

## Editorial

### *Fix Oil Prices, Bust the Speculators*

In light of the skyrocketing price of oil products, which threatens the welfare of all nations, Democratic Presidential pre-candidate Lyndon LaRouche has issued a call for governments to intervene and set the price of crude. A reasonable target price, LaRouche said, would be in the range of \$22-29 a barrel, probably around \$25-26. At this level, the producers would cover their cost of production, without creating disastrous problems for consumers.

Most importantly, the establishment of government-to-government contracts at such a price, would accomplish the goal of busting the speculators, who are the cause of the current price bubble.

It should be clear from the start, that the outrageous price levels have nothing to do with supply and demand. Figures from the International Energy Agency confirm that there is a healthy surplus of supply over demand worldwide. Nor is OPEC the culprit; the oil-producers' organization now is estimated to control only about 38% of world production, hardly a cartel at all. Rather, the high prices are the result of speculation on the Rotterdam and other markets, by hedge funds and others who have bet on higher and higher prices, as a means of trying to prop up the financial system a short while longer.

It is reported that most of the trading has nothing to do with physical delivery of oil, but only with oil futures—pure speculation.

The physical production side of the oil industry is not irrelevant, of course, as it affects the motivations of the speculators. In this respect, *EIR* is investigating reports that the price rise is related to a policy by the U.S. government to substantially build up the U.S. Petroleum Strategic Reserve since 9-11, in anticipation of disruption of production in the Gulf region. It is reported that the U.S. has increased the amount of oil in the reserve to the maximum, and it has refused to release any of it in response to demands from U.S. Congressmen alarmed about the current price rises. It is also clear that the ongoing, and potentially spreading, hostilities in Iraq are contributing to uncertainties which will tend to increase the price.

But action must be taken now to *re-regulate* the oil

price, through cooperative actions by sovereign governments. Cooperation on this matter, between the United States and the principal petroleum-exporting and petroleum-consuming nations, will not only curb the speculators, but will set standards now urgently needed for dealing with the general banking and financial crises about to hit in the weeks ahead.

The form of such action, as outlined by LaRouche during the last dramatic run-up of oil prices, in September of 2000, provides a model for how to address the present situation. At that point, LaRouche wrote:

“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.

“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.”

Today, with the crisis of the bankrupt world system, and the physical economy, being much more severe, LaRouche's proposal is even more urgent. The only solution is to re-regulate now.