

TABLE 1

Most of Gasoline Price Doesn't Come From Crude Oil

| | Three Parts of the Price of Gasoline | | |
|---------------|--------------------------------------|-------|---------------------------------------|
| | Crude Oil | Taxes | Refining, Transport, and Distribution |
| United States | 38% | 33% | 30% |
| France | 15% | 71% | 14% |
| Italy | 16% | 70% | 14% |
| Germany | 18% | 64% | 18% |
| Britain-U.K. | 12% | 68% | 20% |
| Canada | 30% | 38% | 32% |
| Japan | 19% | 41% | 40% |

Source: Venezuelan press, week of 9-11-2000.

1973 Arab-Israeli War, oil was one of the most predictable commodities in the world. It was produced mostly by OPEC members, usually by government-owned companies such as NIOC in Iran, or Aramco in Saudi Arabia. Those OPEC government companies then made long-term supply contracts with the "Seven Sisters" oil multinationals or other larger independent oil companies. The big oil companies such as Exxon or Shell all owned their own tanker fleets which transported the contracted oil to their own refineries, whether in Aruba, Philadelphia, Houston, Rotterdam, or Hamburg.

Contracts were typically either state-to-state, say Saudi Arabia to Brazil, or, more often, they were state to private company, say Saudi Arabia to Mobil or Exxon. They were years-long, fixed supply and price agreements. Thus, if oil prices fluctuated even a few pennies per barrel, it was news. The third way to buy oil in the pre-1973 period was a tiny market, dubbed the "Rotterdam Spot Market," for the largest oil port in Europe. Here, on average, less than 3% of world daily oil output traded hands in small cargoes, often when another contracted supplier could not take delivery and it was free to be sold.

"The oil market today has totally changed from 20 years ago," commented a senior oil tanker industry source from Fearnley's Research in Norway, in a discussion with *EIR*. "Today, between the day a given tanker is loaded with oil in, say, Dubai, and the time it is finally offloaded at, say, a U.S. or Rotterdam refinery, that oil cargo could be sold 15-20 times or more."

"Derivatives have made this possible," he stressed. "The price you read for Brent or WTI [West Texas Intermediate] crude in the daily papers today is no physical, actual price of oil on that day. It's the futures or derivatives contract price one or two months away, on either the London International Petroleum Exchange where Brent contracts for North Sea oil are sold, or on the Nymex in New York, where WTI contracts are traded. It is all derivatives or futures prices we speak

about, and that can swing wildly depending on any credible rumor, especially in a tight market like today."

Speculative Rumors and Swindles

Oil prices shot up \$2 in one day in mid-September, on reports that Iraq had charged Kuwait with illegally stealing its oil from the Neutral Zone area, the same issue that triggered the 1990 Iraq invasion of Kuwait. Since the price is actually the futures contract price, and a tanker of oil loaded in the Persian Gulf takes on average 60 days to offload on the U.S. East Coast, rumor and "perception" can play a huge role in speculative buying or selling of oil futures. It is a speculator's dream.

Fearnley's analyst elaborated, "You only saw the first oil trader come in 1974 or so with Phibro Co. There were virtually no traders then. In the end of the 1970s and the 1980s, the

LaRouche: Bring Oil Price Inflation Under Control

The following memorandum was issued by Lyndon H. LaRouche, Jr. on Sept. 19.

1. The following statement constitutes a preliminary statement of policy "On the Subject of Emergency Action by Governments to Bring the Present Petroleum-Price Inflation Under Control."

2. Broadly, the current global inflation in petroleum prices threatens to be the detonator of a chaotic breakdown in many, if not all of the economies of the world. The actions proposed here to deal with that emergency situation will not solve the more general problem of the world's financial and monetary systems at large, but will contribute an important, and perhaps decisive step in that direction.

3. The underlying cause of the crisis, of which the petroleum-price crisis is but the presently leading political-economic consequence, is a general hyperinflation in financial asset-prices, which is now being expressed, at increasing rates, as a hyperinflation in commodity prices now following a trend similar to that suffered by Weimar Germany during the interval March-November 1923.

4. For sundry, converging, and relatively obvious reasons, the most brutal effect of that upward spiral of financial hyperinflation is being expressed in devastating rates and magnitudes of rises in the costs of petroleum. The increasingly desperate effort to secure inflows of financial assets into the U.S. dollar sector, has seized upon several

market changed dramatically. Oil multis got out of the tanker business, especially after the *Exxon Valdez* debacle. State-to-company contracts vanished. Today the market is dominated almost entirely by traders. This has made things far more volatile, because that's where traders make profit."

In a \$10 million lawsuit filed in U.S. Federal Court in the Southern District of New York on Sept. 13, the large U.S. oil refiner Tosco Corp. charged that a group of oil speculators in London, led by Arcadia Petroleum, a subsidiary of the Japanese Mitsui Trading Group, and Glencore, of Zug, Switzerland, created a deliberate market "squeeze," using derivatives or oil futures contracts, traded on the London International Petroleum Exchange. Tosco alleges that Arcadia Petroleum effectively took control of the Brent North Sea oil market for the two weeks between Aug. 21 and Sept. 5, just four days before the OPEC meeting. It did so by buying more

futures contracts (i.e., agreements to buy at a future date) than the entire Brent North Sea market supplied in the month of September.

Brent is the "benchmark" crude which sets the price for all the major oil-producing Atlantic countries, from Nigeria to Angola to Libya to the entire North Sea. It is a small market and, given the huge volume of derivatives traders in the London Brent futures market at the IPE, Tosco claims that Arcadia artificially pushed prices \$3.33 higher in two weeks.

"The paper oil market today allows the kind of thing Arcadia did," remarked a senior oil trader at a large London bank. "The Brent market was set up years ago. If a trader focusses his positions into a one- or two-week period, like Arcadia, taking futures positions on tens of millions of barrels, you gain huge profits if spot or so-called dated Brent prices rise versus the futures price. Arcadia ensured that, by

combined factors, as the opportunity to increase asset-price accumulations from hyperinflationary trends in the delivery prices of petroleum products.

These factors include: recently increased concentration of ownership of major oil companies through mergers and acquisitions, the increased role of the spot market in petroleum deliveries, the significance of denomination of deliveries in U.S. dollars, and an intensity of speculative activity, especially in the form of financial derivatives, in this area which threatens to bring the per-barrel price of petroleum to between \$40 and \$50 per barrel, soon, and not much later, much higher.

5. No ordinary means could bring this problem under control during even the short term. Only drastic measures taken in concert between and among sovereign national governments, could bring the petroleum-price crisis itself under control. Any other proposal would be a childish delusion. For the immediate future, either such governmental action will be taken, or the eruption of international chaos within the weeks ahead were the likely result.

6. The appropriate action, which must be led by the U.S. government, must aim at immediate emergency cooperation among the governments of principal petroleum-exporting and principle petroleum-consuming nations.

7. These governments must: a) Declare a general strategic emergency in the matter of stability of flows and prices of essential energy-supplies of national economies; b) Establish contracts, directly between and among governments, of not less than twelve months government-scheduled deliveries of petroleum from exporting to consuming nations; c) Define reasonable prices for these contracts; d) On the grounds of a global strategy emergency in petroleum prices and supplies, these governments must set priority on processing of such contracted petroleum

flows through relevant refiners to priority categories of consumers in each nation, causing other stocks to be shunted to one side in the degree that these priority deliveries must be processed first.

8. Such action will, obviously, collapse much of the current hyperinflationary trends in petroleum. That will have a significant political effect, in the form of reactions from the speculators currently gorging themselves on the suffering of national economies suffering zooming speculative prices of petroleum. We can not permit the cupidity of a powerful few speculators to destroy enterprises essential to the national interests of nations, and to the relations among those national economies. That opposition to urgently needed measures must be resisted on grounds of overriding national strategic interests.

9. This proposed action will not cure the more general hyperinflationary trend in progress. It will only bring a most critical segment of this speculative inflation under control; but it will set standards of cooperation now urgently needed, for dealing with the general international banking and related crises about to strike the world as a whole during the weeks and months immediately ahead.

10. There are many details of the current speculative marketing of petroleum contracts which require closer scrutiny and related assessment. That investigation should proceed; it is urgent. However, those representatives of governments who understand the politics of oil, must play a leading role in implementing the general measures I have indicated, now, without delay. After a thirty- to ninety-day initial period of operation of the proposed agreements, secondary and tertiary features of the problem will be clearer, and, most important, governments and others will have developed the mechanisms needed for further courses of action.