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Oil and gas price 'shock' shows hyperinflation process

by Marcia Merry Baker

"Sticker shock" at the gas pump is how the average person sees the run-up in crude oil prices, which set record rates of increase in recent days and months. **Figure 1** shows the 300% increase in the per-barrel price of crude oil on world markets from December 1998 to March 2000. The prices of all the petroleum-derived products—gasoline, fuel oil, jet fuel, diesel, and chemicals—are jumping. Nationally the U.S. average gas pump price went from $1.15 a gallon of gas in 1999, to over $1.50 and rising. There are war-whoops sounding in Washington, that the "foreigners" better put more oil onto the "markets," or else.

FIGURE 1
West Texas Intermediate Crude oil price, 1995-2000
($ per barrel)

Source: Dow Jones.

But think again. Is this really just another simple case, though an extremely dramatic one, of so-called supply and demand gone out of sync? No. Granted, there are supply-and-demand factors involved. But more importantly, what is manifest in the petroleum drama is a *hyperinflationary process* in the entire financial system, such that, in varying ways, price inflation is hitting throughout all commodities (minerals, food supplies, and fuel), and in other vital sectors of the physical economy.

On March 8, the day after crude oil hit over $34 a barrel (for April futures), Presidential pre-candidate Lyndon LaRouche stressed that the main factor behind the dramatic increase in the oil price, is the process of hyperinflation which Federal Reserve Chairman Alan Greenspan et al. have set into motion to try to save the bankrupt financial system. The oil price inflation is just another aspect of the bubble, such as we are now seeing in the hyperinflationary explosion of prices in real estate in selected areas, and the overall rush of money into hard commodities.

LaRouche pointed out again, as he has raised repeatedly in recent months, that the relevant historical point of reference is the 1923 hyperinflation of 1923 during the Weimar Republic in Germany. LaRouche stressed that today, while "market forces" may be playing a role in how the price rise is being created, they are not "causal."

In recent years, as the casino character of world financial flows produced the giant bubbles of speculation (stock markets, currency trading, real estate, futures of all kinds, especially derivatives), certain "smart money" flowed, along with political control, into key power positions all along the supply lines of vital economic commodities, including fuel, food processing and distribution, minerals, precious metals, even water. As of the late 1990s, the process of selective mergers

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and acquisitions has resulted in cartels with tight control over these critical commodities, above and beyond all national boundaries and interests.

The controllers are financially and politically centered in London, operating through Wall Street, Canada, and the British Commonwealth, and are thus best branded as British-American-Commonwealth (BAC) faction.

Unless the insanity of selectively "overlooking" this, and backing the hyperinflation of Greenspan's "bubble policy" is stopped, and instead, nations invoke their sovereign rights and duties to restore vital economic functions again, then today's oil price shock is nothing compared to what lies ahead.

'Market forces' are not causal

At present, total world production of crude oil, in millions of barrels per day, and worldwide consumption of crude oil, are each in the range of 74-75 million barrels per day (mbd). Thus, supply-and-demand patterns are so very close and tight, that a variety of so-called "market factors," from financial to weather, can be the imputed cause of any shortages. There are grounds for Iran's Oil Minister, Bijan Namdar Zangheneh, stating on March 8 in Riyadh, Saudi Arabia, that soaring oil prices are "purely the result of speculation by dealers. There is no reason for prices soaring as we approach spring."

There is, at present, intense focus on whether the Organization of Petroleum Exporting Countries (OPEC) members will agree to produce more oil, at their next meeting on March 27. OPEC nations agree on quotas for output, and in April 1999, when the world oil price was low, they cut their output in hopes of seeing higher prices. There is a similar focus on key non-OPEC members, such as Mexico. The decision to pump more oil, even the prospect of OPEC deciding to do so, can result in a lowering of the crude oil futures price.

The OPEC nations are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. In 1999, they accounted for an estimated 29.46 million barrels a day of output, or 40% of world production. Other leading producers at present are Mexico, with 3.63 mbd in 1999, or 5% of world output, and Canada, 2.741 mbd, or 4% of world output.

But, the idea that there is a "producer cartel" is a fairy tale. The reality is that there are other decisive factors. To begin with, there is the increasing *dependence* on hydrocarbon-based power (including coal and natural gas), instead of on modern, clean nuclear, and even the remaining, undeveloped water power. There is the impact of the increased *cartel control* over commodity supplies; and related to that, the *oil geopolitics* of the international cartel grab for resources. (In future issues, we will provide reference graphics on these factors.)

The United States alone, as of the mid-1990s, consumes over 26% of all the crude oil produced annually in the world, while producing only 12%. Crude oil output in the United States, despite the Alaskan oil fields, has *declined every year* since 1970 by an average of 1.5%! The United States now imports over 50% of its oil supply each year—not the fault of OPEC.

So, the shock effect is sudden and deep for any so-called market "episode." Take the U.S. transportation sector. Fifty years ago, the *mode* of moving passengers and freight was more advanced than today, in that there were fuel economies-of-scale in use. For example, there were electrified mass urban transit systems, powered by stationary utility plants, relatively fewer individual gas-driven cars and buses. Likewise, a much higher percentage of bulk freight went on rail, or by barge on waterways, than today. Now, after the rail takedown, and deregulation of trucking, freight volume has shifted over onto the highways, which is costly and highly sensitive to diesel and gasoline prices.

Downstream and upstream control

In the oil business, "downstream petroleum" refers to refining, marketing, and transportation (e.g., pipeline, marine transport). It is legendary that these activities have always been dominated by a handful of giant companies. But in recent years, that control has been concentrated by a series of giant mergers. The original Seven Sisters have been reduced to five, thanks to Exxon's acquisition of Mobil (reuniting the two biggest spin-offs of the old Standard Oil Trust), and Chevron's 1984 acquisition of Gulf. Today, three Sisters dominate: Exxon-Mobil, BP Amoco (formed by British Petroleum's acquisition of Amoco, and its pending takeover of Arco), and Royal Dutch/Shell. The BAC oil cartel is thus set to make a killing from the hyperinflationary chaos.

The other two Sisters, Chevron and Texaco, recently cancelled their merger talks. There have also been many mergers among smaller oil and gas, chemical, and related raw materials companies.

In the United States, when oil prices were low during the mid-1980s and early 1990s, there was an extensive shake-out of smaller firms, and concentration of ownership of oil infrastructure by the few cartel companies. During 1988-97, forty-three domestic U.S. refineries, with capacity totalling more than 1.1 million barrels a day, closed their doors. Any sensible redundancy in storage or refinery capacity is gone. At the same time, the mega-majors integrated their refinery, storage, and handling operations extensively into Caribbean Basin fields, such as Venezuela and Mexico. Today, 48% of U.S. oil imports come from Venezuela, Mexico, and Canada.

On the "upstream" side, which refers to petroleum exploration, development, and production, the BAC circles are stalking the globe, threatening war, in their moves for rights and control over contested resources. Targets are the Caspian region and other new fields, as well as the Siberian resources, and existing deposits.

Oil price shock-effects on economy

The crude oil price spike of 22% just since the beginning of the year, is having major effects in all oil-importing nations. Look at the situation in the United States.

In agriculture, the costs of U.S. planting this spring are expected to increase by at least $1 billion because of higher diesel fuel prices. Beyond that, each agricultural commodity has special problems. In Maine, truckers don't want to move potatoes to market because of the diesel costs. In Pennsylvania, dairy farmers have appealed for state help, because they can't bear the burden of higher diesel costs, with farm milk prices so low.

In the chemical industry, petroleum is a feedstock as well as an energy input. Dow Chemical Co. reports that in 1999, it paid $540 million more for oil and hydrocarbons than in 1998—one of the reasons cited for its big fall in stock price on March 7. According to the Chemical Manufacturers Association's calculations, a 10% increase in the price of oil will result in a 2-2.5% increase in the costs of chemicals within three months.

In the face of these and other obvious impacts, the most hysterical reaction to the situation is the fantasy that the "New Economy" doesn't depend on oil anyhow. This line of insanity is now appearing all over the U.S. business pages. The argument is that only "Old Economy" activities, like manufacturing, are affected by oil costs. New Economy cyber-tech companies, they claim, exist in the virtual e-world of energy-free activity.

The Way Out of The Crisis

A 90-minute video of highlights from *EIR*'s April 21, 1999 seminar in Bonn, Germany.

Lyndon LaRouche was the keynote speaker, in a dialogue with distinguished international panelists: **Wilhelm Hankel,** professor of economics and a former banker from Germany; **Stanislav Menshikov,** a Russian economist and journalist; Schiller Institute founder **Helga Zepp-LaRouche** from Germany; **Devendra Kaushik,** professor of Central Asian Studies from India; **Qian Jing,** international affairs analyst from China; **Natalya Vitrenko,** economist and parliamentarian from Ukraine.

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EU is demolishing European agriculture

by Rosa Tennenbaum

The free-market doctrines of the European Union (EU) are destroying agriculture in Europe, as farm income suffered a dramatic drop in the past year, and farmers and their families are being thrown into a depth of poverty that has not been seen in Europe since the 1930s. In the Netherlands, for instance, 44% of all farmers do not make enough income through their farmwork to bring their living standards above the poverty line; if non-farm income is taken into account, that figure is still 33%. People who work for 14 hours a day, cannot even earn a modest income for themselves and their families.

Most horrendous is the situation in Great Britain, where farmers' income dropped 63% during the past two years. Two-thirds of British farmers fear they will lose everything, according to a report by the National Farmers Union (NFU). More than half say they will soon be unable to meet their rent payments. Livestock farmers are being hit particularly hard: Lambs and hogs have become almost worthless, and beef cattle prices are very low.

The government of Prime Minister Tony Blair has started to discuss whether the country should get rid of British farmers altogether, the *Sunday Telegraph* reported on Feb. 26. The paper outlines what the 85% of Great Britain which is farmland today, could look like. The land would revert to wilderness, a prospect which is welcomed by many, who argue that "a countryside thick with oak trees would surely be preferable . . . to the chemical-bound landscapes of modern agriculture." Wildlife would thrive, as abandoned farm animals would become established as wild animals. "Pigs would do best. Cattle, too, would thrive. . . . Sheep, however, would rapidly die out."

This situation is not without irony: Great Britain and the Netherlands form the spearhead for globalization and liberalization in the EU, and it is in these countries, where the "blessings" of free-market policies are coming down on their populations most dramatically.

EU agricultural policy is not a national issue. The policy is being defined at the headquarters in Brussels by the European Commission; the member countries—who surrendered their national sovereignty under the protocols of the Maastricht Treaty that formed the European Union—now have only limited powers and means, if any, to pursue their own aims. On