Speech to Phililppine Senate

Who's Manipulating The Oil Problem

by Sen. Aquilino Pimentel


Sen. Aquilino Pimentel

On Sept. 15, Aquilino Q. Pimentel, the Minority leader of the Philippine Senate, presented a speech on the floor of the Senate titled "Manipulating the Oil Problem," which provided his nation with the truth behind the recent oil price spike—i.e., that it has nothing to do with "supply and demand," and everything to do with the speculative, deregulated markets now controlling oil production and distribution. Readers of EIR *will recognize these facts, which have been regularly reported in our pages, but seldom exposed to the light of day among policymaking circles here or around the world. One solution proposed by Senator Pimentel is similar to that proposed by* EIR *founder Lyndon LaRouche—for nations to bypass the spot market through producer/user state-to-state long-term contracts at reasonable prices.*

Senator Pimentel, whose interview with EIR *was published in the Aug. 20, 2004 issue, also pointedly addresses the urgency for the government to act on the crisis, and proposes immediate measures to be undertaken. Excerpts of the speech follow:*

Mr. President:

I would like to discuss briefly the oil crisis, as announced by Energy Secretary Vince Perez recently.

To justify the inability of the Department of Energy to do anything about the country's oil crisis, Secretary Perez has declared that world market forces, which are beyond his control, have pushed oil prices to reach historical highs, and since the oil industry in the Philippines is de-regulated, fuel prices will inevitably rise (which is another item beyond his control).

Mr. President, are we being told the truth? Or is this another example of a bureaucratic word-play that is intended to justify official inactivity or inability to offer solutions to the problem at hand—in this case, the ever-rising prices of oil and oil products?

To get to the bottom of the problem, perhaps, it is best that we start by looking at the oil situation of the world.

IEA Figures

Figures from the Paris-based International Energy Agency (IEA), the central collection point for world oil information, show that there is no world-wide oil crisis. In fact, for the first quarter of 2004, world oil supplies were in the range of 82.3 million barrels a day (mbd), with consumption that ranges from a low 80.5 mbd to a high of 81.5 mbd.

Thus, the world had a surplus during the first 90 days of the year. Yet during that period the world oil prices leapt by $7 per barrel.

And the gasoline pump price locally shot up by P21 [$1= Peso 56.48] per liter of crude and P26 per liter of unleaded gasoline; P380+ per container/tank of LPG; and P21+ per liter of kerosene, the cooking gas for millions of households in the country.

As a senator and as a consumer of oil products myself, I would like to ask why the price of oil products in the country has risen so high, when the world production of oil has not diminished?

Over the past several decades, oil production has increased slowly and predictably. Since 1992, production has grown by approximately 15%. World oil consumption has also grown gradually and predictably.

As an ordinary observer of how prices of oil behave in the world, I would not have been surprised if production had dropped significantly or consumption had risen steeply, which would explain the upward spiral of oil prices here. But neither of these two circumstances has happened.

How, then, does one explain the wild swinging up and down of the oil prices here, regardless of production levels?

Financial Speculation vs. Long-Term Contracts

Some people surmise that China's seemingly insatiable thirst for more oil to fuel its huge economy is one of the reasons for the upward spiral of oil prices. That may be a part of the answer. But more critical views than mine argue that the answer is financial speculation, or greed, that is fuelled by a collusion of leading banks, financial institutions, and big oil conglomerates to cartelize oil pricing and distribution world-wide.

For background purposes, it may be apropos of our discussion to mention that today, oil prices are more than 50% above the 1992 levels.

For a long time, long-term contracts—frequently for 24 or 36 months—at fixed, stable prices were the way oil was generally traded in the world.

The oil shocks of 1974 and 1979—perceived mainly as caused by the OPEC oil embargo—changed all that. Long-term oil contracts were replaced with oil sales at the spot market based in Rotterdam and the futures markets.

By spot is meant, that one buys 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 oil patch 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 first started trading oil futures in 1983.

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

The traders in IPE and NYMEX, for instance, transact large volumes of these so-called oil futures contracts, which are also called bets (a word that is usually associated with gambling, but is now used in oil trading, for the reason that oil speculators gamble on these paper oil purchases). Each contract, I am told, 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 the year 2000 a study showed that in the IPE, for every 570 "paper barrels of oil" traded each year, there was only one underlying physical barrel of oil. The 570 paper oil contracts pull up the price of the underlying barrel of oil and, thereby, manipulate oil prices all over the world. 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, it is reported that a speculator, by investing $1,520, can control 1,000 barrels of oil. Thus, a small group of speculators, through leverage, can control the world oil price. A NYMEX document, "How the Exchange Works," boasts that it has nothing to do with oil production. . . .

Consider the IPE, which was created in 1980. In 2001, the Atlanta, Georgia-based Intercontinental Exchange purchased the IPE. Now, the biggest oil derivatives traders who run trading on the IPE include Barclays Capital, Bear Stearns International, J.P. Morgan Securities, Deutsche Futures London, BP Oil International, and Shell International Trading—the key components of the British oligarchy's world oil cartel.

In an attempt to break the oil price spiral, Saudi Arabia has recently committed to produce 2 million additional barrels of oil per day. However, as of June 2 of this year, speculators had taken out 77,000 oil futures at the NYMEX taking a "long" position; i.e., betting that the oil price would rise. Through such bets, they make oil prices go up as they 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—which the speculators would use to overwhelm the Saudis' production increase of 2 million barrels per day. This is part of the oil warfare that is now ongoing.

Pushing Oil Prices Up

The Oil Cartel is also employing two other tactics to push up the oil price. 1) Limiting production capacity: The oil cartel has reduced U.S. oil refining capacity to below the level of 1980. The U.S. knows 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 its refining capacity, but since reduced capacity pushes up the price, it was done anyway. . . .

2) Consolidating cartel control: The oil companies are also busy gobbling up one another, and this, in turn, has caused oil prices to rise. There is a striking connection between oil prices and major oil company mergers. For instance, 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. . . . Inevitably, during this crisis, the stocks of major oil companies have jumped up. . . .

Public Dissatisfaction

The administration's response to the so-called oil crisis leaves much to be desired. What it is offering are palliatives that betray the mediocrity of its creativity and imagination—such, for example, are the suggestions of car-less days, four-day work week, early closing of businesses, cutting down on air-conditioning and appliances, etc.

I think it is the duty of the government and its bureaucrats to denounce those practices and, then, work out a reasonable solution to the problem.

Resolution

In this regard Mr. President, may I suggest that the Senate pass a resolution to require:

A. The oil companies doing business in the country to explain their oil trading and pricing practices;

B. The government departments or offices concerned to bring about, cause or support the execution of bilateral long-term agreements by the concerned domestic importers of oil with petroleum-producing countries, with scheduled deliveries at reasonable, fixed-prices; and

C. The appropriate government departments or offices to design a comprehensive energy development program that will promote and support cost-efficient domestic fuel production initiatives. . . .