

LaRouche: Bankrupt Speculators With \$25 Per Barrel Oil

by Richard Freeman and John Hoefle

In a declaration of war against the speculators who had pushed the price of crude oil above \$42 a barrel, and are launching it towards \$50-60, 2004 Presidential candidate Lyndon LaRouche called on May 28 for the price of oil to be set at a target price of \$25-26 per barrel, by nation-to-nation contracts, in order to bankrupt and take away the power of the speculators, and restore order to the oil market. LaRouche has emphasized that the high oil price is not a product of a shortage of oil production, of OPEC cutting oil supplies, or other cover stories, but arises from speculation by the big oil companies, investment banks, hedge funds, and other financial players, who are using the extra “take” to try to hold the financial system together.

However, some in the circle of Vice President Dick Cheney favor a currently ongoing destabilization of the entire Southwest Asia and contiguous region: from the disaster in Iraq; to the recent terrorist assault in Al-Khobar, Saudi Arabia, against a complex housing foreign oil workers, which killed two dozen people; to the violence in Pakistan; which would create chaos in the region. This plan, sanctioned by certain financial players who think the financial system can’t be held together, would trigger a conflagration in Southwest Asia, and send the oil price to unprecedented heights.

Already in a Sept. 19, 2000 memorandum, entitled, “Bring Oil Inflation Under Control,” LaRouche had asserted that governments must declare a general strategic emergency, and “establish contracts, directly between and among governments, of not less than 12 months’ government scheduled deliveries of petroleum from exporting to consuming nations”; at the same time, defining “reasonable prices for these contracts.” Based on these principles, the plan would “bring a most critical segment of this speculative inflation under control,” and also “set standards of cooperation now

urgently needed, for dealing with the general international banking and related crises” (see page 10). Put into practice today, this urgent solution would bring the price of oil to the \$25 range.

Rigged Market

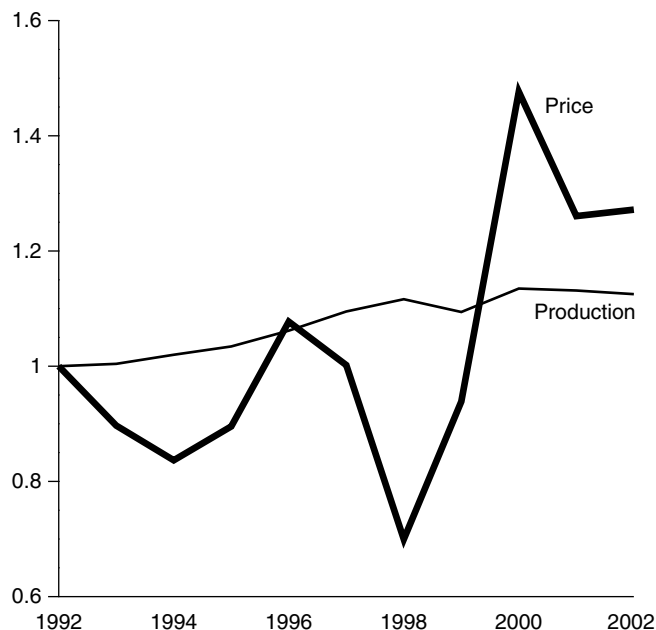
Some fools will insist on buying the Brooklyn Bridge, no matter how many times you tell them it’s already been sold. The same is true with the story that there is an oil shortage. The truth: No oil shortage exists. Figures from the Paris-based International Energy Agency (IEA), the central collection point for world oil information, show that for the first quarter of 2004, world oil supplies were in the range of 82.3 million barrels a day (mbd), with consumption lower, in the range of 80.5 mbd to as high as 81.5 mbd. Thus, the world was in surplus during the first 90 days of the year, during the very period that world oil prices leapt by \$7 per barrel.

Furthermore, there is no relationship between the price of oil and the amount of oil being produced. Over the past several decades, oil production has increased slowly and predictably. *Figure 1* shows that, since 1992, production has grown by approximately 15%. Though not shown, world oil consumption has also grown gradually and predictably. Only if production had dropped significantly, or consumption risen steeply, should the world oil price have jumped up. Neither of these two changes has happened. How, then, should one explain the activity of the past dozen years, in which the oil price swung wildly up and down, regardless of *rising* production levels? *Figure 1* shows the price gyrated wildly, first downward, then upward, then down again, and then up; today, the oil price is more than 50% above its 1992 level.

The key to the ability of the financiers behind the oil cartel to manipulate prices in the oil market, is the shift which occur-

FIGURE 1

World Oil Output and Price, 1992-2002, Indexed to 1992 = 1.00



Source: British Petroleum; New York Mercantile Exchange; EIR.

red during the oil crises of 1974 and 1979, in which long-term contracts—frequently for 24 or 36 months—at stable prices were replaced with the spot market and then the futures markets.

Spot and Futures Markets

The oil spot market was created in 1969 by the Lazard/Rothschild-allied Philipp Brothers, then the world's largest metals trader. Philipp Brothers, largely in the person of their top trader Marc Rich, began by selling small quantities of Iranian crude oil to independent refiners. The oil shocks of 1973 and 1979, which were orchestrated by the financier oligarchy under the cover of the OPEC oil embargo and the fall of the Shah in Iran, resulted in a shift in oil pricing away from long-term contracts toward the Rotterdam-based spot market. By "spot" is meant, that one buys the oil at a market only 24-48 hours before one takes physical (spot) delivery, as opposed to buying it 12 or more months in advance. In effect, the spot market inserted a financial middleman into the oilpatch income stream in much the same way that deregulation would later do for electricity.

Today, the oil price is largely set in the futures markets. The two principal locales which dominate oil futures trading are the London-based International Petroleum Exchange (IPE), established in 1980, and the New York Mercantile Exchange (NYMEX), which is more than a century old, but

also first started trading oil futures in 1983. Traders call futures contracts "paper oil": the contracts are a paper claim against oil, which is far in excess of the volume of oil produced and actually delivered at oil terminals on behalf of those contracts.

The traders transact a large volume of derivatives bets. Speculators purchase on the IPE and NYMEX exchanges, futures contracts; each single contract is a bet on 1,000 barrels of oil. More than 100 million of these oil derivatives contracts were traded on these exchanges in 2003, representing 100 billion barrels of oil. In a year 2000 study, *EIR* showed that on the IPE, for every 570 "paper barrels of oil"—that is futures derivatives covering 570 barrels—traded each year, there was only one underlying physical barrel of oil. The 570 paper oil contracts pull the price of the underlying barrel of oil, manipulating the oil price. If the speculators bet long—that the price will rise—the mountain of bets pulls up the underlying price.

But worse, there is a second layer of leverage. At the London IPE, the speculator can buy a futures contract on a margin of 3.8%. That is, were the speculator to buy a single futures contract, representing 1,000 barrels of oil at, say, an oil price of \$40 per barrel, then the contract represents \$40,000. However, the speculator pays only \$1,520 for the premium of the contract—or 3.8% of the \$40,000—which gives him control over the contract. Through an investment of \$1,520, the speculator controls 1,000 barrels of oil. A small group of speculators, through leverage, control the world oil price.

London's IPE has reported that its trade with Brent Crude oil contracts reached 375 million barrels in open-interest contracts on May 14, the highest level ever. This is about five times the total daily production of all sorts of oil worldwide. The daily turnover of Brent Crude future contracts at the IPE now approximates twice the global daily production of oil. But physical deliveries of Brent Crude, produced in 19 North Sea oil fields, are *imploding*. During the early 1990s, daily production of Brent Crude was about 700,000 barrels per day (bpd), but it fell to 570,000 bpd in 1999; 385,000 bpd in 2002, 327,000 bpd in 2003. According to the energy research firm Platts, it will sink further to 277,000 bpd this year. The outstanding amount of speculative Brent Crude futures on May 14 surpassed the daily physical production by a factor of 1,250.

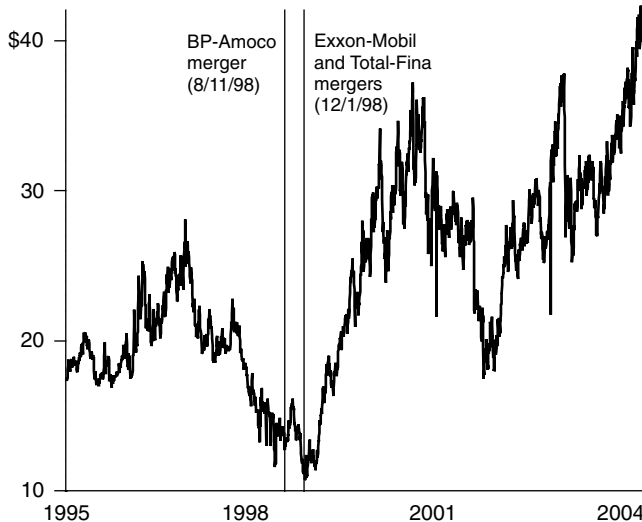
In spite of the fact that Brent Crude now represents less than 0.4% of worldwide production, its futures price determines the price of 60% of global oil production.

A NYMEX document, "How the Exchange Works," boasts that it has nothing to do with oil production. "Yet the buying and selling on the Exchange occurs amid the winding streets of the oldest section of New York, with nary an oil well or copper mine in sight. In fact, many thousands of transactions conducted on the Exchange each day are accomplished without the participants ever seeing a gallon of heating oil."

FIGURE 2

Mega-Mergers of Oil Companies Occurred During Low Oil Prices

Oil Price, West Texas crude
(\$ per barrel)



Source: *Wall Street Journal*

Cartel Instruments: IPE and NYMEX

But the IPE and the NYMEX, where nary a barrel of oil is to be seen, are the in-house tools of the House of Windsor Raw Materials Cartel, and its allies in the banking world.

Consider the IPE, which was created in 1980. Today, the IPE is run by a Knight of the British Empire and former Royal Dutch/Shell official, Sir Robert Reid, and has a board which includes Lord Fraser of Carmyllie, representatives of Goldman Sachs, Morgan Stanley, BNP Paribas, Credit Lyonnais, and French oil giant Total. In 2001, the Atlanta, Georgia-based Intercontinental Exchange purchased the IPE. The Intercontinental Exchange's board includes the retired CEO of Royal Dutch/Shell's trading arm Coral Energy, the Chicago Board of Trade's Richard Sandor (himself a former banker with Banque Indosuez and Drexel Burnham Lambert), and one Jean-Marc Forneri, a banker who from 1994-96, was a partner at Demachy Worms & Cie., where he ran the investment-banking activities of Group Worms. World War II U.S. Intelligence services identified Banque Worms as the central powerhouse of the Synarchist fascist movement in Vichy, France.

The biggest oil derivatives traders which run trading on the IPE include Barclays Capital, Bear Stearns International, J.P. Morgan Securities, Deutsche Futures London, BP Oil International, Shell International Trading and so forth—the key components of the British oligarchy's world oil cartel.

Oil Geopolitics Central To Cheney Task Force

From January through May, 2001, Vice President Dick Cheney headed up the Bush Administration's National Energy Development Task Force, which tenure became legendary for its bull-headed cover-up of criminal bilking of California for billions of dollars in illegal electricity trades, contrived power shortages, black-outs, etc. Just this May, yet more evidence was released on Cheney's protection racket: transcripts of taped phone calls of Enron energy speculators gloating over swindles in California—swindles which Cheney's Task Force stubbornly protected from investigation.

However, the geopolitics of oil, as well as natural gas, were also a central part of the stated, and the secret dealings of the Cheney energy czarship. Three aspects of the Vice President's energy policy illustrate the essentials of his record.

Energy NAFTA: The Cheney/Bush campaign announced its energy policy on Sept. 28, 2000; its central concept was an "Energy NAFTA." The idea was to open up for Enron, El Paso Gas, Reliant, Exxon-Mobil, and the rest, a border-free zone for operations and all kinds of speculation—oil, natural gas, refinery control, electricity, etc. Bush said he would "invite the governments of Canada and Mexico to join in developing a North American Energy Policy" rooted in the "principles of free trade and the free flow of energy across our borders." In fact, "Energy NAFTA" was just a cynical propaganda gloss for the shift already underway, for U.S. oil imports to come predomi-

The NYMEX's pedigree is the same as the IPE's.

It is lawful that the same Intercontinental Exchange which purchased and owns the IPE, was leading the speculation that drove up U.S. electricity prices during the manipulation of 2001-02, which featured other players such as Enron.

In an attempt to break the oil price spiral, this past week Saudia Arabia has committed to producing 2 million additional barrels of oil per day. However, as of June 2, speculators had taken out 77,000 oil futures at the NYMEX taking a "long" position; ie, betting that the oil price would rise. Through such bets, they act to make the price go up, and cover their own bets. Because each contract represents 1,000 barrels, the "longs" contracts constitute the equivalent of three-quarters of a billion barrels of oil, a far larger sum—which the speculators would use to overwhelm the Saudi's production increase of 2 million barrels per day. This is part of the warfare now ongoing.

nantly from Mexico, Canada and Venezuela, and not from Saudi Arabia or elsewhere. The “Energy NAFTA” import patterns are shown in the Table on page 8).

Global Oil Control: On May 16, 2001, the Cheney Task Force presented his final, 170-page report, “Affordable and Environmentally Sound Energy for America’s Future.” While downplaying California’s unprecedented crises, and calling for more energy deregulation across the board, the Cheney report called for *international control over priority oil resource regions*. The report’s theme was “development of future supplies,” the refrain used earlier in a March 19, 2001 interim report of Cheney’s, as a rationalization to reject providing any price caps or Federal relief for energy hyperinflation in the Western states. The related theme, repeated in recent years as a sop to popular opinion, was, to reduce dependence on “foreign oil.”

How to do this? Take oil and gas from the Americas. Bush’s prepared statement on the Cheney report, also released May 16, said, “We’ll also need to recognize the energy potential of our neighbors, Canada and Mexico, and make it easier for buyers and sellers of energy to do business across our national borders.”

Cheney’s imperial view of “future energy supplies” can be seen in the map of oil resources and infrastructure in Iraq, that the Cheney Task Force was working on in March 2001—it was subsequently obtained by Freedom of Information action. The 2003 Iraq war succeeded in “securing” these supplies. They, and Saudi Arabia’s, are actually now completely unstable and insecure; but Cheney’s own Halliburton oil company received some \$1.7 billion in no-bid contracts from the U.S. government, for doing business in Iraq oil fields.

—Marcia Merry Baker

Cheney’s Plan To Grab Iraqi Oil



The Cheney task force was working with this map in March 2001.

Efforts to Drive Up Oil Price

The Oil Cartel is employing two other tactics to push up the oil price. **Figure 2** shows that the oil cartel has reduced U.S. oil refining capacity to below the level of 1980. The U.S. knew perfectly well that the demand for refined oil products, such as gasoline and jet fuel, would rise during the 1990s and the first decade of the 21st Century. It was criminal to reduce capacity, but reduced capacity pushes up the price. *EIR* has learned that during the past few years, the Saudis offered to invest in constructing new oil refining capacity in America, but the offer was rebuffed.

The June 1 *Financial Times* reports that because of restricted capacity, the largest U.S. oil refinery companies—Valero, Premcor, Tesoro, and Ashland—are making more than \$10 for each barrel of oil that they refine. It should be stressed that the oil majors make one-third of their revenues from refining and marketing.

The oil companies’ have plunged into a predatory gob-

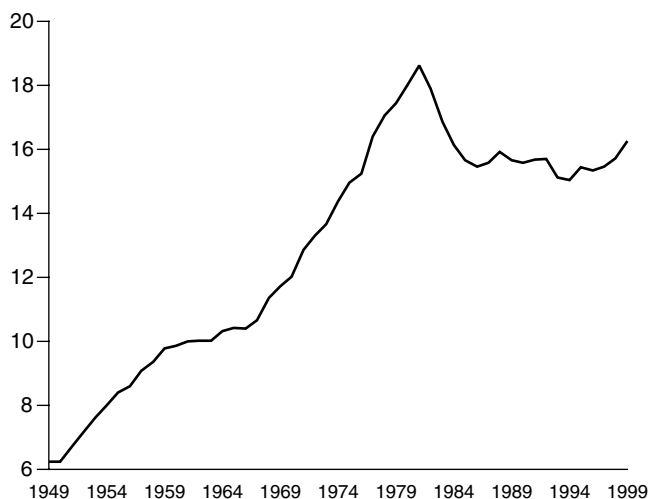
bling up of each other, which has also caused the oil price to rise. **Figure 3** shows a striking relationship between oil prices and major oil company mergers. In August 1998, with oil hovering in the \$12 a barrel range, British Petroleum bought Amoco, one of the top U.S. oil companies, with large holdings of domestic oil and natural gas. In late November 1998, two more giant mergers were announced: Exxon bought Mobil, and France’s Total bought Petrofina. These three mergers, along with the October 2000 takeover by Chevron of Texaco, significantly consolidated the oil cartel. The Seven Sisters have been reduced to five: Royal Dutch/Shell, BP (née British Petroleum), ExxonMobil, ChevronTexaco and Total (which also gobbled up Elf Aquitaine). During this crisis, the stocks of major oil companies have jumped up.

The massive oil futures speculation, buttressed by the deliberate reduction in U.S. oil-refining capacity, and the long-term effect of merging of the oil companies, pushed the price of U.S. light crude oil for July delivery to a record closing

FIGURE 3

U.S. Crude Oil Refining Capacity

(Millions of Barrels per Day)



Sources: U.S. Department of Energy, Energy Information Agency; International Energy Agency, Monthly Oil Report, July 2000; other oil industry sources.

price of \$42.33 on the NYMEX June 2, before the price fell back somewhat. By this process, the wealthy oligarchical families that own the oil cartel, and related banking houses, have tightened their grip on world energy supplies, and realized enormous profits, some of which loot has been deployed to prop up the bankrupt world financial system.

This process has intersected and led the global inflationary process triggered by insane money-printing policies of Alan Greenspan's Federal Reserve Board, in an attempt to hold up the \$400 trillion in bloated speculative financial aggregates with a "wall of money." This two processes feed a Weimar-style hyperinflationary shock wave that would rip apart the global economy.

Spreading Chaos

It is precisely at this point that the onrushing global economic breakdown intertwines with the worsening strategic crisis. One threatened possibility is major oil supply disruptions due to terrorist attacks. Already Saudi Arabia, the world's largest oil producer at 8.5 mbd, has been the recipient of three terrorist attacks within the past six weeks, including a penetration of that country's security screen.

This directly threatens the world financial system. All major nations are vulnerable to an oil import cut-off. This is particularly true of the United States, as shown by examination of its physical import flows. **Table 1** shows that between 1971-72 and 2004, the level of U.S. oil imports—principally crude oil but also some other petroleum products—has tri-

TABLE 1

U.S. Imports: Crude Oil and Some Oil Products

Year	Millions Barrels per Day
1971-72	4.33
1980	6.91
1990	8.02
2000	11.46
2001	11.87
2002	11.53
2003	12.25
1Q, 2004	12.38

Source: Energy Information Agency, U.S. Department of Energy; *EIR*.

pled. To see the evolution of U.S. oil import dependency: In 1971-72, oil imports accounted for 29% of U.S. oil consumption; today, oil imports account for 61% of consumption.

However, over the last five years, for geo-political rea-

The Build-Up of Strategic Oil Reserves

The term "strategic oil reserves" does not refer to the vast reserves of known, but not-yet-extracted oil deposits, amounting to several decades' worth at the current level of world consumption. The term strategic oil reserves, rather, refers to those amounts of crude oil, or oil intermediaries, that have already been extracted, but are stored in depots, and are therefore available in the short run, in times of emergencies.

In the aftermath of Sept. 11, 2001, the Bush Administration decided to increase the U.S. Strategic Petroleum Reserve (SPR)—established in 1975—from 540 million barrels to 700 million barrels, the maximum capacity of its present depots (huge underground salt caverns along the coastline of the Gulf of Mexico). About 40 million barrels were added to the SPR in 2003, and another 20 million barrels so far this year. Currently, the SPR contains roughly 660 million barrels.

On top of this, there are the commercial oil inventories. In January 2004, commercial inventories had plunged to their lowest levels in 30 years, but since then they have been built up. According to the latest "Oil Market Report" by the International Energy Agency (IEA), total stocks on hand in the United States—that is, commercial plus

TABLE 2

U.S. Oil Imports, Percent by Nation or Region

Year	Saudi Arabia Percent	Iraq Percent	Total Persian Gulf* Percent	Canada, Venez., Mexico, & Nigeria Percent
1971-72	3.7%	0.2%	5.6%	50.1%
1980	18.3	0.4	22.0	33.7
1990	16.7	6.5	24.5	43.8
2000	13.7	5.4	21.7	49.1
2001	14.0	6.7	23.3	35.9
2002	13.5	4.0	19.7	48.0
2003	14.5	3.8	20.3	48.7
1Q, 2004	11.8	5.0	18.3	51.8

* Saudi Arabia, Bahrain, Iran, Iraq, Kuwait, Qatar, the United Arab Emirates, as well as Algeria.

Source: Energy Information Agency, U.S. Department of Energy; *EIR*.

sons, U.S. oil imports have been shifted away from the Persian Gulf. The order of the nations from which the United States

imported oil during the first quarter of 2004 was: 1. Canada (2.12 mbd); 2. Mexico (1.60 mbd); 3. Venezuela (1.54 mbd); and 4. Saudi Arabia (1.46 mbd). The alleged stranglehold that the “Arabs” have over U.S. oil supplies, does not exist. Second, the United States has positioned itself so that, should the Synarchists behind Cheney blow up the Middle East, U.S. oil exposure is significant but much less than before. **Table 2** shows that today, America receives less than one-fifth of its imported oil from the Persian Gulf, while by contrast, it gets more than half of its imports from four countries: Canada, Venezuela, Mexico in the Western Hemisphere, and Nigeria.

LaRouche judges that a powerful faction of financiers, knowing that the financial system is doomed and postponement of its crash can’t continue, will take the initiative to trigger a crash now, unleashing a strategic chaos operation throughout Southwest Asia. Oil fields might be damaged or destroyed. LaRouche pointed to the build up of stored oil in the U.S. Strategic Petroleum Reserve (SPR), a series of Gulf Coast salt-dome caverns, which would be used to survive an oil cut-off (see page 6). This destabilization is showing its traces in Iraq, Saudi Arabia, Afghanistan, and Pakistan.

government-owned stocks—amounted to 1.57 billion barrels at the end of 2003. As the U.S. imports roughly 12 million barrels a day, oil stocks correspond to roughly 130 days of foreign supplies. In addition, there are significant domestic oil reserves of yet-unextracted oil, in the United States.

In recent weeks, several Democratic Senators have called on the Administration to stop buying oil for the SPR, or even, to use oil from the SPR, to dampen sky-rocketing gasoline and diesel prices. These calls have been flatly rejected by the Bush Administration. White House spokesman Scott McClellan said on May 19 that the strategic reserve was for use in “national emergencies, in the event we would be attacked, or there would be severe disruptions in the supply of oil.” President Bush on the same day noted: “That petroleum reserve is in place in case of major disruptions of energy supplies to the United States. . . . The idea of emptying the Strategic Petroleum Reserve would put America in a dangerous position in the war on terror. We’re at war. We face a tough and determined enemy on all fronts, and we must not put ourselves in a worse position in this war.”

Among the other so-called industrial countries, there exists a certain standard for strategic oil reserves, demanded by the International Energy Agency (IEA). The IEA had been set up by the Organization of Economic Cooperation and Development (OECD) following the 1973 oil crisis. Its members are the United States, Canada, the European Union, and other Western European countries, Japan,

South Korea, Australia, and New Zealand. The IEA demands that every member country builds up oil reserves covering 90 days of supplies. Members of the European Union are also bound by law to maintain oil reserves amounting to at least 90 days of consumption. The European Commission last year proposed that the oil reserve requirement should be upgraded to 120 days of consumption, but no decision has yet been made. The main problem in the European Union (EU) now, is the 10 new EU members, which at present do not have enough reserves.

Probably the most vulnerable countries presently, in respect to oil supply disruptions—at least in the physical sense—are China and India. Both countries are in cooperation with the IEA and have announced plans to build up strategic oil reserves. However, presently, these do not exist. The Chinese government, at the end of last year, said China will build four strategic oil reserves in the coastal regions. China imports about one-third of its oil consumption. The Indian Petroleum Ministry, in September 2003, announced plans to build strategic oil reserves covering 45 days of demand. India’s import dependency in respect to crude oil is 70%.

Obviously, it has to be noted that while strategic oil reserves could supply physical demand for transportation, heating, production, and military purposes for some time, the devastating effects of sky-rocketing oil prices would hit all the OECD economies nevertheless, and could easily sound the death knell for the global financial system.

—Lothar Komp