LaRouche PAC Testimony

Put a Lid on Prices; Re-Regulate Energy

This testimony was presented by Marcia Merry Baker of the LaRouche Political Action Committee, for the record, at the hearing of the U.S. Senate Committee on Commerce, Science, and Transportation, Sept. 21, on energy pricing.

To Honorable Senators Ted Stevens, Chairman, and Daniel K. Inouye, Co-Chairman, and Members of the Committee:

There are now various Congressional initiatives coming forth, addressing certain aspects of the out-of-control energy prices: Senator Byron Dorgan's "Windfall Profits Rebate Act of 2005"; Sen. Carl Levin's "Hurricane Katrina Emergency Temporary Energy Prices Freeze Act of 2005"; and the many anti-price gouging measures. Going in the right direction, what is needed now from the Senate is a commitment to *full-scale re-instatement of traditional regulation of energy, and also of transportation, given the nature of the crisis now at hand.*

Information-gathering at the Sept. 21 hearing is useful and important, but the urgent necessity for Senate action is self-evident given events in these three, interrelated areas:

1. The current energy price swings and hyperinflation are an inherent part of the deregulated, speculation-serving energy sector, not an aberration. No mere tut-tut proscriptions against malpractice by multinationals will help.

2. Out-of-control energy and commodity prices and profiteering are, in turn, an inherent part of the disintegration process of the international financial system, teetering as it is on bubbles of speculation in derivatives, home mortgage financials, deficit-import dependence, unpayable debts, etc. This epic crisis cannot be ignored. It must be addressed in a way to restore economy-building national interest policies.

3. Rebuilding after the catastrophic impact of Katrina, given the anti-infrastructure stance and criminal negligence of the Executive Branch which led up to vulnerability in the Gulf Coast, requires stable, fair energy prices. Period.

In our following testimony, we include summary information in these three areas, which we can also make available to the Committee in more depth, including animations of the economic processes involved.

To develop these concepts, we include excerpts from two recent webcasts in Washington, D.C., given by Lyndon LaRouche, to address the policy shift and Senate leadership required. The immediate action perspective is straightforward: Cap the prices.

'Put A Lid on Prices'

On Sept. 3, Lyndon LaRouche conferred with government, infrastructure, and constituency leaders on an international webcast, "Pulling the Nation Together Now!" (archived on www.larouchepac.com):

". . . Now, we had a case out nearby here, of $6 a gallon for gasoline. And you have people standing by the side of the road and laughing at Hummers. But that's not the only part of the story. We can not allow a speculative exploitation, which is now going on in the world market, to drive up the price of petroleum products on which this nation and other nations depend, to floating prices. We're going to put a lid on it. We're going to put a lid on it in the United States, and we're going to go to Europeans and others, and we're going to put a lid on it.

"We're going to talk to people overseas—we're going to *put a lid on the cost of petroleum products.* We're going to *stop* this inflation: Because this inflation is purely based on speculation. And the speculators are going to have to take bath!

"We're going to have a price of energy, which enables this nation to function. We're now coming into a Winter season—months ahead? Yes.—But we're coming into it now! How do you like it, with no heating, in the northern part? How do you like it, the fact that we're shutting down electrical systems, power systems in entire regions of the country now, for lack of petroleum products, because we made ourselves dependent upon it? No!

"*We organize the flow* of what we need in so-called energy supplies, and we regulate the price, put a cap on it, and we work with other nations *to keep that price, a lid on it!*"

Some of the key aspects backing up the necessity for re-regulating prices are the following, in the areas of the structure of the energy industry—oil production, refining, distribution, and the mythical "markets."

TABLE 1

Top Five Companies, 2003

	Domestic Oil Production Market Share	Domestic Oil Refinery Capacity Market Share	Domestic Retail Gasoline Market Share
BP	12.7%	9.0%	12.7%
Chevron-Texaco	9.8%	6.4%	8.3%
ConocoPhilips	7.4%	13.0%	13.0%
ExxonMobil	10.6%	10.8%	13.7%
Royal Dutch Shell	7.2%	8.3%	14.0%
Total Top 5	**47.7%**	**47.5%**	**61.8%**

Sources: Public Citizen; U.S. Department of Energy, Energy Information Administration; *EIR.*

Table 1 documents how just the top five oil companies—Royal Dutch Shell, ExxonMobil, BP, Chevron-Texaco, and ConocoPhilips—dominate half or more of each of these markets, control domestic production, refinery capacity, and the supply and price of gasoline charged to retail gas stations.

Therefore, under these circumstances, when a "market-excuse" is given to justify gas and oil price run-ups—namely such citations as, "the effect of the Iraq War," or "hostile OPEC action," or now, "Katrina Storm Damage"—no matter how partially true, the larger truth, from the vantage point of the responsibility of government to provide for energy security, is that the entire system of energy provision is in the hands of predator cartels, which must be brought under control.

Take the bottleneck of refining. In 1981, according to the Department of Energy, the U.S. had 324 refineries, with a refining capacity of 17.99 million barrels per day (bpd). In January 2005, after a massive campaign of shutdown, it had only 148 refineries with a capacity of 17.12 million bpd. The last time a new major refinery was built in the lower 48 states was in 1976, in Louisiana. In a June 2004 investigative report, "Campaign of Inaction: the Federal Trade Commission's Refusal to Protect Consumers from Consolidation, Cutbacks, and Manipulation in America's Oil and Gasoline Markets," Sen. Ron Wyden (D-Ore.) showed that as a result of the record merger and acquisition binge in the refinery industry, 922,465 barrels per day of refinery capacity were taken out of production since 1995. Production would have tumbled further, but for increased efficiencies in refining conversion and thus output at some refineries.

Senator Wyden's report concluded, "The oil industry and its allies would have the public believe that insufficient refining capacity, restrictive environmental standards, growing gasoline demand, and OPEC production cutbacks are the primary reason for the current oil and gas supply problem. However, the record shows . . . that major oil companies pursued efforts to curtail refinery capacity as a strategy for improving profit margins."

Wyden included as documentation an internal document obtained from Chevron Oil, dated Nov. 30, 1995, which asserts, "A senior energy analyst at the recent API [American Petroleum Institute] convention warned that if the U.S. petroleum industry doesn't reduce its refining capacity it will never see any increase in refining [profit] margins."

A new frenzy of mergers adds to the menace. This year, Y2005, is the busiest for energy-industry deals since 2001, with about $100 billion of takeovers announced so far. The total, including pipelines, utilities, and coal producers, is more than the full-year total in 2002, 2003 or 2004, and if the pace continues, will be nearing 1999, when $200 billion of energy industry consolidations occurred. The period 1998 to 2000 was the biggest span in history for energy mega-mergers, including the mega-deal of Exxon Corp. acquiring Mobil Corp. for about $79 billion. This August, Chevron acquired Unocal for $17.8 bil, and other mergers are under way.

'Paper Oil'

"Paper oil" is the well-known term to describe the fact that for every barrel of petroleum pumped somewhere, shipped, and refined, there are nearly 600 "paper barrels" worth of trades on the speculative commodity markets.

The financial interests behind the oil cartel dominate the two institutions where the world oil price is set: the London-based International Petroleum Exchange (IPE), and the New York Mercantile Exchange (NYMEX). The way this works, is that the trading companies that trade oil derivatives, push up the world oil price, through long positions and other manipulations, called "updrafting the market." The futures market determines the real world price. Most European oil contracts are based on the marker price of Brent Crude, which in turn is determined by the IPE. Speculators purchase futures contracts on the IPE and NYMEX exchanges; 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 2004, representing 100 billion barrels of oil. On the IPE, there are 570 derivatives contracts on Brent crude oil—"paper barrels of oil"—traded each year, for each physical barrel of oil pro-

EIRNS/Bonnie James

Rising gas prices in the aftermath of Hurricane Katrina. Lyndon LaRouche has called for putting a lid on the price of petroleum products, to block speculative exploitation.

duced in the North Sea.

Consider the IPE, which was created in 1980: Today, it 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, Crédit Lyonnais, and French oil giant Total. Its parent holding company includes the Chicago Board of Trade's Richard Sandor (a former banker with Banque Indosuez and Drexel Burnham Lambert), and Jean-Marc Forneri, a banker who was a partner at Demachy Worms & Cie., the infamous synarchist Banque Worms. The biggest oil derivatives traders, which run IPE trading, 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 oligarchy's world oil cartel.

For two full years before Katrina hit on Aug. 29, speculation drove up the price of gasoline by 83%, from $1.05 per gallon (Aug. 28, 2003), to $1.93 on Aug. 26, 2005; and crude oil by more than double, from $31.50 per barrel on Aug. 28, 2003, to $66.13 on Aug. 26, 2005. After Katrina hit, they drove it higher. When Hurricane Rita hit Florida, they drove the price to $67.39 a barrel. The oil cartel uses the NYMEX and IPE price *as a floor,* and drives the wholesale price above that, and the retail price even higher, with gas prices at $3.25 per gallon at the pump.

The German Economics Minister Wolfgang Clement recently estimated that, at present, $18 per barrel of oil is attributable to speculation. On Sept. 2, when German Chancellor Gerhard Schroeder announced his commitment for Germany to come to America's aid by oil and gas shipments, his spokesman Thomas Steg stressed that there must be collaboration between countries now, to crack down on energy companies to keep prices stable.

But in opposition to this principle, are the reports that Vice President Cheney turned down international offers of gasoline after Katrina! On Sept. 10, a Washington-based Mideast specialist provided details to EIR News Service, of how, on the eve of Katrina, the world was awash in crude petroleum, and Persian Gulf individuals proffered aid to the United States. Saudi Arabia and Kuwait have significant spare refinery capacity, and massive reserves of refined petroleum products. These countries refuse to disclose the total amount of their reserves of refined petroleum, but they have been building up their stockpiles for the past 15 years, so they are quite substantial. One source estimated that were Saudi Arabia to load four supertankers with refined petroleum products and deliver them to the United States in special sales, the price of oil would fall 40%.

Dick Cheney ruled out accepting these offers.

Context: Financial, Monetary Crisis

The runaway energy prices are best understood in terms of the overall end-phase crisis we have entered, of the disintegration of the international finanical 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. The other way to say it, as many commentators finally admit, is that financial bubbles of home mortgage securities, hedge fund bets of all kinds, etc., are now beginning to burst.

From this strategic vantage point, LaRouche addressed what must be done, in a webcast, Sept. 16, "The Great Change of 2005" (archived on www.larouchepac.com):

"People say, 'Is this a depression?' You know, there are some people who are really idiots. You tell them there's a depression going on, and they say, 'Yeah, but how's the market doing today?' 'Yeah, the market's doing fine, look at those derivatives.' What you're seeing as market expansion, is entirely financial derivatives. Now, financial derivatives are the equivalent to an economy, of cancer to a human being. 'I'm better than ever. The doctor says the cancer is growing!' That's what it is.

"But what this also means, is that the ratio of financial obligations outstanding, is so great, there is no possibility of an ordinary solution in bankruptcy court. Take, for example, right now: Let's take the case of the airlines. What we have, for example, in the oil price scandal: Probably $40 out of the going-toward-$80, now, of oil, is pure swindle. It's speculation, and it's run on behalf of the financial interests in the South, which concentrated the oil traffic in the Gulf area, to be near to George Bush, and the Carlyle Group. So, the United States economic operations, in respect to petroleum, have been concentrated to the advantage of the Bush family and related interests. That's where the speculation is.

"There was no shortage of petroleum! There was a superabundance of petroleum! The ports were *clogged* with petroleum. There is no oil shortage! And producing more oil from the reserves, is not going to solve the oil price crisis: It's purely speculative! It's speculators out manipulating the market, to rip people off at the pump by more than $40 a barrel.

"What is this being done for? For two reasons: First of all, because George Bush's friends love to steal. For example, it didn't occur to them what they could do, in the case of New Orleans, for example, until they discovered how to steal! And the way to steal, is to send Halliburton in there. Which is what they're doing. The same Halliburton, the same Bechtel crowd which pulled the swindle in Iraq! They fire the military engineers, fire the capabilities that we used to have, to deal with these situations; you bring in a private company, which boondoggles. Charges all prices, off record, unregulated. The Congress is not allowed to have hearings, which actually get into who's doing what for whom, in terms of these areas.

"They do the same thing with the oil price scandal: Someone says, 'Let's regulate it. This is out of control, this is not justified by supply and demand or any such consideration.' Schröder, the Chancellor of Germany, said in Gleneagles, 'Let's regulate it.' Who turned it down? The British and the United States. Why? To steal! What were they doing? Well, they were not just stealing: You recall the derivatives crisis which hit in the Spring. You will find that a lot of hedge funds went belly-up, as a result of that struggle. The whole system is ready to blow. So, bailing out their system, the hedge-fund system, is crucial for the people who run the system. How are they going to bail the system out? They're going to have to steal. *Well, $40 a barrel rip-off, off the top of the price, on oil, is a very good rip-off,* for people who desperately need profit to keep from going bankrupt.

Defend the General Welfare!

"We must also act in terms of defending the General Welfare. We need airlines! We're going to have to put the thing into government receivership, and reorganize the system, recognizing it has been torn down by speculation. By looting! We've got to put the thing back. We've got to rebuild the rail transport system. We've got to have a rational relationship between high-speed rail transport, and air transport. We've got to do a lot of things in this direction.

"We've got to go into a large investment, Roosevelt-style, but larger, into re-creating industries that are lost! But the problem in trying to re-create industries that are lost, is that we don't have the skilled labor force we have lost—through government and related policies—over the period since the 1970s, especially 1977. Under Carter, which is really under Brzezinski, we went into deregulation. We used to have a policy in the United States, even in the post-Roosevelt period, initially—a 'fair trade' policy.

"A fair trade policy meant, that you would arrange all the mechanisms of government—tariff regulations, all kinds of regulations—in order to ensure that if somebody is doing something, in the private sector, which is useful to the United States, useful to the people of the United States, we want them to stay in business. We don't want to go around the world, trying to find some cheap labor to replace them! We want to keep the farms, the industries, and so forth, *here.* We want our basic economic infrastructure solid.

"So, therefore, what we do, is, we set up a system of tariffs, and similar kinds of devices, to ensure that an honest industry, which is producing an honest product, is going to have the fair costs of its production paid. By setting the prices at that level. And it's going to be able to get credit, to be able to meet those obligations of production and so forth. To improve itself, to be more productive and so forth.

"So, we had a protectionist policy, which is called a 'fair trade' policy! We wanted to have, not big corporations gobbling people up, not stockholders who are fleeing from one corporate stock to the other every day; but, people who are committed in the long term to building an industry in a community. Within a state. People who are building for the future. We wanted private entrepreneurs, closely held companies, people who were production oriented: The machine-tool end of the thing, especially. This was our strength. This was the strength that Roosevelt used to make us the greatest economic power the world had ever seen, as we entered into World War II.

"We have to do it again. We can do it, again!

"But, we have to recognize that that's the problem! We have to recognize that the switch to a service economy was a piece of clinical insanity! We have to recognize that free trade is a piece of clinical insanity! We have to recognize that globalization is imperialism. We have to say, 'These things come to an end!' "

After Katrina

Given that we now face a huge natural disaster made into a horrible catastrophe, by the negligence and inaction of the Executive Branch on infrastructure maintenance generally, as well as in the case of the immediate epic storm, it is even more urgent for the Senate to rise to its unique advise-and-consent role, and initiate a long overdue shift to an economy-building policy. This is not a partisan question, but a matter of national public interest of the most profound and urgent kind.