certain to be further enhanced during the coming weeks, by statements such as the one by EU Commissioner for Transportation Loyola de Palacio. Governments should not make any concessions on the fuel taxes, she said on Sept. 23, because that would "distort competition" and violate EU "budgeting rules." "We are the guardians of the Maastricht Treaty," she declared. "The governments know the rules, which they voted to implement, and they know what the treaty says."

De Palacio's remarks made strikingly clear that there is indeed a deep gulf between the interests of the people, and those of the designers of the Maastricht Treaty. And protesters know that as well, since they have been attacking the governments and the Brussels EU bureaucracy, rather than the oil firms. If the Danes vote "no" against joining the Maastricht European Monetary Union, in their national referendum on Sept. 28, this anti-Maastricht ferment will be strengthened throughout Europe.

In Germany, the biggest fuel price protests yet were on Sept. 26, when more than 7,000 trucks, buses, and tractors rolled into Berlin, in a "national day of protest." The "17th of June Boulevard," the main road leading toward the world-renowned Brandenburg Gate from the western part of the city, was filled with parked heavy vehicles, and about 2,000 truckers and farmers concluded their day of action with a rally at the Gate. And, because the government had already stated that it would not be budged one inch by these kinds of protests, several hundred protesters walked the short distance from the Brandenburg Gate to the Reichstag building, where the national parliament meets, demanding that the politicians meet with them to discuss the crisis. Finally, Anke Fuchs, a deputy speaker of the parliament, managed to calm the situation down, when she offered to meet a delegation of five protesters in her parliamentary office.

Greens Hated More and More

Whether the intervention of Fuchs, a former assistant cabinet minister and a leading Social Democrat, achieved much in repairing the shattered reputation of the Social Democratic Party-led government of Chancellor Gerhard Schröder, is doubtful. As long as Schröder maintains his coalition with the Greens, he will continue to be the target of attacks like the ones launched against him by the truckers on Sept. 26. Environmental Affairs Minister Jürgen Trittin, a leading Green Party member, was singled out by the protesters, who called for his instant dismissal. The public mood in Germany has now definitely turned against the Greens, and the rising fuel prices, with their heavy "eco-taxes," have just made tempers boil over. What happened on Sept. 22 was revealing: The "Day Without Cars," which the Greens and their ecological co-thinkers had scheduled throughout Europe to demonstrate that a life without gasoline were allegedly possible, was simply ignored by Germans, and by other Europeans as well, who drove their cars as on any other Friday.

Natural Gas Price Shock Is Under Way

by Marcia Baker, William Engdahl, and John Hoefle

While headlines have been covering price jumps for gas at the pump, home heating oil, and barrels of crude, and pointing the finger at the Organization of Petroleum Exporting Countries, natural gas sticker shock in North America, where supplies are produced almost entirely at home, is every bit as bad, and set to get much worse. One-quarter of all the energy used in the United States is from natural gas. More than 55.6 million homes use natural gas, far more than use fuel oil.

Natural gas prices in the United States, Mexico, and Canada have risen over 100% in the last six months. In the Northwestern states, for example, waves of shutdowns have been announced in mining, pulp-and-paper processing, and other activities, because of both high electricity rates, and sky-high natural gas prices. Farm expenses are intolerable. Millions of households are receiving notices from their gas companies, like the one sent on Aug. 25 to a Nebraska home by UtiliCorp (EnergyOne, in Omaha), "Dear Valued Customer: Faced with historically high natural gas prices . . . EnergyOne will increase your monthly StreamLINE amount beginning with your October statement. . . . The estimated amount of your new monthly bill will be $32 up from your current amount of $18."

On Sept. 21, American Gas Association planning executive Roger Cooper told a Congressional hearing that they will try to keep the rise in natural gas prices to customers this winter to 27%! On Sept. 20, governors attending a natural gas summit in Columbus, Ohio, were told to expect home heating bills to rise 40% this winter, and industrial bills to rise 100%. In Mexico, gas prices are up for the steel and mining sectors by 150% already.

In effect, the United States, Mexico, and Canada are being told: "Dear Esteemed Nations, you now must pay us anything we ask for energy, and still, you may not get any." Who is sending these letters?

The Major Speculators

Table 1 shows the major speculators in the futures markets for energy derivatives—gas, oil, and electricity. These 13 corporate (non-bank and non-hedge-fund) speculators in the energy futures markets, have close to $1 trillion worth of energy futures, according to estimates by the *Swaps Monitor,* a New York-based business speculation magazine. The spot-market price for natural gas has risen over 300% in recent

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TABLE 1

U.S. Non-Bank Commodity Derivatives Dealers Notional Values of Derivatives Contracts, 1999

(Billions $)

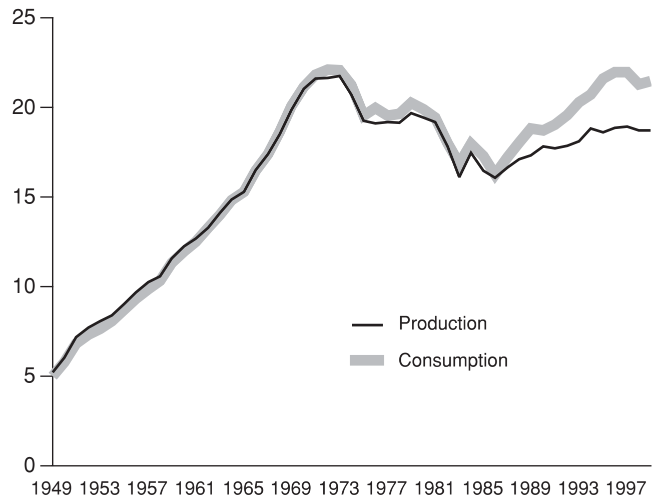
Dealer	Gas	Oil	Electricity	Total
Duke Energy	79.0	0.0	16.0	94.9
El Paso Energy	58.0	0.8	2.4	61.2
Williams Companies	19.0	23.4	2.8	45.2
Amerada Hess	—	—	—	41.9
Enron Corp.	27.3	4.6	7.3	41.4
Sempra Energy	—	—	—	24.6
UtiliCorp United	22.6	0.0	0.1	22.7
PG&E	—	—	—	20.7
Avista Energy	5.4	0.0	13.4	18.9
Texas Utilities	14.2	0.0	4.0	18.2
Dynegy	12.9	0.9	1.5	15.3
Reliant Energy	4.1	0.6	1.1	14.1
American Elec. Power	—	—	—	13.1
Total of Above	**242.4**	**30.3**	**48.6**	**432.1**

Source: *Swaps Monitor.*

FIGURE 1

U.S. Natural Gas Production Falls Behind Consumption

(Trillion Cubic Feet)



Source: U.S. Department of Energy, Energy Information Agency.

months. This directly plays into the price eventually charged to the factory, household, commercial establishment, or power generating plant.

Thirty years ago, when the U.S. natural gas industry was still regulated in the national interest, these "price futures markets" did not exist. Now, after deregulation and globalization, not only is there a casino for natural gas bets, but also the very same players are the companies which interconnect, through their financing, boards of directors, legal channels, and so on, with the networks dominating the physical production, transmission, and retail operations of natural gas.

One of the leaders of the pack is Texas-based Enron, formed in 1985 as a merger of two natural gas companies, and which is the largest donor by far to the Bush campaigns, contributing over $550,000. All the companies are heavily behind the Bush and Gore "Clean Air" environmentalist campaign pushing natural gas.

The top four integrated natural gas companies (equivalent to the oil mega-majors Mobil-Exxon, BP-Amoco-Arco, etc.) in the United States, according to Standard and Poor's ratings, are Columbia Energy Group, Consolidated Natural Gas Co., Enron Corp., and Questar Corp. Likewise, the actual pipelines transporting the gas on the continent are in the hands of a select few companies: Coastal Corp., El Paso Energy Corp./DE, Sonat Inc., TransCanada Pipelines Ltd., and Williams Cos. Inc.

Is it any wonder that these gas, pipeline, and mega-energy speculation interests have not taken steps to ensure there is ample natural gas for national use in the United States, Mexico, and Canada? Shortages are part of their "equation" for derivatives. Their goal is control and hyper-profits, not the general welfare.

According to Dain Rauscher Wessels, a Houston-based gas consulting firm, the United States is coming into this winter with natural gas inventories of less than 2.585 trillion cubic feet (tcf), which, they say, is "the lowest ever," and 5% lower than the previous lowest levels in Fall 1996. "A cold winter," they warn, "could trigger a disaster," with a drawdown of nearly 2.4 tcf in winter, largely for home heating. That, in turn, would leave inventory next Spring, at an all-time record low of 1.186 tcf, at the period of high demand from industrial and utility users. (The "best-case scenario" would still be dismal, where, in the case of a warm Winter like 1999, the drawdown would be still be about 1.9 tcf.)

Geostrategic Cartel Control

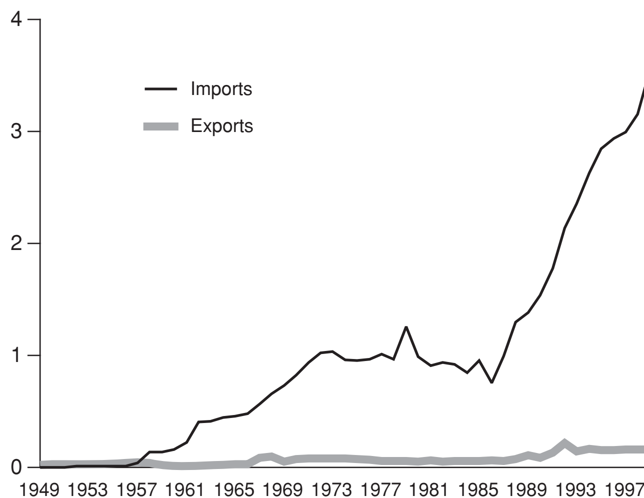
Figure 1 shows that as of the 1970s, natural gas production in the United States, which rose with consumption for 25 years after World War II, began to fall. This decline does not reflect depleted potentials, or other natural constraints, but rather, the policy-shift of the 1970s to deregulation. A large portion of the independent well owners, rig companies, and related industry could not stay in business under unstable conditions.

In the 1970s, there were two international energy shocks. In 1971, the dollar was unpegged from gold, and floating currency exchange was begun. Then, in 1978, the Natural Gas Policy Act began the phasing out of a Federally ensured price

FIGURE 2

U.S. Natural Gas Imports Rise

(Trillion Cubic Feet)

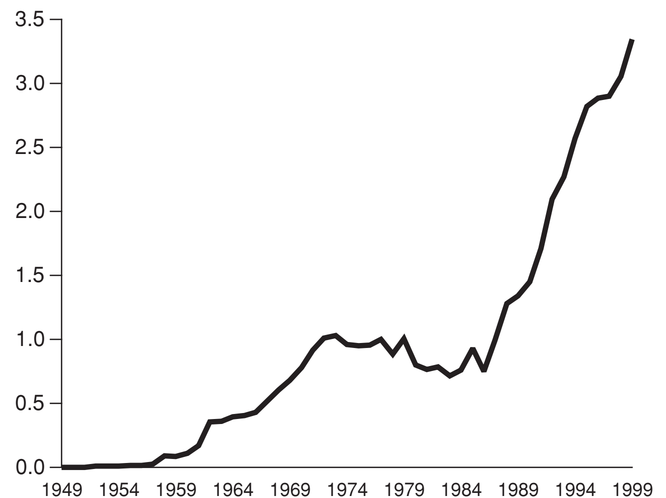


Source: U.S. Department of Energy, Energy Information Agency.

FIGURE 3

U.S. Natural Gas Imports from Canada

(Trillion Cubic Feet)



Source: U.S. Department of Energy, Energy Information Agency.

for natural gas at the well-head (a parity policy begun in 1938). This set the stage for repeated shake-outs of independents. In 1998, a period of drastic declines in commodity prices (minerals, oil, precious metals, agricultural outputs, etc.), the number of natural gas rigs in the United States was cut in half. The number has risen since, but the policy insanity is clear.

The strategy of the cartel companies? Crank up Canadian output—under cartel control. Build pipelines—under cartel control. Make sure Mexico does not develop its rich oil and gas resources independently. Demand more deregulation of U.S. state laws—so that prices can be passed on to the customer. Set the price on speculative markets, then sit back and make a killing.

Figure 2 shows the take-off of natural gas imports into the United States in the mid-1980s, under increasing deregulation. **Figure 3** illustrates rising Canadian exports—almost all of which goes to the United States.

Underscoring the cartel resources-control strategy, in November, the new natural gas transmission line, known as the "Alliance Pipeline," will be officially opened between northeastern British Columbia and Chicago, Illinois. The Canadian portion consists of 211 miles of 36 in. diameter (914 mm) steel pipe; the U.S. portion is 888 miles long. With the Alliance Pipeline, cartel spokesmen project that Chicago will become the center for pricing for various futures speculation markets, replacing the current "Henry Hub" reference price in Louisiana, a gas price, in effect, tied to West Texas Intermediate Crude oil.

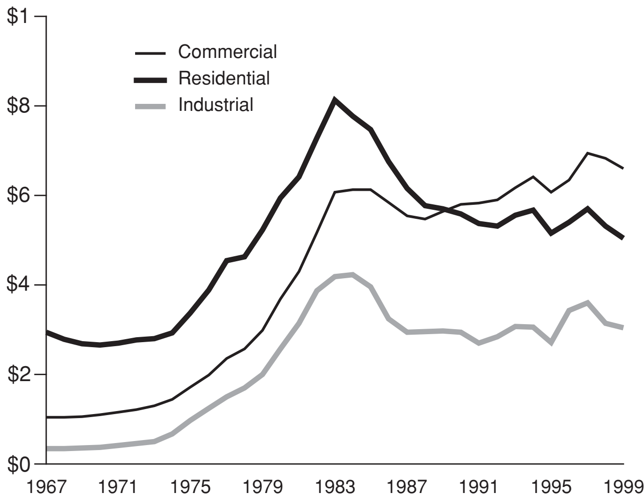
Figure 4 makes the point that there are different gas prices for end-users (residential, commercial, industrial), which have been shifting during the increasing deregulation since the mid-1980s. Since the lowest point two and a half years ago, natural gas prices overall have shot up 333%, from around $1.50 per 1,000 cubic feet, to $5 at present. So, who should pay the most? Mega-company Sempra, owner of San Diego Power & Light, suggested to the Sept. 20 Governors Summit that gas-heat and gas-industry users be stiffed, and let electric companies get more gas and pay less.

Special upward pressure on gas prices is now coming from the "cross-over" effect from those energy users (power plants, industries) which have the technology to switch from oil to gas. ICF Consultants, based in Fairfax, Virginia, which has a computer model of the North American natural gas industry, recently reported, "Even slightly increased demand for gas resulting from users switching from oil to natural gas, raises natural gas prices." During the power emergencies and the 300% price spike in fuel oil for power plants over the past six months, numerous U.S. power plants switched from oil to gas in a desperate bid to hold electricity prices to their customers in check.

Since 10% of U.S. electricity is now dependent on natural gas, power generators have gone begging to state authorities for the right to raise rates to customers.

Moreover, part of the natural gas cartel strategy over the past two decades has been to push for a major shift over to natural gas-based electricity production. At present, 55% of power plants use coal; 20% nuclear—and these energy sources are to decrease under the natural gas geo-strategy. Ray Deacon, of Dain Rauscher Wessels, points out that more than 275 new gas-fired electric power generation plants are planned for completion by 2006. This is almost the entirety of all U.S. new power plants on order.

FIGURE 4
U.S. Natural Gas Prices: Residential, Commercial, and Industrial
(Dollars per 1,000 Cubic Feet)



Source: U.S. Department of Energy, Energy Information Agency.

Gas Cartel Gives Orders to Congress

In late September, Congressional hearings took place almost every day, with the biggest energy and speculation companies—Duke Energy, Goldman Sachs, and others—telling Congress to give them more rights and privileges.

On Sept. 28, reflecting the mega-companies, the chairman of the Federal Energy Regulatory Commission said to the House Commerce Committee, "Over two decades ago, Congress and the Commission began encouraging the development of competition in the natural gas industry, and this competition has produced substantial benefits for consumers. The recent increase in natural gas prices should not weaken support for competitive market policies."

Speaking for Duke Energy Gas Transmission Corp. (on behalf of the Interstate Natural Gas Association of America), Robert B. Evens, Duke Energy president, threatened Congress, saying, we "are prepared to deliver the full contractual firm requirements for our customers for this Winter," but then gave them a color map of the continent showing where the gas cartel companies want the government to lift Federal restrictions on access to new gas fields. (The fields identified by Duke are offshore from California, the Eastern states, and western Florida, and in the Rockies, centered on Colorado and Wyoming.)

Mexico's National Steel and Mining Hit

In Mexico, the natural gas price hyperinflation is wreaking havoc in the industrial centers. In the leading industrial state of Nuevo León, 500 companies may shut down. The 150% increase in the natural gas price this year has caused the Hylsa steel complex to suspend its mining activities in the states of Colima, Jalisco, and Michoacán, affecting the Cerro Nahuatl, El Encino, and Aquilas mines which supply it with ore.

In Monterrey, three reduction plans will also shut down, while the Puebla plant is operating at 50% capacity. More than 1,200 workers will be affected directly, and another 6,000 indirectly, including supplier and contractors. The Canasintra industry association has warned that 250,000 workers could be laid off in the glass, ceramic, and steel industries this Winter, because of high natural gas prices. Hylsa has announced that this situation will remain in effect until the gas price "returns to reasonable levels." Nuevo León Gov. Fernando Canales Clariond has said that Hylsa will now depend on its branch in Venezuela to supply steel to Mexico.

On Sept. 22 a conference on the crisis was held by the Chamber of Nuevo León Transformation Industry (Caintra). There was discussion of the fact that natural gas prices in Mexico are set by the state oil company, Pemex, based on the price in southern Texas. Many businessmen are now demanding that Ernesto Zedillo's government instead sell natural gas "at a different price, not the international one," because the situation is untenable. Caintra President Sergio Gutiérrez Muguierza said, "There are only two options: Negotiate and accept what [the government] offers, and wait for the new [Vicente] Fox government, or become shock troops." Some agreed that the "shock troop" option was what was needed.

Focus on Enron, Speculators

The Caintra meeting was called to allow a representative of Enron, an energy conglomerate, to present its case for reacting to the high prices by hedging with energy futures. Enron's Jaime Williams lobbied Mexican businessmen, to induce them to speculate with various derivatives instruments, in the name of protecting their companies against the "risk" of natural gas price changes.

In opposition to this, *EIR* correspondent Benjamín Castro polarized the room with a sharp presentation of Lyndon LaRouche's proposals and analysis of the world strategic and financial crisis, particularly on the need for state-to-state oil contracts. "What are you going to do—go into derivatives every time the price rises on something?" Castro asked. "I think what Enron is trying to do is set up a financial and speculative operation, taking advantage of your penury and the collapse in production."

Reflecting the concern about what was going on in the United States, a representative of the Mexican Gas Company reported that, at the U.S. governors meeting the day before, the governor of Alaska had argued against any attempt to regulate "the markets," warning that this would lead to a price increase.

The final resolution of the Caintra gathering demanded that the Finance Ministry—not Pemex—act immediately *to lower fuel prices,* instead of thinking of how much money Pemex could pull in for Mexico, because of the increased oil prices to OPEC members.