Cheney's Wars and the Great Energy Price Heist of 2005

by Richard Freeman

Financier-dominated synarchist forces behind Dick Cheney are seizing upon Hurricane Katrina, to manufacture a non-existent oil shortage, and ratchet up the price of oil through $70 per barrel, in the direction of $125 per barrel. This giant swindle is looting populations and transferring the loot to the swelling profits of the oil cartel companies and the banks, using such theft to attempt to postpone the implosion of the bankrupt financial system. Some $30 to $40 of the nearly $70 charged per barrel of petroleum represents pure speculative loot.

An American intelligence official told *EIR* on Sept. 6, that soon after Hurricane Katrina struck, the Bush-Cheney Administration was told by Saudi Arabia, Kuwait, and other oil-producing countries that they had spare refinery capacity. Saudi Arabia and Kuwait offered to deliver gasoline and other refined petroleum products to the United States, to offset the temporary shutdown of some Louisiana and U.S. Gulf state refineries, and thereby drive down prices. The source said that the Cheney-led White House turned down the offers, knowing that they could disrupt the oil cartel's mechanism for price gouging. Instead, between Aug. 29, the day that Katrina made landfall, and Sept. 9, Cheney's friends in the cartel rigged gasoline prices, sending them soaring by 50%. Profits poured into the oil companies.

On Sept. 10, a Washington-based Mideast specialist further filled out the picture. He reported that on the eve of Katrina, the world was awash in crude petroleum. He confirmed that 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. He asserted 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.

The synarchist financiers that run Cheney are searching for loot everywhere: They have put on the agenda the privatization of Japan's Postal Savings system, in the Sept. 11 election victory of Japan's Prime Minister Junichiro Koizumi, who campaigned on behalf of privatization (see article in *International*). The nearly $4 trillion of the Japanese people's savings held in the Postal Savings system, would be moved to the world's largest banks. The same urgency to push back the general collapse of the world's monetary-financial system, has accelerated the Cheney crowd's insane push to attack and bomb Iran. Iran could spoil the oil rip-off, through its independent channels of petroleum exports—long-term state-to-state oil contracts—and its very existence, producing 3.5 million barrels of oil per day. With the threatened "mini-nuke" bombing of Iranian sites, shoot the oil price to $100, $125, $150 per barrel?

Cheney's Oil Swindle threatens to detonate chaotic breakdown in most of the economies of the world. But the scheme cannot work to save the bankrupt world financial system. In written testimony submitted to Senate Energy and Natural Resources Committee hearings Sept. 6 on the oil price spike, Lyndon LaRouche outlined steps to crush this bubble: Re-regulate the energy sector, including returning to long-term state-to-state oil contracts at non-speculative prices; and move, forced-march, to a development-centered New Bretton Woods system (see *EIR,* Sept. 9).

No Free Market

Over the past 30 months, the price of crude and refined oil products has been unflinchingly driven upwards. In Economics 101, one is told that the price of everything is set by

"free-market forces." But in fact, this price is set by a top-down controlled process from the moment the oil gets out of the ground; the final determination of the price is enforced by the speculative world derivatives market. As a visibly moved Sen. Byron Dorgan (D-N.D.) told the same Sept. 6 Senate hearings, "There is no free market."

Indispensable to the process's workings, is the British House of Windsor-pivoted oil cartel's control of all the critical aspects of the industry, *as a single integrated system:* 1) in the United States, the oil production system (aside from the imports); 2) in the oil refinery network; 3) in the oil distribution network; and 4) internationally, the oil derivatives market.

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 that just the top five oil companies—Royal Dutch Shell, ExxonMobil, BP, Chevron-Texaco, and ConocoPhilips—by dominating 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. The head of the Society of Independent Gasoline Marketers of America, William Shipley III, testified to the Senate hearing that the oil companies tell the gas station managers what to charge. Since 1976, this cartel has shut down part of U.S. refining capacity to create a shortage. Further, merely since 2001, these five oil companies have gouged more than $175 billion in profits.

TABLE 2

NYMEX Forward Oil Prices

Date	Gasoline (per gallon)	Crude Petroleum (per barrel)
Aug. 28, 2003	$1.05	$31.50
Aug. 27, 2004	$1.18	$43.18
Aug. 26, 2005	$1.93	$66.13
Sept. 9, 2005	$1.96	$64.08

Sources: U.S. Department of Energy, Energy Information Administration; NYMEX.

Determining the Oil Price

This oil cartel, in alliance with the City of London-Wall Street's biggest banks, has the final say on price. They 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 produced 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 British oligarchy's world oil cartel.

Table 2 shows that for two full years before Katrina hit on Aug. 29, speculation drove up the price of gasoline by 83%, and crude oil by more than double. After Katrina hit, they drove it higher. The oil cartel used the NYMEX and IPE price *as a floor,* and drove the wholesale price above that, and the retail price even higher, with gas prices at $3.25 per gallon at the pump.

Sabotage of Refinery Capacity

Caught with both hands in the cookie jar, the oil cartel has turned to a Big Lie: shouting, as the American Petroleum Institute (API) has done, that there is insufficient refinery capacity, and that API's member firms are too broke to build new capacity. The truth is just the opposite.

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.

Thus, the oil cartel is precisely acting the child who, after killing both parents, throws himself on the mercy of the court as an orphan.

API President Red Cavaney stated on Sept. 2 that the refinery industry could not afford to build new capacity, because it has earned "only" a 6% rate of return annually during the past 20 years. The last few years, many refinery companies have earned double-digit returns. But even taking the API argument at face value: Key U.S. electrical utilities earned a 3-6% rate of return during the period of 1950 through the end of the 1970s, but never failed to expand capacity. Moreover, last year, ExxonMobil made $25.3 billion in profits, the highest level of any industrial company in history. Couldn't it afford to build a new refinery, which costs $2.5 billion, rather than increasing dividends to reward shareholders' value?

Finally, there is the refinery capacity of Saudi and other Middle eastern countries, a portion of whose output was offered to the United States. According to the U.S. Department of Energy, Saudi Arabia possesses 1.75 million bpd of its own refining capacity; one oil industry newsletter stated that Saudi Arabia has another 720,000 bpd of in-country refinery capacity in joint ventures with other oil companies. Total refinery capacity on Saudi soil would be 2.47 million bpd. As a result, Saudi Arabia exports 1.15 million bpd of refined petroleum products; Kuwait exports 622,000 bpd; the U.A.E. exports 502,000 bpd. Part of these countries' refined product stockpiles—official and unreported—could be shipped on Very Large Long-Range Vessels, 500-750,000 barrel supertankers. Cheney said, "No."

Winter of Discontent

The scale of the Cheney-instigated oil hyperinflation is unprecedented. The Houston-headquartered Industrialinfo.com reported Sept. 14 that when, on Sept. 5, the price of gasoline was trading on the futures exchanges at $2.41 per gallon, this was equivalent to a $101.20 per 42-gallon barrel of gasoline. The prices of other refined products, such as jet fuel, home heating oil, followed the upward path. (Industrial-info.com also reported record refinery profit margins, contrary to the claims of the oil cartel).

Economies cannot process those increases and survive. For example, the airline industry is recording tens of billions of dollars of losses. In 2004, Continental Airlines paid $1.6 billion for jet fuel, but anticipates that it will have to spend $2.9 billion in 2005. American farmers are reporting that they are paying more for diesel fuel alone than they can make from the products they produce.

The Energy Information Administration (EIA) of the U.S. Department of Energy estimated on Sept. 14 that total U.S. spending on power and energy fuels will be over $1 trillion for 2005, a 24% increase from 2004.

This will be a Winter of discontent as households cannot afford to heat their homes. The EIA forecast that, even assuming complete restoration of all Gulf energy infrastructure by Dec. 1, the natural gas retail price this Winter will average $16.65 per 1,000 cu ft (more than triple the price of the Winter of 2002-03); heating oil in the Northeast will cost $2.52/gallon, double the price of 2002-03. Mark Wolfe, the head of National Energy Assistance Directors Association, noted on Sept. 14, "A few years ago, you could heat a home for $500. Now it takes $1,500." Moreover, two Florida-based electric utilities which use a gas for electric power, Florida Power and Light and Progress Energy, have just applied for rate increases of 15% and 11%, threatening a national electric-rate spike.

The activity of Democrats and some Republicans to tackle Cheney's oil spike swindle, reflects the paradigm-shift following Katrina's destruction. The Senate on Sept. 15 unanimously passed the measure of Senators Mark Pryor (D-Ark.) and Pete Domenici (R-N.M.), requiring the Federal Trade Commission immediately to investigate gasoline price gouging, and report back in 30 days. North Dakota Senator Dorgan proposed a windfall profits tax for oil prices above $40 (see *EIR,* Sept. 16).

Only by re-regulating and *reversing* the paradigm-shift of 35 years ago, which led to energy and industrial deregulation throughout the country, can the root problem be solved. That must be done within the context of solving the world monetary disintegration, which gives the impetus for Cheney's oil hoax and attendant wild behavior.

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