darin Newsome, an analyst at the energy tracking firm DTN, as saying, "The flow of money plays an enormous role in the direction, speed and volatility of these markets."

Bill Belchere, global chief economist at Mirae Asset Securities, warned in an interview Tuesday on Bloomberg Television, "You've got to be very concerned, particularly because it can affect the oil price, and if you have the oil price spike up another $20, $30, you could reenter a global recession."

US stock markets, closed Monday for the Presidents Day holiday, dropped sharply Tuesday, falling in line with depressed markets in Europe and Asia. The Dow Jones Industrial Average lost 178 points, declining 1.4 percent. The Standard & Poor's 500 index gave up 27 points, a drop of 2 percent. The NASDAQ Composite index plummeted even more sharply, losing 77 points, or 2.7 percent.

European stocks fell more than 1 percent overall on Monday, with the Italian index suffering the worst loss, 3.6 percent, reflecting the close economic ties between Italy and Libya. On Tuesday, France's CAC 40 index fell another 1.2 percent and Italy's FTSE MIB index dropped another 1.1 percent, following a delayed opening. The Stoxx Europe index registered an overall fall of 0.6 percent.

Asian shares continued to fall Tuesday, with Japan's Nikkei 225 losing 1.8 percent, Hong Kong's Hang Seng dropping 2.1 percent, and China's Shanghai Composite index declining 2.6 percent.

Libya is the world's 17th largest oil producer, accounting for 2 percent of global daily output. It is the third biggest producer in Africa, but holds the largest proven petroleum reserves on the continent. It exports most of the 1.2 million barrels it ships daily to Europe, with Italy its biggest customer.

A substantial disruption of Libyan exports is itself economically significant, but the feverish surge in market oil prices has more to do with fears that Libya is only the prelude to social upheavals in the far more import oil producer, Saudi Arabia. The latter currently produces 8.4 million barrels a day, accounting for nearly 10 percent of the world's daily oil consumption of 87.5 million barrels. It exports 6.5 million barrels per day.

The central role of the Saudi regime in maintaining world oil markets was underscored by its hosting Tuesday of a conference to discuss means of curtailing oil price volatility. At the meeting, attended by energy officials from over 90 nations, including the US, Saudi Oil Minister Ali al-Naimi gave assurances that the Organization of the Petroleum Exporting Countries (OPEC) would meet any shortage resulting from a supply disruption.

Fears of the revolutionary contagion spreading to US imperialism's oil-producing bulwark in the Persian Gulf are growing particularly due to the ongoing protests in Bahrain, itself a much smaller oil producer, and Yemen. The former, an island nation in the Gulf, lies just to the east of Saudi Arabia. The latter shares its northern border with the Saudi Kingdom. The Sunni sheiks and their American sponsors are particularly concerned that the general social unrest in Yemen will merge with an ongoing separatist insurgency by Yemeni Shiites in the north of that country.

The Wall Street Journal on Tuesday quoted Neil Atkinson, research director at Datamonitor, saying, "Even if the Gaddafi regime is toppled, oil production should not be seriously damaged in the medium term because it is the lifeblood of the country. In the short term, oil markets are understandably nervous, but the real fear lurking behind the Libyan story is over Saudi Arabia."

Peter Beutel, oil analyst with the energy risk management firm Cameron Hanover, was even more blunt. CNNMoney.com quoted him Tuesday as saying: "Now it's starting to look like the entire region's on fire, and it looks like it could spread to other parts of the region… This thing is getting worse and worse, and it could spread to Saudi Arabia, and that's the big fear."

He added that markets were shaken up over the realization that the "regional revolution… will see more radical and extreme elements take over in succession."

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