Will Your Aunt Freeze in Her Rocking Chair This Winter?

by Mary Jane Freeman

As the United States enters the Winter months, government and energy officials still don't have a clue whether the necessary fuel supplies will be available to keep homes warm, industries running, or schools, hospitals, and basic public services operating. Whether your state primarily relies on oil, natural gas, or propane, doesn't matter, as the watchword is, "supplies are low." Various state and local initiatives have been launched in an effort to do something about this crisis, but all fall woefully short of what is required. The one exception to such piecemeal efforts is Boston City Councilman Chuck Turner's Resolution on Emergency Governmental Action To Reduce Oil and Natural Gas Prices, introduced into the Boston City Council on Nov. 1 (see *Documentation*).

Turner's action is the first to take up what *EIR* Founder Lyndon LaRouche called for on Sept. 19: emergency government-to-government action to bring oil-price inflation under control. It is only such a top-down approach which has a snowball's chance in Hell of securing adequate fuel for Americans this Winter.

Councilman Turner, in motivating his resolution, noted that these emergency actions were proposed by LaRouche, whom he characterized as being "very controversial" in the media. But, he said, the Council must look beyond the controversy to the content of the proposal. He said that LaRouche's proposal addresses why the price of oil and gas are up, despite the fact that the Organization of Petroleum Exporting Countries have increased production four times since April. Production exceeds consumption, he said, but the price continues to increase. He cited three reasons (all from LaRouche's analysis) for these increases: 1) the major oil company mergers, the costs of which have been passed on to the consumer; 2) the lack of refining capacity; and 3) speculation in the oil futures market, which he identified as a major factor. Finally, Turner stressed that people can't afford these increases.

Some Vulnerabilities

"Will your aunt freeze this Winter?" is not a far-fetched question, when you consider the following vulnerabilities the United States faces. Prices for home heating oil nationally, are expected to be 30-60¢ per gallon higher this Winter than last, pushing the average price per gallon up to $1.31. The Coalition of Northeastern Governors reports that the U.S. Department of Energy's (DOE) Energy Information Administration projects that a typical "Northeast residential heating oil customer will pay $901 for fuel this Winter," an increase of almost $135 over last Winter. Likewise, natural gas prices hit $5 per gallon by early September—before Winter demands kicked in. Prices for propane (also known as liquefied petroleum gas, or LP) are rising. Propane, while used for only 3-4% of the country's energy needs (affecting 60 million people), has seen prices spike, as of September, by 58.31¢ per gallon on the spot market. In addition, propane inventories at the end of July 2000 were about 54.2 million barrels, "near the lower limit of the normal range," and "in the Midwest—where propane is used extensively to dry crops in the Fall and Winter—inventories lagged significantly below normal," the American Petroleum Institute (API) reports.

In the Northeast, as of mid-October, reserves of No. 2 heating oil stood at 3.1 million barrels, or less than 40% of the ten-year average of 8 million reserve barrels for the area at this time of year. Indeed, compared to last year's reserve (14 million barrels), which officials procured in the face of alleged Y2K shutdown scenarios, this year's level is a disaster waiting to happen. Factor in that the last four Winters have been warmer than normal, and energy officials expect this Winter to be at least 10°F colder than last, and the reserves are clearly insufficient. Seventy-five percent of the nation's heating oil is consumed by the states in the Northeast, and 90% of it comes directly from refineries, not inventory reserves. So this, too, increases the risk to supply delivery.

The primary reason for the reduction in reserve barrels is that "heating fuels markets have become commodity markets, with all the volatility (and risks) associated with them," according to the Coalition of Northeastern Governors' Regional Fuels Task Force's report, "Winter Fuels in the Northeast—Managing an Energy Market in Transition." What that really means is that "just-in-time" inventories, adopted to "reduce carrying costs and exposure to market price volatility," guarantee that market players make the big bucks while the general welfare be damned (see *EIR,* Oct. 13, 2000, p. 8). One Northeast state energy official said that "unconfirmed rumors are flying" that, to make a killing this Winter, the major investment houses, such as Morgan Stanley Dean Witter, are booking barges so as to have absolute control over distribution, and/or are engaged in demurrage of tankers, i.e., filling them but keeping them at sea, or holding them empty.

Another serious vulnerability is the fact that the last new major refinery built in the United States was in 1976, and there are only 149 refineries, with a capacity of about 16 million barrels a day. This year, U.S. refineries have been running at about 96% capacity, turning out record amounts of gasoline and distillate fuels, according to the API. Normally, refineries reduce operations in September and October to conduct scheduled maintenance at a time that, typically, minimizes impact on supply. But this year, they have run at full tilt all year, increasing the likelihood of breakdown, or what is called an "unscheduled outage."

With low inventories, high prices, and marketeers unwilling to bring in reserves, Americans are left very vulnerable this Winter. Add to that the near-term blowout of the financial markets and crash of the dollar, and a possible Middle East war, and it should be clear that the disruption of supplies will most likely occur. Any honest official, as Councilman Turner has, would see the urgent need for LaRouche's top-down approach, which asserts the role of government to protect the general welfare as the only sane solution to this mess.

The 'It's Out of Our Control' Syndrome

Most state energy officials in New England, having experienced significant price spikes and supply interruptions last Winter, and seeing little or no abatement in the price of oil, against which all other fuels are pegged, know that they have a ticking time bomb on their hands. Some have launched initiatives to manage the impossible, but even these efforts start from the premise that the free market is inviolable. As the Governors' Winter Fuels report asserts, "The forces driving these dynamic markets are beyond the ability of any single entity to control. . . . While the Governors cannot directly influence global and national economic forces," they will try to "mitigate the impact of heating fuel price and supply swings on consumers." Or, as one New York State energy official told this researcher, "other than emergency measures, the state is not able to dictate to private providers requirements vis-à-vis obtaining and maintaining fuel oil supplies."

Two examples of such initiatives illustrate the point. In February-March 2000, in reaction to the combined increase in demand in January, coupled with the New York spot market prices starting to soar, the Northeast Governors and President Clinton worked to create a Northeast distillate reserve. In July, the DOE submitted a plan to Congress for this reserve, and it was adopted. As of August, a 2 million-barrel Regional Heating Oil Reserve was set up in the Northeast, providing a 7-10 day supply. The reserves will be stored by three suppliers, in the New York harbor and the New Haven, Connecticut area. But, as another Northeastern state energy official stated, not only is the location problematic for his state, but the release of these reserves will occur only "under fairly extreme" conditions.

Massachusetts energy officials have initiated what they call an "unprecedented" temporary emergency legislative action, because they expect a "most difficult Winter," largely due to "the extraordinarily low inventories, higher prices, volatility of fuel prices, world events, and the weather." If passed by the legislature, it would create a $5 million program to increase the amount of heating oil store, which would offer incentives to wholesale and retail oil distributors who store 10,000 or more barrels of No. 2 heating oil in the state. The legislation is pending in the Ways and Means committees of the two chambers.

The gist of the program is that the state would cover 50% of the "carrying costs" of distributors who have won a bid to be in the program, for oil stored between Dec. 1 and Jan. 15 which they were unable to sell. (There is a complex formula still being worked out.) In the event the distributors sell that stored oil at a considerable profit during that time period, then the state is awarded some percentage of the profits. Bids will be taken from distributors in four regions across the state, so as to ensure statewide distribution based on population needs. Massachusetts Division of Energy Resources Commissioner David O'Connor said that this "unprecedented" action is required because the state faces "unprecedented conditions." He was quick to add that, by this legislation, "the state is not dictating to the market, but rather creating an incentive which will let the market work, but at the same time protect our citizens." The legislation also provides incentives for refurbishing home heating systems, sets up a state reserve for government use, and provides additional subsidies for low-income families to cover their energy bills.

Around the Nation

Every state energy official interviewed recognizes that if the unexpected happens, "We're going to have problems." Here's the picture around the nation.

- In New Hampshire, the state ran a very successful Summer "pre-buy" program for consumers, to lock in a lower oil price than those expected this Winter. A spokesman was asked, Do your wholesalers have the inventory? The answer was, "We are advised that business practices are that no one goes out and buys wet barrels, but rather they operate on a just-in-time inventory. This is in part due to the futures markets which are in 'backwardation' [prices are lower on the futures market] instead of in 'contango' [prices are higher on futures market]."
- In Maine, home heating oil is already 50¢ higher from one year ago. Officials there say, as one put it, that "there is

not a supply crisis, but rather a serious issue of how households can pay."

- In Connecticut, expected price spikes due to the "very volatile spot market" are the main concern. Asked if there are adequate inventories of No. 2 heating oil in the state, the reply was, "I doubt it, but there is nothing we can do about that. Because of the backwardation in the market pricing, suppliers are holding off getting the inventory. So, we do have a hand-to-mouth situation, as we have had for the last few Winters."
- In New Jersey, a 16% price increase for natural gas compared to last Winter has necessitated the public utilities board to approve rate increases for four natural gas companies which service the state. As of Dec. 1, the companies will be allowed to adjust their customer billings "upwards or downwards by 2% each month to reflect market conditions." Some 40% of the state uses natural gas. Asked about the remaining 60%, most of whom use oil, an energy official said, "It's strictly up to the free market."
- In Washington, D.C., Maryland, and Northern Virginia, the largest natural gas provider, Washington Gas, says that customers should expect a 27% increase in their November-April bills.
- In Virginia, Quarles Co., a Fredericksburg-based liquid propane supplier, is informing some customers that they will not be sold gas this Winter, at any price! Clients who have customarily used little during Winter months (for example, a household which uses LP as backup for electrical heating), are being told that they cannot have any this year. (Nor can such a customer go to another supplier, because the latter will not fill a Quarles tank.) Quarles is also refusing to resupply any household with an unpaid balance from last year, when the price went up. Many households where retirees live on a fixed income now face Winter with *no heat*.
- In Michigan, residential heating oil is already at $1.32 per gallon, up from last Winter's high of $1.21. Propane users—6% of residential users (207,000 homes), 32% industrial, and 10% commercial—can expect big increases. Residential propane is at $1.18 per gallon, up from 88¢ in October 1999, and supplies are low.
- In Iowa, the Des Moines school district was notified by its natural gas supplier to expect a 48% price increase this Winter. The state's plan for affording to heat the schools is to cut out new book purchases, training programs, field trips, and band equipment. The hospitals have no statewide purchase program, and so, one by one, they negotiate the best price possible. Many locked in as of July (already at a higher price) for this Winter's fuel. Otherwise, state officials hope to handle increased energy costs by relying on the added sales tax revenue which will result from higher fuel bills.

The unexpected *will* happen. Therefore, taking up the Franklin Roosevelt-type approach LaRouche has proposed is the only survival kit to ensure our country does not shut down this Winter.

Documentation

Emergency Resolution To Reduce Oil Prices

The following "Resolution on Emergency Governmental Action to Reduce Oil and Natural Gas Prices," was offered by Boston City Councillor Chuck Turner on Nov. 1.

Whereas: The price of oil has more than tripled since January of 1999, to over $35 per barrel, and threatens to go even higher over the coming weeks and months; and

Whereas: Worldwide oil prices continue to rise despite increased production by OPEC [Organization of Petroleum Exporting Countries] nations, and release of the U.S. Strategic Petroleum Reserve; and

Whereas: The citizens of Boston, Massachusetts, and the New England states in particular, will face danger from increased fire hazards, as well as severe and potentially deadly economic hardship this winter, due to increases in prices for home heating fuels; and

Whereas: The petroleum price crisis is presently but one leading economic consequence of a general hyperinflation in financial asset-prices, now being expressed at increasing rates as a hyperinflation in commodity prices, following a trend similar to that suffered by Weimar Germany during 1923; and

Whereas: The increasingly desperate effort to secure inflows of financial assets into the U.S. dollar sector, by means of various forms of speculative activity, seizes upon several combined factors, to increase asset-price accumulations from hyperinflationary trends in the delivery prices of petroleum products; and

Whereas: These factors include recent 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 delivery in U.S. dollars, most especially the intensity of speculative dealings in the form of financial derivatives in this area, which threaten to bring the per-barrel price of petroleum to between $40 and $50 soon, and not much later, much higher; and

Whereas: Only drastic measures taken in concert between sovereign national governments can bring the petroleum-price crisis under control; and

Whereas: Appropriate action led by the U.S. government must aim at immediate emergency cooperation among the governments of principal petroleum-exporting and principal petroleum-consuming nations; and

Whereas: The actions of legislative groupings, i.e., town and city councils, state legislatures, and Federal elected representatives must uphold the oath of office to defend and secure the General Welfare of all citizens; and

Whereas: The following actions proposed by economist Lyndon LaRouche to deal with that emergency situation contribute an important, and decisive step in the direction of moving the government of these United States to act in concert with other nations to solve the more general problem of the world's financial and monetary systems;

Therefore Be It Resolved: That the City Council of Boston urges the President of the United States, the U.S. Senate, and the House of Representatives to take emergency action to reduce oil and natural gas prices, including the following measures:

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 the U.S. government and the governments of petroleum-exporting nations, of not less than twelve months government-scheduled deliveries of petroleum;

C. Define reasonable prices for these contracts;

D. On the grounds of a global emergency in petroleum prices and supplies, set priorities on processing of such contracted petroleum flows through relevant refiners to priority categories of consumers in the United States, causing other stocks to be shunted to one side in the degree that these priority deliveries must be processed first;

E. Urge governments of other oil-consuming nations to take these same actions, in the context of this global emergency;

F. Investigate petroleum market manipulation, through financial derivatives speculation or other unfair speculative practices, and probe allegations that some portion of the U.S. Strategic Petroleum Reserve recently released for the benefit of citizens of the Northeastern United States, are in fact being exported overseas for profit by U.S. refineries;

Be It Further Resolved: That the City Council of Boston urges the Government of the Commonwealth of Massachusetts, the Massachusetts General Court, and other state and local governments of the United States to support these emergency actions in the vital interest of the General Welfare of its citizens.

Why Tony Blair's Britain Is 'All Wet'

by Mark Burdman

In our Oct. 13 issue, *EIR* published an article entitled "Britain's Blair Has That Sinking Feeling." The article highlighted the fact, that all the late-September British press were running photos of the beleaguered British Prime Minister Tony Blair soaked in sweat, as he made his keynote address before the annual Labour Party conference. It concluded with the advice, that given the further trouble he was soon to find himself in, Blair "should make a special appointment with his dry cleaners."

This author didn't know how prophetic those words would be. Less than six weeks later, the British print and electronic media of the weekend of Nov. 4-5, were featuring pictures of Blair wading knee-deep through water, visiting areas in Britain that had been hit by the worst floods in decades. The city of York, in northern England, was experiencing its most massive flood in 375 years.

Even though it was certainly the case that Britain, as well as France and other European countries, was hit by terrible storms in early November, the vast flooding in the U.K. only further conveyed to growing numbers of people in Britain, that the current government is itself a disaster. The flooding—which affected more than 20 rivers, caused more than $2 billion in damages, and produced other terrible consequences—occurred after several other debacles had already hit Britain, including the British railways crisis (as we reported last week) and the September national protests against the high prices of fuel.

Blair and his entourage became so agitated about the situation, that he indefinitely postponed a scheduled Nov. 4-5 trip to Moscow, where he had hoped to wheel and deal with Russian President Vladimir Putin, at a key strategic moment, when the United States was distracted by its bizarre Presidential campaign. Blair was nervous, that if he went to Moscow, he could be caught in the act, being "wet" in a different sense: As one British commentator put it, he couldn't be photographed drinking champagne with Putin, while people back in Britain were slogging through water.

Blair and his team frantically sought to come up with an additional explanation for the horrid flooding—beyond the weather only—claiming that the calamity is proof of the consequences of alleged "global warming," and the "dangerous effects of mankind's influence on the environment." This is part and parcel of Blair's late-October/early-November speeches espousing "green" causes.