

# Senators Demand End To Energy Speculation

by Marsha Freeman

When Hurricane Katrina slammed into the coast of the Gulf of Mexico on Aug. 29, oil companies apparently believed that they could use the catastrophe to justify another quantum leap in energy prices. Now, the U.S. Senate is swinging into action to stop this looting of the American people and destruction of the U.S. economy by an increasingly cartelized oil producing and refining industry.

On Sept. 7, in introducing the “Windfall Profits Rebate Act of 2005,” Sen. Byron Dorgan (D-N.D.), stated that the major oil companies were reaping \$7 billion more per month in profits “off the backs of consumers” than they were 18 months ago, as oil went from \$40 to \$70 per barrel, with no increase in the cost of production.

The same day, Sen. Carl Levin (D-Mich.), introduced the “Hurricane Katrina Emergency Temporary Energy Price Freeze Act of 2005,” referencing the \$3.05 per gallon average national cost of gasoline at the pump, calling for a freeze on oil at the \$40 per barrel, pre-Katrina price.

Dozens of articles every day by free-market ideologues, oil industry toadies, and their sympathizers, warn that oil price increases are necessary because there is a shortage of supply caused by the hurricane. The Department of Energy warns that the “crisis” could last until December. But in fact, over the next week or so, there will be *more* oil and gasoline available in the United States than there was before Aug. 29. *There never was a shortage before, and there surely is not one now.*

## More Oil Than Before

On June 21, the Department of Interior's Minerals Management Service (MMS), which oversees offshore oil and gas producers, alerted them that the year "2005 is anticipated to be another above-average hurricane season." It recommended that precautions be taken to ensure the safety of workers, and prevent long-term disruptions to the Gulf of Mexico's offshore production. The Gulf now contributes about 29% of the nation's domestic oil production and 21% of its natural gas output.

In testimony before the Senate Committee on Energy and Natural Resources on Sept. 6, Interior Department Assistant Secretary for Land and Minerals Management, Rebecca Watson, reported that 615 oil platforms and 90 drilling rigs had been evacuated as a precautionary measure before the storm. One week later, out of a total of 819 manned rigs in the hurricane region, and 137 other rigs, half were back in operation. (Corresponding oil and gas production figures are in **Table 1.**)

Watson said that it appears that many of the "high-production facilities weathered the storm without major damage," and that these production facilities could be up and running

TABLE 1

### Energy Recovery From Hurricane Katrina

Date	Oil Shut In (% GOM Production*)	Gas Shut In (% GOM Production*)	Entergy Electric Customer Outages**
Aug. 29	92%	83%	NA
Aug. 30	95%	88%	NA
Aug. 31	91%	83%	1,100,000
Sept. 1	90%	79%	793,700
Sept. 2	89%	72%	728,000
Sept. 4	NA	NA	531,000
Sept. 6	58%	42%	444,200
Sept. 7	57%	40%	405,600

\*Percentage reduction in total Gulf of Mexico oil and natural gas production.

\*\*Entergy is the largest electricity supplier in the Louisiana and Mississippi areas affected by Katrina.

Source: Entergy; Minerals Management Service, Department of the Interior.

TABLE 2

### Oil and Gasoline Speculation

Date	Gasoline per Gallon*	Oil per Barrel*
Aug. 28, 2003	\$1.05	\$31.50
Aug. 27, 2004	1.18	43.18
Aug. 26, 2005	1.92	66.13
Sept. 2, 2005	2.18	67.57

\*Trading price at the New York Mercantile Exchange.

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

in days. So, even in its own terms, the hysteria about long-term and severe shortages of oil is betrayed by the rapidity with which Gulf production is coming back on line.

But never mind shortages—the United States will be swimming in supplies of oil and gasoline within the next week or two. On Sept. 2, the 26-member International Energy Agency agreed to make available to the U.S. market, the equivalent of 2 million barrels per day of crude oil and refined petroleum products, for an initial period of 30 days—60 million barrels in all. Thirty million barrels of crude oil will be released from the U.S. Strategic Petroleum Reserve, under the guidelines of the IEA, plus an additional 6 million barrels from the U.S. Reserve, by the Department of Energy. One million barrels per day will be mainly gasoline from European reserves. This 2 million barrels per day is more than the deficit caused by hurricane Katrina!

Despite these facts, the *Wall Street Journal* praises price gouging in an editorial Sept. 7, as the way the “market” brings demand into balance with limited supply. In its attempt to make excuses for the unconscionable gouging by the oil multinationals, the *Journal* musters no arguments that cannot be refuted by the above picture of actual and imminently available supplies. It is this gross disparity between “free market” policies and the needs of the nation’s citizens that has propelled members of Congress to return to defending the general welfare.

While the world watched in horror as the “on vacation” President did nothing as hundreds of people drowned in New Orleans, industries that were determined to protect their infrastructure, demonstrated that a mobilization to prevent disaster, could succeed.

In her testimony, Rebecca Watson described how 25-30,000 workers were evacuated before the hurricane struck, in order to protect offshore oil personnel, platforms and rigs. This required the service of a fleet of boats and assets including 14 helicopters that are leased by the Interior Department.

Similarly, hours before hurricane Katrina even struck the Gulf, electric utility linemen from as far away as Ohio and Massachusetts had packed their duffle bags and equipment and were ready to deploy to the region as soon as the storm passed. Within 24 hours of the hurricane, more than 5,000 workers from outside the region were restringing power lines, removing downed trees, and replacing damaged poles.

Yet, somehow it took public outrage in response to photographs of people stranded for days on the tops of their submerged houses to mobilize the White House to mount a full population rescue mission.

There is no reason for this natural disaster, which is already a human tragedy, to send the economy into an accelerating tailspin. It is only necessary to bring the real looters—the oil industry privateers—under regulation to ensure that they serve the general welfare.

## Mergers and Energy Prices

German Chancellor Schröder’s estimate, that \$20-30 of every barrel of oil is pure speculation, and that nation-to-nation cooperation to control it is being “blocked by interests in London and New York” (see article, p. 34) calls for Congressional action. Central to this speculation is the pace of oil-industry mergers. These mergers are based on speculative targets for oil prices, and point the way to those higher futures prices.

From 1998-2000, there was a record-setting pace of energy mergers, with \$200 billion in takeovers in 1999 alone, including several mega-mergers like the Exxon/Mobil deal and BP’s takeover of Atlantic Richfield. The oil futures price surged from a low level to well over \$30, then fell back. This merger activity fell off after 2001.

But 2005 has seen both a continuous surging of oil futures prices, and another sudden frenzy of mergers, with \$100 billion worth of takeovers announced just through August, and the major Valero Refining deal—set to reduce U.S. refinery capacity further—announced in early September.

In Chevron’s \$17.8 billion acquisition of Unocal, it

paid the equivalent of more than \$10 for every barrel in Unocal’s unrecovered reserves of oil—far more than Chevron has been spending to find reserves by exploration. In another merger, A.P. Møller-Maersk paid \$15/barrel of reserves in acquiring Kerr-McGee Corp. The average merger price per barrel of reserves is almost \$9 so far in 2005, triple what it was in 2004. During the previous three years, these merger prices had not risen; the futures price of oil had risen by about 30%. This year, the futures price has doubled. Higher prices are being locked in by merger and acquisition activity. For every barrel of oil actually delivered and used, 500 barrels of “paper oil” are traded on the NYMEX or London petroleum exchange.

To cite the LaRouche PAC’s Sept. 6 testimony to the Senate and House Energy and Commerce committees, “The runaway energy prices are best understood in terms of the overall end-phase crisis we have entered, of the disintegration of the international financial system itself. Increasingly over the past three decades, the divergence of volumes of debts, deficits, and financial valuations of all kinds (stocks, derivatives, mortgages, etc.) as against the decline in condition and activity of physical economic input and output (manufacturing, agriculture, infrastructure) has widened to the point of financial blow-out and economic breakdown.”