The London Loophole

Oil Prices: Senators Want Truth, Not Soros

by Paul Gallagher

From the coverage in the London *Independent* and *Financial Times*, you'd have thought that George Soros, the British financial oligarchy's favorite megaspeculator, had dominated the June 2 hearings in the U.S. Senate on speculation and manipulation of oil prices. The *Financial Times* opened dramatically: "George Soros stood before the panel of U.S. Senators, and witheringly. . ." etc., and went on for a couple of thousand words in that vein. But in truth, Soros was sitting down throughout the hearing, like the other witnesses; and far from being "withered" by his testimony, the six Democrats and two Republicans generally ignored it, as they demanded hard information from other witnesses about the "London loophole" for investment banks' and hedge funds' massive speculation on oil prices, and how the United States could close it.

Soros simply did not tell the panel of the Senate Commerce Committee the truth about what's driving the exploding hyperinflation in oil prices, and they knew it. Addressing them as if they were fellow futures market speculators, Soros warned them that the "speculative bubble" in oil futures might collapse—obvious to them already—and even suggested they might keep pension funds and mutual funds from investing in oil. But he kept hidden what he knows about who's driving that speculative explosion.

Not so, two other witnesses: University of Maryland law professor Michael Greenberger, a consultant to the Justice Department and the Commodity Futures Trading Commission (CFTC); and Dr. Mark Cooper of the Consumer Federation of America. So while Soros sat virtually silent for two hours, Senators Maria Cantwell (D-Wash.), Byron Dorgan (D-N.D.), Bill Nelson (D-Fla.), Olympia Snowe (R-Me.), Barbara Boxer (D-Calif.), John Thune (R-S.D.), and Thomas Carper (D-Del.) engaged in urgent colloquy with Greenberger and Cooper about unregulated energy speculation on London's "offshore" futures markets.

London's Offshore Haven in Atlanta

At a time when bank and hedge fund speculation, fleeing the securities markets on which it has taken huge losses, has been pouring into the commodities futures markets for metals, foods, and especially oil products, sweetheart agreements between the U.S. CFTC and the British Financial Services Agency have made American commodities futures markets into, essentially, London offshore havens. Greenberger and Cooper laid out in detail, how 35% of West Texas crude futures are traded on a market headquartered in Atlanta, Georgia—the Intercontinental Commodity Exchange, or ICE—which by CFTC staff actions, is juridically a London offshore market, overseen only by the British Financial Services Authority (FSA)! Cooper called the FSA, correctly, "a bad joke—look how it regulated in the Northern Rock Bank case." And oil futures trading on the New York Mercantile Exchange (NYMEX) is now "regulated" only by the London-controlled financial authority of Dubai, under another CFTC staff agreement.

On what are effectively British offshore markets, Greenberger said, a group of banks and hedge funds are simply "continuing and repeating the 'subprime' crash of the securities markets, and all their derivatives, on the commodities markets." He named the investment banks—Goldman Sachs, Morgan Stanley—along with JPMorgan Chase. Some 70% of all oil futures trading in the United States is speculative, Greenberger said, and 30% of all U.S. oil futures trading is being done by those three investment banks. "I find it highly ironic that when you control the price of oil, you can 'predict' when it will go from \$130 to \$200 a barrel," he noted, answering Cantwell's question about the "predictions" of \$150-200 oil by Goldman Sachs and Morgan Stanley, which around May 20 launched the latest superspike in prices.

These banks and hedge funds are also buying large volumes of oil products and holding them off the market while they play the falling dollar, which continually raises the oil products' price. This hoarding is not just speculation, but manipulation of the market, the existence of which is denied by the CFTC and Securities and Exchange Commission. But, "the biggest owner of heating oil in the Northeast is Morgan Stanley," Greenberger reported.

The "London loophole" is actually at least two. The CFTC, deferring to the British FSA as "its model," is allowing these banks and hedge funds to be designated as "commercial" rather than "speculative" traders—as if they were airlines or gasoline distributors which needed to buy future oil products—and thus subject to no speculative limits on how large their positions. And second, with one-third or more of futures trading for West Texas crude oil going through British offshore "dark markets," no reporting of trades and speculative positions is going to any U.S. regulatory agency. Add margin requirements of only 5-6% for trades (i.e., a debt leverage ratio of 15-20 to one, like that which blew out Bear Stearns, and the debt securities markets not required to report them), and you have London and Wall Street financial firms driving a wild speculative hyperinflation.

On May 25, Cantwell and 22 other Senators had released a letter to the CFTC and the Federal Trade Commission (FTC) demanding that the "London loophole" be closed. CFTC chairman Walter Lukken had responded on May 29 promising action, after which he earnestly requested that the British FSA give the CFTC some data by Fall. "He's [Lukken] gotten down on his knees to the British," Greenberger said to questions by Dorgan.

Cooper told the Senators, "Roll up your sleeves, assert the national authority of the United States, and regulate these markets. Overhaul the futures markets from top to bottom."

Cantwell said after the hearing, "Now there will be a lot more than 23 Senators; and I believe CFTC will take the action required by the economy, and by the morality of the American people, now." If not, she believes the Senate will legislate to force CFTC's hand.

Soros: It's Just Supply and Demand

As for Soros, he had also repeated, in his testimony, the claims of executives of the ICE futures market, who told the *Washington Post* that U.S. government re-regulation would drive the speculative banks and funds to flee U.S. oil futures markets. Greenberger strongly disagreed with this threat by the ICE, but added, "If a Morgan Stanley really flees, goes offshore, we'd have a lower oil price as a result—I'd say, 'Let them go.'"

Late in the proceedings, Soros appeared to become uncomfortable at being pushed aside, and interjected strong disagreement with Greenberger and Cooper. "I think this whole approach [focussing on speculation] is the wrong way of looking at it," Soros complained. "What is happening with the oil price is fundamentally a matter of demand and supply.... Oil fields around the world are aging. Consumption is growing by nations in the Third World. The recession will bring down the bubble, but only temporarily. The more important issue is the longer term, which is global warming."

So much for Soros's "witheringly" warning the Senators about a giant bubble created by speculators! He was flustered into making the same "nobody here but us fundamentals" argument as did the CEO of British Petroleum, or the head of the CFTC, Lukken.

Adding insult to the injury to the great speculator's British ego, Dorgan then directed the first question in an hour to him: "You reportedly, with your hedge funds, made a profit of $3 billion last year.... Did any of that come from speculation in oil?" "No, no!" said Soros. "And you're saying," pursued Dorgan, "that this price bubble will be wiped out by a recession, that we don't have to do anything about it?" "No, no," Soros repeated, and explained hurriedly that he really didn't know very much about oil futures markets at all!

Lyndon LaRouche commented that Soros's surprising isolation at the hearing could indicate that "the word is out, and some people are getting disgusted at what he's doing" politically, with the huge sums he has thrown into Democratic Party factions on behalf of British political objectives.

Economist Glazyev Made Full Member of Russian Academy of Sciences

Economist Sergei Glazyev's elevation to full membership in the Russian Academy of Sciences is welcome news in his own country and abroad, for everybody who grasps the importance of a flourishing Russia, as Eurasia's keystone nation, for the world. Glazyev has fought relentlessly, in the political arena and in economic science, in defense of Russia's physical economic development and the welfare of its population. He is known for taking surprising and courageous actions: In 1993, he was the only member of the Russian Government to quit the cabinet when President Boris Yeltsin abolished the Russian Parliament (Supreme Soviet) for its refusal to adopt the full free-trade and privatization agenda that was to wreck Russia for most of the 1990s.

In June 2001, Glazyev, then chairman of the State Duma's Committee on Economic Policy, held hearings on the subject of "Measures To Protect the National Economy Under Conditions of Global Financial Crisis." As lead-off witness, he invited U.S. economist Lyndon LaRouche. Other speakers included the late Academician Dmitri S. Lvov, economists Andrei Kobyakov and Tatyana Koryagina, and Schiller Institute founder Helga Zepp-LaRouche. In an interview with the nationalist weekly *Zavtra* in May, titled "Ten Steps To Rein In the Crisis," Glazyev recalled those hearings, saying that "if the leaders of the Central Bank and the government had listened to the recommendations from the parliamentary hearings, which we held seven years ago," losses Russia has already sustained in the current financial collapse could have been avoided.

Glazyev's election at the May 28 general assembly of the Academy was announced as filling a vacancy in its Economics section. Thus, Academician Glazyev effectively takes the seat of his teacher, longtime collaborator, and friend, Academician Dmitri S. Lvov, who died in 2007. Lvov, who especially fought the looting of Russia's raw materials, carried on a public dialogue with LaRouche on questions of physical economy, over the course of more than ten years.

It is noteworthy that the Academy candidacy of Vladimir Mau, one of the London Institute of Economic Affairs-trained economists who drove privatization and deregulation in the 1990s, failed to be voted up.

Born in the steel belt of Ukraine, Glazyev studied economics at Moscow State University, doing his post-graduate work under Professor Lvov at the Central Mathematical Economics Institute (CEMI) of the Academy of Sciences. In 1991, at the age of 31, he became first deputy minister, and