Stopping Energy Price Explosion

Senate vs. Oil Futures: Too Little, Late Again?

by Paul Gallagher

Just as Congress has fallen hopelessly behind the home foreclosure disaster by refusing economist Lyndon LaRouche's Homeowner and Bank Protection Act (HBPA), its sudden flurry of activity concerning out-of-control speculation on oil, gasoline, and diesel fuel futures is occurring "in the shadow" of what really has to be done.

What has to be done, that is, beyond trying to get safely re-elected in a hyperinflationary financial explosion and economic breakdown.

Threatening bank and hedge-fund oil speculators with re-regulation is election-year politics. It may be causing some angry scolding from London, where the speculation is sponsored and centered. But the out-of-control oil price bubble is wreaking more destruction than floods and tornadoes. Stopping and reversing it needs more than re-establishing some rules in London's wild "offshore" futures markets where 50-500 "paper barrels" change hands for each physical barrel of oil sold. It requires returning to government-to-government oil contracts, as before the London-Antwerp "oil spot market" became globally dominant in the 1980s. Again, this effective policy is a proposal Lyndon LaRouche has reiterated over the past eight years.

On Sept. 19, 2000, LaRouche first issued a memorandum entitled "On the subject of Emergency Action by Governments To Bring the Present Petroleum-Price Inflation Under Control." It identified the factors causing the repeated bursts of hyperinflation since, in prices of petroleum products. The identification remains clearly true today: "These factors include: recently increased concentration of ownership of major oil companies through mergers and acquisitions; the increased role of the spot market in petroleum deliveries; the significance of denomination of deliveries in U.S. dollars, and an intensity of speculative activity, especially in the form of financial derivatives, in this area which threatens to bring the per-barrel price of petroleum to between $40 and $50 per barrel, soon, and not much later, much higher."

The memorandum specified the following measures to be taken by sovereign national governments:

"a) Declare a general strategic emergency in the matter of stability of flows and prices of essential energy-supplies of national economies;

"b) Establish contracts, directly between and among governments, of not less than twelve months for government-scheduled deliveries of petroleum from exporting to consuming nations;

"c) Define reasonable prices for these contracts;

"d) On the grounds of a global strategic emergency in petroleum prices and supplies, these governments must set priority on processing of such contracted petroleum flows through relevant refiners to priority categories of consumers in each nation, causing other stocks to be shunted to one side in the degree that these priority deliveries must be processed first.

"Such action will, obviously, collapse much of the current hyperinflatinary trends in petroleum."

As LaRouche noted this week, some people pooh-poohed his proposal then as "impossible." Yet it was the way most oil in the world was traded prior to the 1970s oil embargo swindles. Speculation driven by London and Wall Street banks only gained control, as the London-controlled "spot market" gained dominance in oil prices through those 1970s swindles, and related 1980s swindles such as the BAE/Saudi "al-Yamamah" deal.

In long-term government-to-government contracts, oil producing nations, including those of OPEC, will "defend" a price *far* lower than—probably less than half of—today's zooming spot market and futures market prices. Furthermore, such contracts bring into play long-term technology transfer, particularly of fourth-generation nuclear fission and fusion energy technologies, and credits for infrastructural development. These will further reduce and stabilize oil prices.

Tremonti Would Curb Speculators and Prices

"Free trade" is suddenly discredited by the global food price crisis, massive losses of employment, and the revolt against the dictatorial World Trade Organization. "Free trade" in oil and oil products is more than discredited; it is a Frankenstein monster threatening to bring down entire industries, transport networks, millions of households. Now is the time to act, LaRouche said.

Italian Economy Minister Giulio Tremonti told the *Wall Street Journal* June 13 that he intends to make a proposal at the June 14-15 G-8 finance ministers meeting to "curb oil prices by targeting market speculators." Tremonti advocates a New Bretton Woods conference to remake the blown-out world monetary system, and every move he makes is anxiously watched and attacked by the City of London financial press—as well as by globalists in his own government. The *Journal* nervously noted that "the idea is unlikely to get support of members of the Group of Eight leading nations, in particular the U.S."

Both the Bush Administration and the Gordon Brown U. K. government insist, threateningly, that speculation has no role in the oil price increase. They regard proposals like Tremonti's as leading toward the kind of hard action LaRouche proposes, breaking the spot market completely, and

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"illegally" violating "free trade." In the same way U.S. Democratic Rep. Barney Frank, fighting LaRouche's HBPA, found himself telling Democratic conference calls that "we can't interfere with the fundamental right to foreclose [on a home]."

Tremonti, so far, said only that he will propose to "discourage excessive speculation" by imposing increased margin requirements on oil futures contract purchases—currently they are leveraged 15-20/1 with debt, compared to stock purchases which can be no more than 1/1.

The Italian paper *Avvenire* adds that "Tremonti is going to start the offensive against financial speculation, against market movements that help feed the bubble on oil and food commodities. The target is derivative contracts, the so-called 'futures', where large speculative funds invest and inflate prices. It is a serious issue: everyday on the markets, for each real oil barrel produced, ten times as much is traded."

Senate Flurry Flusters London

With Americans petrified about paying $5 for gas and $6 for diesel this Summer, and $5 for heating oil next Winter, Democrats in the Senate are starting to "pile on" what might have been a serious thrust against Anglo-Dutch financial speculation driving the oil price upwards (see "The London Loophole: On Oil Speculation, Senate Wants Truth, Not Soros," *EIR*, June 13, 2008).

LaRouche warned that the multiplication of competing Democratic bills of varying strengths, but all using "stop oil speculation" phrases, recalled the 18 months of talk about "helping distressed mortgage holders," while refusing to freeze mortgages, bar foreclosures, or put lending banks into bankruptcy reorganization.

"They intend to use this for election purposes, including the election of people who are not Presidential candidates, who would like to be re-elected," he said. "I wouldn't get too hot about this stuff; they don't mean it. 'I ran for this! I ran for that! I fought for you on this! I fought for you on that! I protested on this! I'm a man of action!' "

The Congress faces intense opposing pressure from the bungling but aggressive Treasury Secretary Hank Paulson—insisting publicly that nobody suggest anything but "supply and demand" are causing hyperinflation in oil—and from George W. Bush playing with his veto stamp. From the direction of Democratic Presidential candidate Barack Obama, they have worthless public statements that, "The gas price will not be coming back down—that's just a fact," and that the price rise is due to insufficient supply "because demand in China and India keeps going up."

But with free trade exposed and Americans panicking at hyperinflation, bold government intervention as LaRouche proposes—*based on past successful national practice, before the globalization plague*—could get bipartisan support against the lame-duck "decider."

A handful of investment banks and a few handfuls of predatory hedge funds have been trying to recoup their huge losses in the global financial crash, by speculating and manipulating the oil futures markets. Many other funds desperate for profits have piled into these futures markets being driven and controlled by the likes of Goldman Sachs, Morgan Stanley, and JPMorgan Chase. Worst of all, the oil futures markets have all become "London offshore" locations by fiat of the U.S. Commodity Futures Trading Commission (CFTC) simply turning them over to the (non)-regulation of the British Financial Services Agency (FSA).

On June 13, Sen. Dick Durbin of Illinois, with Majority Leader Harry Reid and five other Democrats, introduced legislation Durbin said would direct the CFTC to get information on all trades on these "dark markets" and investigate their impact on the price of oil. The CFTC would be directed to get this information, however, from the British FSA! The CFTC would also be given $150 million more in its budget and 100 more staff. Durbin and Sen. Tom Harkin (D-Iowa) also announced more hearings on the CFTC's functioning next week.

The City of London is concerned about what *else* might be done. Under the headline "Oil traders fear for London's position," the June 14 London *Times* attacked "American efforts to extend U.S. regulation to include the London oil market"—a bald-faced lie, since it is U.S.-based oil futures markets in Atlanta (Intercontinental Commodity Exchange, ICE) and New York (NYMEX) which have been turned over to the British FSA's control, or even to the London-run Dubai Commodity Exchange!

The *Times* called U.S. Congressional efforts "misplaced and misinformed," and then got to the point: "The [Congressional] proposals are intended to stop traders from evading position limits in the US by trading on ICE, a method known as the London loop. The price-cap measure already exists in US markets and is designed to prevent steep rises in specific asset prices. *However, the FSA believes that only the market should determine the price*" (emphasis added).

As of June 14, much tougher legislation was about to be introduced by Sens. Byron Dorgan (D-N.D.) and Maria Cantwell (D-Wash.). It would remove the British FSA from all "oversight" of what are U.S. futures markets trading U. S. oil contracts. It would make CFTC designate these desperate banks and hedge funds as the "speculators" in oil futures they are—rather than masquerading as commercial oil purchasers—subjecting the banks and funds to position limits, to much greater margin requirements, and to strict regulation. Furthermore, this tougher approach to the British speculative control, seemed likely to get Republican support in the Senate and House, where it has already been introduced.

Now with multiple bills being introduced by the Democrats on the same front, it looks more like the "fighting for you" posturing that LaRouche described.