British raise raw materials prices in attack on America

by Richard Freeman

The Anglo-Dutch raw materials cartel has triggered a worldwide speculative escalation of raw material prices of food stuffs, metals, and oil. The increases are among the sharpest in post-World War II history.

On April 5, 1995, the price of a futures contract for wheat for next month delivery traded on the Chicago Board of Trade at $3.29 per bushel; on April 28, 1996, that same contract had been pushed up by the Cargill-led grain cartel to $5.71 per bushel, 74% higher. In December 1995, the nationwide average price for a gallon of regular gasoline in America was $1.10; by early May 1996, gasoline sold for as high as $1.77 per gallon at some New York City gas stations, an increase of 61%. The price of copper, $2,853 per ton on the London Metal Exchange on May 9, exceeded the year-earlier level by 30%.

Now, the raw materials cartel is poised to ratchet up the price of gold. On May 6, a European financial source reported to *EIR* that he expects that gold's price may soon rise by $60, up from $394 per troy ounce. On May 7, Barton Biggs, chairman of asset management for the London-allied Morgan Stanley investment house, one of America's ten largest, announced the purchase for Morgan Stanley of $1 billion worth of gold. This is a major shift, equal to 3% of Morgan Stanley's total assets.

What is happening? Over the past 18 months, in anticipation of a worldwide financial crash, the London-based raw materials cartel, representing 3,000 superwealthy families, has stampeded out of increasingly worthless paper financial instruments, and added instead to its already huge raw materials assets. The oligarchy is intensifying its vise-like grip over the flow of vital raw materials upon which the survival of mankind depends.

Lyndon LaRouche, asked about the situation in a May 8 interview with "EIR Talks," had this to say: "It's a rush out of the stock market, the financial market, which the smart money knows, the big smart money, knows is coming down, at the same time that they and their press are saying, 'No, the market is solid, it's going to keep going. Everything is fine. You'll see, the bankers control it.' The fact is, they know it's coming down, and they're taking their money and *running,* while the getting is good."

No oil shortage

The British and their lackeys have proliferated a variety of bogus explanations to cover for the rise in the price of oil and oil products, ranging from a supposed shortage of supply, to the cold weather, to the lack of Iraqi oil exports.

To start with, there is not, nor has there been over the past 12 months, an oil shortage. On April 18, an analyst in the Department of Energy's Analysis Division documented that no shortage of oil exists either worldwide or in the United States. In fact, to the contrary, the DOE expected the production of crude oil worldwide to be so strong in 1996, that its "Short-Term Energy Outlook" projected the price of an imported barrel of oil to drop significantly during 1996. The DOE projected the price of a barrel of imported oil to be, for the first through fourth quarters 1996: $18.09, $17.32, $16.00, and $16.00, respectively. The projection did not factor in potential Iraqi oil shipments, so the fact that the Iraqis are not selling on the world market should not be of consequence.

The roots of the crisis lie elsewhere. Over the last few years, the U.S. oil refinery industry has deliberately slashed America's inventory of crude oil housed at the refineries.

The House of Windsor-allied energy cartel, led by the Six Sisters—Royal Dutch Shell, British Petroleum, Exxon, Mobil, Texaco, and Chevron (Chevron and Gulf merged in 1984)—controls U.S. oil refining. Overall, it controls 41% of the marketing of the world's oil directly, and an even greater share than that, through its control of the oil transportation system, the Rotterdam spot market, and energy financing.

The energy cartel has cut American refinery oil inventories for two interconnected reasons: first, to comply with "just-in-time" inventory methods, i.e., keeping the inventory low, saving warehousing costs. Second, until late 1995, the price of crude oil had been falling. The refiners bet that instead of buying a large inventory, locking themselves into set prices, they could buy on the spot market, at ever-lower prices. The unnatural, relatively low level of inventories was created by the refineries' internal speculative cost-cutting and accounting shenanigans.

Moreover, the energy cartel refused to restock inventories. The United States imports more than half of its crude oil supply. It takes only 12 days for Britain's Brent oil from the North Sea to reach America. From Venezuela, imported oil takes six days, and from Mexico, only three. Thus, within two weeks, oil supplies could be restocked. But, the British-led cartel did the opposite, *slashing oil imports into America from 7.26 million barrels per day (mbd) in January, to 6.55 mbd in February, a cut of 10%,* even though February was a cold month.

Crocodile tears

Another excuse of the oil refinery industry is that it is operating at 93% of capacity and can't produce more motor gasoline without risking breakdown of its facilities. It claims that because there was a cold winter, it had to refine crude oil into distillate (home heating oil), instead of producing gasoline. With this shortage, the law of supply and demand took over, driving up prices.

This is a lie on several counts. First, the refinery industry produces gasoline as its largest refined product during all 12 months of the year, with the amount of capacity dedicated to refining motor gasoline varying from 41% to 48% of total capacity, depending on the season. At no point does motor gasoline production stop, as is implied. Furthermore, DOE figures show that there is no serious shortage of gasoline as alleged: As of April 26, America's inventory of refined motor fuel, at 160.1 million barrels, was only 4.2% less than last year's late-April inventory level.

But the issue of lack of refinery capacity goes to the heart of the matter: It is part of the post-industrial society downsizing of America. Over the last 15 years, the British-led energy cartel shut down 130 refineries in America; today, America only has 162 refineries, about half the level of 15 years ago. U.S. oil refinery operable capacity has dropped from 18.6 mbd in 1981, to 15.2 mbd today, a drop of 18%.

If one shuts down volume capacity by nearly 20%, producing even the same amount of output will stretch capacity to the limit. But to then complain about it, is like the child who murders both parents, and then asks leniency from the court because he is an orphan.

The increased prices of motor gasoline, as well as higher diesel and jet fuel prices, are cutting into the economic activity of farmers, truckers, airlines, and manufacturing. The Six Sisters are simultaneously both the largest refiners and marketers of oil; they are booking record profits on the marketing end from the higher oil price which they engineered. In addition, along with their financier allies, they are capturing huge price spreads on oil futures contracts on the New York Mercantile Exchange (NYMEX).

On May 7, British Petroleum reported that its first-quarter profits rose to $956 million, 37% higher than last year, and the highest level in history. Shell's first-quarter profits of $2.45 billion were also a record, and so forth.

The price increases in wheat, corn, soybeans, and other basic crops are likewise spectacular. Here too, the grain cartel, led by Cargill and the Archer Daniels Midland/Töpfer company of Dwayne Andreas, is pushing the price up. While there is also massive speculation in grain, the grain cartel, working with the International Monetary Fund, has engineered a real crisis: In 1996, world wheat stocks, relative to consumption levels (which themselves are inadequate) are at the lowest level in 48 years.

Meantime, the beef division of the food cartels (IBP, Cargill, ConAgra, and National Beef—which control 87% of all U.S. beef processing) are underpaying livestock farmers at ruinous levels of 50¢ a pound. On May 1, South Dakota Rep. Tim Johnson (D) met with Assistant Attorney General Mrs. Anne Bingaman, to request Justice Department anti-trust investigation of the beef cartel.

On April 29 and 30, President Clinton initiated two measures to try to deal with the oil situation: First, he ordered the sale of 12 million barrels crude oil from America's Strategic Petroleum Reserve; second, the Anti-Trust Division of Clinton's Justice Department announced the formation of a five-member team to investigate price rigging in the oil industry. Within a matter of days, the price of a futures contract for the benchmark West Texas Intermediate crude, traded on the NYMEX, had been knocked down 10%, to $21.28 per barrel.

To attempt to counter low farm beef prices, Clinton mandated federal purchases of beef supplies for the school lunch program. There are many other calls for emergency and anti-trust action on strategic commodities.

On May 1, Leland Swenson, president of the 300,000-member National Farmers Union, called for anti-trust "enforcement" against big oil companies. On May 7, the Oil Chemical and Atomic Workers Union took out an ad in the *Washington Post,* calling for Justice Department action against the shutting down of oil refinery capacity. Rep. Edward Markey (D-Mass.) and Sen. Larry Pressler (R-S.D.) have called for anti-trust investigations.