

Peak Oil?

Sunday, 22 June 2008

Is the planet quickly running out of oil?

Is that why oil prices are so high right now?

There can only be so much past organic matter in the earth's crust to have turned into oil, right?

Oil does come from fossils and dead dinosaurs and other organic stuff doesn't it?

Is the lack of oil why America invaded Iraq and is thinking about Iran next; to get cheap oil?

Or do the Big Oil companies control things and push governments into wars to drive the price up?

Lets that a peek at a few links here to see how all this "Peak Oil", and related, stuff may be just a myth, if not an outright hoax:

clicking on the supplied links will often get you to more information and references etc.,

The real reason behind high oil prices

<http://tinyurl.com/5r7ejg>

By F. William Engdahl, 21 May, 2008

As detailed in an earlier article, a conservative calculation is that at least 60% of today's \$128 per barrel price of crude oil comes from unregulated futures speculation by hedge funds, banks and financial groups using the London ICE Futures and New York NYMEX futures exchanges and uncontrolled inter-bank or Over-The-Counter trading to avoid scrutiny. US margin rules of the government's Commodity Futures Trading Commission allow speculators to buy a crude oil futures contract on the Nymex, by having to pay only 6% of the value of the contract. At today's price of \$128 per barrel, that means a futures trader only has to put up about \$8 for every barrel. He borrows the other \$120. This extreme "leverage" of 16 to 1 helps drive prices to wildly unrealistic levels and offset bank losses in sub-prime and other disasters at the expense of the overall population.

The hoax of Peak Oil—namely the argument that the oil production has hit the point where more than half all reserves have been used and the world is on the downslope of oil at cheap price and abundant quantity—has enabled this costly fraud to continue since the invasion of Iraq in 2003 with the help of key banks, oil traders and big oil majors. Washington is trying to shift blame, as always, to Arab OPEC

producers. The problem is not a lack of crude oil supply. In fact the world is in over-supply now. Yet the price climbs relentlessly higher. Why? The answer lies in what are clearly deliberate US government policies that permit the unbridled oil price manipulations.

World Oil Demand Flat, Prices Boom…

The chief market strategist for one of the world's leading oil industry banks, David Kelly, of J.P. Morgan Funds, recently admitted something telling to the Washington Post, "One of the things I think is very important to realize is that the growth in the world oil consumption is not that strong."

One of the stories used to support the oil futures speculators is the allegation that China's oil import thirst is exploding out of control, driving shortages in the supply-demand equilibrium. The facts do not support the China demand thesis however.

The US Government's Energy Information Administration (EIA) in its most recent monthly Short Term Energy Outlook report, concluded that US oil demand is expected to decline by 190,000 b/d in 2008. That is mainly owing to the deepening economic recession. Chinese consumption, the EIA says, far from exploding, is expected to rise this year by only 400,000 barrels a day. That is hardly the "surging oil demand" blamed on China in the media. Last year China imported 3.2 million barrels per day, and its estimated usage was around 7 million b/d total. The US, by contrast, consumes around 20.7 million b/d.

That means the key oil consuming nation, the USA, is experiencing a significant drop in demand. China, which consumes only a third of the oil the US does, will see a minor rise in import demand compared with the total daily world oil output of some 84 million barrels, less than half of a percent of the total demand.

The Organization of the Petroleum Exporting Countries (OPEC) has its 2008 global oil demand growth forecast unchanged at 1.2 mm bpd, as slowing economic growth in the industrialised world is offset by slightly growing consumption in developing nations. OPEC predicts global oil demand in 2008 will average 87 million bpd -- largely unchanged from its previous estimate. Demand from China, the Middle East, India, and Latin America -- is forecast to be stronger but the EU and North American demand will be lower.

So the world's largest oil consumer faces a sharp decline in

consumption, a decline that will worsen as the housing and related economic effects of the US securitization crisis in finance de-leverages. The price in normal open or transparent markets would presumably be falling not rising. No supply crisis justifies the way the world's oil is being priced today.

Big new oil fields coming online

Not only is there no supply crisis to justify such a price bubble. There are several giant new oil fields due to begin production over the course of 2008 to further add to supply.

The world's single largest oil producer, Saudi Arabia is finalizing plans to boost drilling activity by a third and increase investments by 40 %. Saudi Aramco's plan, which runs from 2009 to 2013, is expected to be approved by the company's board and the Oil Ministry this month. The Kingdom is in the midst of a \$ 50 billion oil production expansion plan to meet growing demand in Asia and other emerging markets. The Kingdom is expected to boost its pumping capacity to a total of 12.5 mm bpd by next year, up about 11 % from current capacity of 11.3 mm bpd.

In April this year Saudi Arabia's Khursaniyah oilfield began pumping and will soon add another 500,000 bpd to world oil supply of high grade Arabian Light crude. As well, another Saudi expansion project, the Khurais oilfield development, is the largest of Saudi Aramco projects that will boost the production capacity of Saudi oilfields from 11.3 million bpd to 12.5 million bpd by 2009. Khurais is planned to add another 1.2 million bpd of high-quality Arabian light crude to Saudi Arabia's export capacity.

Brazil's Petrobras is in the early phase of exploiting what it estimates are newly confirmed oil reserves offshore in its Tupi field that could be as great or greater than the North Sea. Petrobras, says the new ultra-deep Tupi field could hold as much as 8 billion barrels of recoverable light crude. When online in a few years it is expected to put Brazil among the world's "top 10" oil producers, between those of Nigeria and those of Venezuela.

In the United States, aside from rumors that the big oil companies have been deliberately sitting on vast new reserves in Alaska for fear that the prices of recent years would plunge on over-supply, the US Geological Survey (USGS) recently issued a report that confirmed major new oil reserves in an area called the Bakken, which stretches across North Dakota, Montana and south-eastern Saskatchewan. The USGS estimates up to 3.65 billion barrels of oil in the Bakken.

These are just several confirmations of large new oil reserves to be exploited. Iraq, where the Anglo-American Big Four oil majors are salivating to get their hands on the unexplored fields, is believed to hold oil reserves second only to Saudi Arabia. Much of the world has yet to be explored for oil. At prices above \$60 a barrel huge new potentials become economic. The major problem faced by Big Oil is not finding replacement oil but keeping the lid on world oil finds in order to maintain present exorbitant prices. Here they have some help from Wall Street banks and the two major oil trade exchanges—NYMEX and London-Atlanta's ICE and ICE Futures.

Then why do prices still rise?

There is growing evidence that the recent speculative bubble in oil which has gone asymptotic since January is about to pop.

Late last month in Dallas Texas, according to one participant, the American Association of Petroleum Geologists held its annual conference where all the major oil executives and geologists were present. According to one participant, knowledgeable oil industry CEOs reached the consensus that "oil prices will likely soon drop dramatically and the long-term price increases will be in natural gas."

Just a few days earlier, Lehman Brothers, a Wall Street investment bank had said that the current oil price bubble was coming to an end. Michael Waldron, the bank's chief oil strategist, was quoted in Britain's Daily Telegraph on Apr. 24 saying, "Oil supply is outpacing demand growth. Inventories have been building since the beginning of the year."

In the US, stockpiles of oil climbed by almost 12 million barrels in April according to the May 7 EIA monthly report on inventory, up by nearly 33 million barrels since January. At the same time, MasterCard's May 7 US gasoline report showed that gas demand has fallen by 5.8%. And refiners are reducing their refining rates dramatically to adjust to the falling gasoline demand. They are now running at 85% of capacity, down from 89% a year ago, in a season when production is normally 95%. The refiners today are clearly trying to draw down gasoline inventories to bid gasoline prices up. "It's the economy, stupid," to paraphrase Bill Clinton's infamous 1992 election quip to daddy Bush. It's called economic recession.

The May 8 report from Oil Movements, a British company that tracks oil shipments worldwide, shows that oil in transit on the high seas is also quite strong. Almost every category of shipment is running higher than it was a year ago. The report notes that, "In the West, a big share of

any oil stock building done this year has happened offshore, out of sight." Some industry insiders say the global oil industry from the activities and stocks of the Big Four to the true state of tanker and storage and liftings, is the most secretive industry in the world with the possible exception of the narcotics trade.

Goldman Sachs again in the middle

The oil price today, unlike twenty years ago, is determined behind closed doors in the trading rooms of giant financial institutions like Goldman Sachs, Morgan Stanley, JP Morgan Chase, Citigroup, Deutsche Bank or UBS. The key exchange in the game is the London ICE Futures Exchange (formerly the International Petroleum Exchange). ICE Futures is a wholly-owned subsidiary of the Atlanta Georgia International Commodities Exchange. ICE in Atlanta was founded in part by Goldman Sachs which also happens to run the world's most widely used commodity price index, the GSCI, which is over-weighted to oil prices.

As I noted in my earlier article, (‘Perhaps 60% of today’s oil price is pure speculation’), ICE was focus of a recent congressional investigation. It was named both in the Senate's Permanent Subcommittee on Investigations' June 27, 2006, Staff Report and in the House Committee on Energy & Commerce's hearing in December 2007 which looked into unregulated trading in energy futures. Both studies concluded that energy prices' climb to \$128 and perhaps beyond is driven by billions of dollars' worth of oil and natural gas futures contracts being placed on the ICE. Through a convenient regulation exception granted by the Bush Administration in January 2006, the ICE Futures trading of US energy futures is not regulated by the Commodities Futures Trading Commission, even though the ICE Futures US oil contracts are traded in ICE affiliates in the USA. And at Enron's request, the CFTC exempted the Over-the-Counter oil futures trades in 2000.

So it is no surprise to see in a May 6 report from Reuters that Goldman Sachs announces oil could in fact be on the verge of another "super spike," possibly taking oil as high as \$200 a barrel within the next six to 24 months. That headline, "\$200 a barrel!" became the major news story on oil for the next two days. How many gullible lemmings followed behind with their money bets?

Arjun Murti, Goldman Sachs' energy strategist, blamed what he called "blistering" (sic) demand from China and the Middle East, combined with his assertion that the Middle East is nearing its maximum ability to produce more oil. Peak Oil mythology again helps Wall Street. The degree of unfounded hype reminds of the kind of self-serving Wall Street hype in 1999-2000 around dot.com stocks or Enron.

In 2001 just before the dot.com crash in the NASDAQ, some Wall Street firms were pushing sale to the gullible public of stocks that their companies were quietly dumping. Or they were pushing dubious stocks for companies where their affiliated banks had a financial interest. In short as later came out in Congressional investigations, companies with a vested interest in a certain financial outcome used the media to line their pockets and that of their companies, leaving the public investor holding the bag. It would be interesting for Congress to subpoena the records of the futures positions of Goldman Sachs and a handful of other major energy futures players to see if they are invested to gain from a further rise in oil to \$200 or not.

Margin rules feed the frenzy

Another added turbo-charger to present speculation in oil prices is the margin rule governing what percent of cash a buyer of a futures contract in oil has to put up to bet on a rising oil price (or falling for that matter). The current NYMEX regulation allows a speculator to put up only 6% of the total value of his oil futures contract. That means a risk-taking hedge fund or bank can buy oil futures with a leverage of 16 to 1.

We are hit with an endless series of plausible arguments for the high price of oil: A "terrorism risk premium;" "blistering" rise in demand of China and India; unrest in the Nigerian oil region; oil pipelines' blown up in Iraq; possible war with Iran... And above all the hype about Peak Oil. Oil speculator T. Boone Pickens has reportedly raked in a huge profit on oil futures and argues, conveniently that the world is on the cusp of Peak Oil. So does the Houston investment banker and friend of Dick Cheney, Matt Simmons.

As the June 2006 US Senate report, The Role of Market Speculation in Rising Oil and Gas Prices, noted, "There's a few hedge fund managers out there who are masters at knowing how to exploit the peak oil theories and hot buttons of supply and demand, and by making bold predictions of shocking price advancements to come, they only add more fuel to the bullish fire in a sort of self-fulfilling prophecy."

Will a Democratic Congress act to change the carefully crafted opaque oil futures markets in an election year and risk bursting the bubble? On May 12 House Energy & Commerce Committee stated it will look at this issue into June. The world will be watching.

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This is that earlier article he mentions:

PERHAPS 60% OF TODAY'S OIL PRICE IS PURE SPECULATION

<http://tinyurl.com/3lxgmz>

By F. William Engdahl, 2 May 2008

And this one from late last year might help to show where he is coming from as well:

Confessions of an "ex" Peak Oil Believer

By F William Engdahl, September 14, 2007

<http://tinyurl.com/ywuc5e>

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more on this subject:

Crude Oil Spot Market Sees Oversupply, Not Scarcity
May 15, 2008

<http://tinyurl.com/6cz2as>

Despite politicians' repeated calls for increased crude supplies to cool global oil prices, traders of European physical crude oil suspect their markets are currently suffering from too much supply, not too little.

As investors snap up crude oil futures, sending prices to record highs in the process, a burgeoning physical supply picture has left crude oil cargoes in the spot market languishing at depressed levels.

"The physical market doesn't look great, but the (futures) price is something completely different," said a crude oil trader based in London. "Everyone wants to own commodity futures."

Now, even the price structure of crude oil futures is starting to

reflect an easier short-term supply outlook, participants said.

Futures prices for ICE Brent crude for the coming months have recently flipped into what's known as a contango structure - where contracts are priced incrementally higher for delivery dates further into the future.

"I think there are two different dynamics in the crude oil market," said Olivier Jakob, managing director of Swiss consultancy Petromatrix Wednesday. "We're making record highs after record highs on the (futures) price - but physical economics are not really showing any signs of distress. The structure of the market is seeing some fundamentals creeping in."

Prompt, or near-term, prices are also being weighed down by a glut of crude cargoes in the Middle East, North Sea and Russia....

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Iran Opec exec points to oil 'oversupply'

23 May 2008

<http://tinyurl.com/6fqlv9>

Iran's new Opec governor Mohammad Khatibi reiterated the positions of other Opec member nations that there is no need to increase the supply of oil in the world - despite skyrocketing prices - this time saying the market is already oversupplied.

"Why increase?" Reuters quoted Khatibi as saying. "You can't find a single consumer that comes to market and can't find oil."

"The oil market is facing the problem of oversupply ... yet the price has increased," he said. "That shows other factors are more important than fundamentals."

Khatibi also blamed the weak US dollar and speculation, as have other Opec members, using that argument as a justification for not increasing

supply or holding an emergency meeting before the next scheduled gathering in September...

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Enron Loophole Boosts Oil Prices

<http://www2.tbo.com/content/2008/jun/13/na-enron-loophole-boosts-oil-prices/>

The Tampa Tribune

Published: June 13, 2008

It's frustrating enough when gas prices soar due to the unseen forces of global supply and demand. But it's downright unfair when Wall Street speculators contribute to rising prices at the pump.

There's growing evidence that investors looking to make a fast buck are causing oil prices to rise faster than can be explained by ordinary market forces.

Congress, however, can do something about the situation. It can help to ease this problem, because it helped to create this monster.

In December 2000, Congress passed the Commodity Futures Modernization Act, which was signed into law by President Clinton just before he left office in January 2001.

Few people realized at the time that a loophole had been tucked into this 262-page bill at the last minute by then-Sen. Phil Gramm, R-Texas. It came to be known as the "Enron Loophole," and it allowed Enron and other large energy traders to be exempt from federal oversight of over-the-counter transactions in energy markets.

Enron is no more, but the loophole lives on. It has allowed massive growth of unregulated trading on energy futures markets, where investors essentially "bet" on the price of oil at a certain date in the future.

Commodities markets ordinarily allow commercial buyers of goods that people need, such as corn, pork and energy products, to lock in a price for later delivery of those commodities. But in the unregulated environment spawned by the Enron Loophole, speculators increasingly treat commodities as if they were stocks. These investors don't want to take delivery of the oil after they "buy" it; they just want the price to rise so they can make a huge profit. As the dollar weakens, oil becomes an even more attractive investment.

The details of these types of trades are largely hidden. Some contracts are negotiated between parties who don't need to disclose them. Some contracts are made overseas, beyond the limited oversight of U.S. regulators.

As speculators flock to oil, they are creating artificial demand for the commodity, which drives up the price. Nobody knows how much speculators are adding to the cost of gasoline, but some analysts believe it's as much as 50 percent of recent increases.

Other factors are probably contributing to \$4 gasoline. Global oil supply has not increased, and there is growing demand from nations such as China and India.

Meanwhile the federal authority responsible for regulating such trading, the Commodity Futures Trading Commission, is virtually powerless to step in. The CFTC needs the regulatory authority and the staffing to make sure these markets are transparent and monitored. Congress should give this weakened agency the tools it needs to do its oversight job effectively.

Commodities are products that consumers need for their daily existence, and those markets shouldn't be so vulnerable to greedy manipulation.

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Are They Really Oil Wars?

2008-06-18

<http://www.middle-east-online.com/english/?id=26509>

Social

upheavals and political convulsions in the Middle East are more likely to be the result, not the cause, of US foreign policy in the region, notes Ismael Hossein-zadeh.

A most widely-cited factor behind the recent US wars of choice is said to be oil. "No Blood for Oil" has been a rallying cry for most of the opponents of the war. While some of these opponents argue that the war is driven by the US desire for cheap oil, others claim that it is prompted by big oil's wish for high oil prices and profits. Interestingly, most antiwar forces use both claims interchangeably without paying attention to the fact that they are diametrically-opposed assertions.

Not only do the two arguments contradict each other, but each argument is also wanting and unconvincing on its own grounds; not because the US does not wish for cheap oil, or because Big Oil does not desire higher oil prices, but because war is no longer the way to control or gain access to energy resources. Colonial-type occupation or direct control of energy resources is no longer efficient or economical and has, therefore, been abandoned for more than four decades.

The view that recent US military adventures in the Middle East and the broader Central Asia are driven by energy considerations is further reinforced by the dubious theory of Peak Oil, which maintains that, having peaked, world oil resources are now dwindling and that, therefore, war power and military strength are key to access or control of the shrinking energy resources.

In this study I will first argue that the Peak Oil theory is unscientific, unrealistic, and perhaps even fraudulent. I will then show that war and military force are no longer the necessary or appropriate means to gain access to sources of energy, and that resorting to military measures can, indeed, lead to costly, not cheap, oil. Next, I will demonstrate that, despite the lucrative spoils of war resulting from high oil prices and profits, Big Oil prefers peace and stability, not war and geopolitical turbulence, in global energy markets. Finally, I will argue a case that behind the drive to war and military adventures in the Middle East lie some powerful special interests (vested in war, militarism, and geopolitical concerns of Israel) that use oil as an issue of "national interest" — as a façade or pretext — in order to justify military adventures to derive high dividends, both economic and geopolitical, from war.

## Has Oil Really Peaked—and Is Running Out?

Peak oil thesis, as noted above, maintains that world oil reserves, having reached their maximum capacity, are now dwindling—with grave consequences of oil shortage and high energy prices. While this has led many to call for more vigorous conservation, it has led others to argue in favor of unrestrained exploration and extraction of oil reserves, especially those located in the Alaskan Wildlife regions.

Significant policy and/or political implications follow from the view that oil is running out. For one thing, this view provides fodder for the cannons of war profiteering militarists who are constantly on the look out to invent new enemies and find new pretexts for continued war and escalation of military spending. For another, it tends to disarm many antiwar forces that accept this thesis and, therefore, "internalize responsibility for US foreign policy every time they fill their gas tank. Thus they own the wars." [1]

The Peak Oil thesis serves as a powerful trap and a clever manipulation in that it lets the real forces of war and militarism (the military-industrial complex and the pro-Israel lobby) "off the hook; it is a fabulous redirection. All evils are blamed on a commodity upon which we are all utterly dependent." [2]

The fact, however, is that there is no hard evidence that oil has peaked, or that global oil reserves are shrinking, or that the current skyrocketing price of oil is due to a supply shortage. (As shown below, there is actually an oil surplus, no shortage.)

Peak Oil theory is not altogether new. It was originally floated around in the 1940s, arguing that world oil reserves would be exhausted within the next two decades or so. It then resurfaced in the 1970s and early 1980s in reaction to the oil price hikes of those years—which were, incidentally, precipitated not by oil shortages but by international political convulsions, revolutions and wars. But it died down once the price of oil fell back to pre-crises levels.

As recent geopolitical convulsions in the Middle East (especially the US war on Iraq, and the resultant booming speculation in oil markets) have triggered a new round of oil price hikes, Peak Oil theory has once again become fashionable. The theory is being promoted not only by war profiteers and proponents of an unbridled domestic oil exploration and extraction, especially in Alaska, but also by some apparently antiwar liberals such as Michael T. Klare and James H. Kunstler. [3]

Peak Oil theory is based on a number of assumptions and omissions that make it less than reliable. To begin with, it discounts or disregards the fact that energy-saving technologies have drastically improved (and will continue to further improve) the efficiency of oil consumption. Evidence shows that, for example, "over a period of five years (1994-99), US GDP expanded over 20 percent while oil usage rose by only nine percent. Before the 1973 oil shock, the ratio was about one to one." [4]

#### Second, Peak Oil theory

pays scant attention to the drastically enabling new technologies that have made (and will continue to make) possible discovery and extraction of oil reserves that were inaccessible only a short time ago. One of the results of the more efficient means of research and development has been a far higher success rate in finding new oil fields. The success rate has risen in twenty years from less than 70 percent to over 80 percent. Computers have helped to reduce the number of dry holes. Horizontal drilling has boosted extraction. Another important development has been deep-water offshore drilling, which the new technologies now permit. Good examples are the North Sea, the Gulf of Mexico, and more recently, the promising offshore oil fields of West Africa.[5]

#### Third, Peak Oil theory also

pays short shrift to what is sometimes called non-conventional oil. These include Canada's giant reserves of extra-heavy bitumen that can be processed to produce conventional oil. Although this was originally considered cost inefficient, experts working in this area now claim that they have brought down the cost from over \$20 a barrel to \$8 per barrel. Similar developments are taking place in Venezuela. It is thanks to developments like these that since 1970, world oil reserves have more than doubled, despite the extraction of hundreds of millions of barrels.[6]

#### Fourth, Peak Oil thesis

pays insufficient attention to energy sources other than oil. These include solar, wind, non-food bio-fuel, and nuclear energies. They also include natural gas. Gas is now about 25 percent of energy demand worldwide. It is estimated that by 2050 it will be the main source of energy in the world. A number of American, European, and Japanese firms have and are investing heavily in developing fuel cells for cars and other vehicles that would significantly reduce gasoline consumption.[7]

#### Fifth, proponents of Peak

Oil tend to exaggerate the impact of the increased oil demand coming from China and India on both the amount and the price of oil in global markets. The alleged disparity between supply and demand is said to be due to the rapidly growing demand coming from China and India. But that rapid growth in demand is largely offset by a number of counterbalancing factors. These include slower growth in US demand due to its slower economic growth, efficient energy utilization in industrially advanced countries, and increases in oil production by OPEC, Russia, and other oil producing countries.

#### Finally, and perhaps more

importantly, claims of "peaked and dwindling" oil are refuted by the available facts and figures on global oil supply. Statistical evidence

shows that there is absolutely no supply-demand imbalance in global oil markets. Contrary to the claims of the proponents of Peak Oil and champions of war and militarism, the current oil price shocks are a direct consequence of the destabilizing wars and geopolitical insecurity in the Middle East, not oil shortages. These include not only the raging wars in Iraq and Afghanistan, but also the threat of a looming war against Iran. The record of soaring oil prices shows that anytime there is a renewed US military threat against Iran, fuel prices move up several notches.

The war also contributes to the escalation of fuel prices in indirect ways&mdash;for example, by plunging the US ever deeper into debt and depreciating the dollar, or by creating favorable grounds for speculation. As oil is priced largely in US dollars, oil exporting countries ask for more dollars per barrel of oil as the dollar loses value. Perhaps more importantly, an atmosphere of war and geopolitical instability in global oil markets serves as an auspicious ground for hoarding and speculation in commodity markets, especially oil, which is heavily contributing to the recently soaring oil prices.

As much as 60% of today's crude oil price is pure speculation driven by large trader banks and hedge funds. It has nothing to do with the convenient myths of Peak Oil. It has to do with control of oil and its price. . . . Since the advent of oil futures trading and the two major London and New York oil futures contracts, control of oil prices has left OPEC and gone to Wall Street. It is a classic case of the 'tail that wags the dog.'[8]

Wall Street financial giants that created the Third World debt crisis in the late 1970s and early 1980s, the tech bubble in the 1990s, and the housing bubble in the 2000s are now hard at work creating the oil bubble. By purchasing large numbers of futures contracts, and thereby pushing up futures prices to even higher levels than current prices, speculators have provided a financial incentive for oil companies to buy even more oil and place it in storage. A refiner will purchase extra oil today, even if it costs \$115 per barrel, if the futures price is even higher.[9]

This has led to a steady rise in crude oil inventories over the last two years, 'resulting in US crude oil inventories that are now higher than at any time in the previous eight years. The large influx of speculative investment into oil futures has led to a situation where we have both high supplies of crude oil and high crude oil prices. . . . In fact, during this period global supplies have exceeded demand, according to the US Department of Energy.'[10]

The fact that the

skyrocketing oil prices of late have been accompanied by a surplus in global oil markets was also brought to the attention of President George W. Bush by Saudi officials when he asked them during a recent trip to the kingdom to increase production in order to stem the rising prices. Saudi officials reminded the President that "there is plenty of oil on the market. Iran has put some 30 million barrels of oil that it can't sell into floating storage. "If we produced more oil, it wouldn't find buyers," says the Saudi source. It wouldn't affect the price at all."<sup>[11]</sup>

And why producing more oil "wouldn't affect the price at all"? Well, because what is driving the soaring oil prices is not shortage but speculation: "with so much investment money sloshing around in the commodities markets, the Saudis calculate they have no hope of controlling short-term price fluctuations. They blame the recent price run-ups on speculation and fear of shortages [not real shortages], factors they say are beyond their control."<sup>[12]</sup>

## War for Cheap Oil?

The widely-shared view that the US desire for access to abundant and cheap oil lurks behind the Bush administration's drive to war in the Middle East rests on the implicit but dubious assumption that access to energy resources requires direct control of oil fields and/or oil producing countries. There are at least three problems with this postulation.

First, if control of or influence over oil producing countries in the Middle East is a requirement for access to cheap oil, the United States already enjoys significant influence over some of the major oil producers in the region—Saudi Arabia, Kuwait, and a number of other smaller producers. Why, then, would the US want to bring about war and political turmoil in the region that might undermine that long and firmly-established influence?

Let us assume for a moment that the neoconservative militarists are sincere in their alleged desire to bring about democratic rule and representational government in the Middle East. Let us further assume that they succeed in realizing this purported objective. Would, then, the thus-emerging democratic governments, representing the wishes of the majority of their citizens, be as accommodating to US economic and geopolitical objectives, including its oil needs, as are its currently friendly

rulers in the region? Most probably not.

Secondly, and more importantly, access to oil no longer requires control of oil fields or oil producers—as was the case in times past. For more than a century, that is, from the early days of oil extraction in the United States in the 1870s until the mid-1970s, the price of oil was determined administratively, that is, by independent producers operating in different parts of the world without having to compete with each other. Under those circumstances, colonial or imperial wars of conquest and occupation were crucial to the control of oil (and other) resources.

Beginning with the 1950s, however, that pattern of local, non-competitive price determination began to gradually change in favor of regional and/or international markets. By the mid 1970s, an internationally competitive oil market emerged that effectively ended the century-old pattern of local, administrative pricing. Today, oil prices (like most other commodity prices) are determined largely by the forces of supply and demand in competitive global energy markets; and any country or company can have as much oil as they wish if they pay the going market (or spot) price.[13]

To the extent that competitive oil markets and/or prices are occasionally manipulated, such subversions of competitive market forces are often brought about not so much by OPEC or other oil producing countries as by manipulative speculations of financial giants in New York and London. As was discussed earlier, gigantic Wall Street financial institutions have accomplished this feat through “innovative” financial instruments such as establishment of energy hedge funds and speculative oil futures markets in New York and London.[14]

It is true that collective supply decisions of oil producing countries can, and sometimes does, affect the competitively determined market price. But a number of important issues need to be considered here.

To begin with, although such supply manipulations obviously affect or influence market-determined prices, they do not determine those prices. In other words, competitive international oil markets determine its price with or without oil producers’ supply manipulations. Such supply managements are, however, designed not to create volatility in energy markets, or chronic oil price hikes. Instead, they are designed to stabilize global oil prices because oil exporting countries prefer stability, predictability and long-term planning for their economic development and industrialization projects. Here is how Cyrus Bina and Minh Vo describe this relationship:

As a result, we conclude that the global oil market is the prime mover [i.e., prime determinant of oil price] and OPEC indeed follows its trajectory accordingly and consistently. . . . When market price (both spot and futures) is falling, OPEC decreases its output; when market price is rising, OPEC attempts to increase its output; and when market price is steady, OPEC keeps its output unchanged. . . . And, this is a kind of oil market we have experienced after the dust settled following the crisis of de-cartelization and globalization of oil industry in the 1970s.[15]

Producers' policy to sometimes curtail or limit the supply of oil, the so-called "limited flow" policy, is designed to raise the actual trading price above the market-determined price in order to keep high-cost US producers in business while leaving low-cost Middle East producers with an above average, or "super," profit. While for low-cost producers this limited flow policy is largely a matter of making more or less profits, for high-cost US producers it is a matter of survival, of being able to stay in or go out of business—an important but rarely mentioned or acknowledged fact.

A hypothetical numerical example might be helpful here. Suppose that the market-determined, or free-flow, price of oil is \$30 per barrel. Further, suppose this price entails an average rate of profit of 10 percent, or \$3 per barrel. The word "average" in this context refers to average conditions of production, that is, producers who produce under average conditions of production in terms of productivity and cost of production. This means that producers who produce under better-than-average conditions, that is, low-cost, high productivity producers, will make a profit higher than \$3 per barrel while high-cost, low efficiency producers will end up making less than \$3 per barrel. This also means that some of the high-cost producers may end up going out of business altogether. Now, if the limited flow policy raises the actual trading price to \$35 per barrel, it will raise the profits of all producers accordingly, thereby also keeping in business some high-cost producers that might otherwise have gone out of business.

Furthermore, supply manipulation (in pursuit of price manipulation) is not limited to the oil industry. In today's economic environment of giant corporations and big businesses, many of the major industries try, and often succeed in controlling supply in order to control price. Take, for example, the automobile industry. Theoretically, automobile producers could flood the market with a huge supply of cars. But that would not be good business as it would lower prices and profits. So, they control supply, just as do oil producers, in order to manipulate price. During the past several decades, the price of automobiles, in real terms, has been going up every year, at least to the tune of inflation. During this period, the industry (and the economy in general) has enjoyed a many-fold increase in labor productivity. Increased labor productivity is supposed to translate into lower costs and, therefore, lower prices. Yet, that has not materialized in the case of this industry—as it has

in the case of, for example, pocket calculators or computers.

Another example of price control through supply manipulation is the case of US grain producers. The so-called "set aside" policy that pays farmers not to cultivate part of their land in order to curtail supply and prop up price is not different—nay, it is worse—than OPEC's policy of supply and/or price manipulation.

It is also necessary to keep in mind that OPEC's desire to sometimes limit the supply of oil in order to shore up its price is limited by a number of factors. For one thing, the share, and hence the influence, of Middle Eastern oil producers as a percentage of world oil production has steadily declined over time, from almost 40 percent when OPEC was established to about 30 percent today.[16] For another, OPEC members are not unmindful of the fact that inordinately high oil prices can hurt their own long-term interests as this might prompt oil importers to economize on oil consumption and search for alternative sources of energy, thereby limiting producers' export markets.

OPEC members also know that inordinately high oil prices could precipitate economic recessions in oil importing countries that would, once again, lower demand for their oil. In addition, high oil prices tend to raise the cost of oil producers' imports of manufactured products as high energy costs are bound to affect production costs of those manufactured products.

War for Expensive Oil?

Now let us consider the widely-shared view that attributes the Bush administration's drive to war to the influence of big oil companies in pursuit of higher oil prices and profits. As noted, this is obviously the opposite of the "war for cheap oil" argument, as it claims that Big Oil tends to instigate war and political tension in the Middle East in order to cause an oil price hike and increase its profits. Like the "war for cheap oil" theory, this claim is not supported by facts. Although the claim has an element of a prima facie reasonableness, that apparently facile credibility rests more on precedent and perception than reality. Part of the perception is due to the exaggerated notion that both President Bush and Vice President Cheney were "oil men" before coming to the White House. But the fact is that George W. Bush was never more than an unsuccessful petty oil prospector and Dick Cheney headed a company, the notorious Halliburton, that sold (and still sells) services to oil companies and the Pentagon.

The larger part of the perception, however, stems from the fact that oil companies do benefit from oil price hikes that result from war and political turbulence in the Middle East. Such benefits are, however, largely incidental. Surely, American oil companies would welcome the spoils of the war (that result from oil price hikes) in Iraq or anywhere else in the world. From the largely incidental oil price hikes that follow war and political convulsion, some observers automatically conclude that, therefore, Big Oil must have been behind the war.[17] But there is no evidence that, at least in the case of the current invasion of Iraq, oil companies pushed for or supported the war.

On the contrary, there is strong evidence that, in fact, oil companies did not welcome the war because they prefer stability and predictability to periodic oil spikes that follow war and political convulsion: "Looking back over the last 20 years, there is plenty of evidence showing the industry's push for stability and cooperation with Middle Eastern countries and leaders, and the US government's drive for hegemony works against the oil industry." [18] As Thierry Desmarest, Chairman and Chief Executive Officer of France's giant oil company, TotalFinaElf, put it, "A few months of cash generation is not a big deal. Stable, not volatile, prices and a \$25 price (per barrel) would be convenient for everyone." [19]

It is true that for a long time, from the beginning of Middle Eastern oil exploration and discovery in the early twentieth century until the mid-1970s, colonial and/or imperial powers controlled oil either directly or through control of oil producing countries—at times, even by military force. But that pattern of colonial or imperialist exploitation of global markets and resources has changed now. Most of the current theories of imperialism and hegemony that continue invoking that old pattern of Big Oil behavior tend to suffer from an ahistorical perspective. Today, as discussed earlier, even physically occupying and controlling another country's oil fields will not necessarily be beneficial to oil interests. Not only will military adventures place the operations of current energy projects at jeopardy, but they will also make the future plans precarious and unpredictable. Big Oil interests, of course, know this; and that's why they did not countenance the war on Iraq: "The big oil companies were not enthusiastic about the Iraqi war," says Fareed Mohamedi of PFC Energy, an energy consultancy firm based in Washington D.C. that advises petroleum firms. "Corporations like Exxon-Mobil and Chevron-Texaco want stability, and this is not what Bush is providing in Iraq and the Gulf region," adds Mohamedi.[20]

Big Oil interests also know that not only is war no longer the way to gain access to oil, it is in fact an obstacle to gaining that access. Exclusion of US oil companies from vast oil resources in countries such as Russia, Iran, Venezuela, and a number of central Asian countries due to militaristic US foreign policy is a clear testament to this fact. Many of these countries (including, yes, Iran) would be glad to have major US oil companies invest, explore and extract oil from their rich reserves. Needless to say that US oil companies would be delighted to have access to those oil resources. But US champions of war and militarism have successfully

torpedoed such opportunities through their unilateral wars of aggression and their penchant for a Cold War-like international atmosphere.

When Vladimir Putin first became president of Russia he was willing to allow American energy companies to continue with the one-sided contracts they had drawn up during Boris Yeltsin's presidency. Putin built a seemingly trusting relationship with George Bush who looked into Putin's soul and liked what he saw. The two leaders grew even closer in the aftermath of the 9/11 attacks on World Trade Centre and the Pentagon—when Russia provided "help for America's invasion of Afghanistan." Soon after this generous cooperation, however, "Bush repudiated the anti-ballistic missile treaty in the belief that America could develop the technology for winning a nuclear war. This posed a huge strategic threat to Russia." [21]

Describing the heavy-handed, imperial US policy toward Russia, Stephen F. Cohen writes: "The real US policy has been very different—a relentless, winner-take-all exploitation of Russia's post-1991 weakness. Accompanied by broken American promises, condescending lectures and demands for unilateral concessions, it has been even more aggressive and uncompromising than was Washington's approach to Soviet Communist Russia." [22]

Bush's withdrawal from the ABM treaty not merely posed an existential threat to Russia but was almost a betrayal of the trust that Putin had put in him. This led to Putin's disenchantment with America. "Eventually he seems to have decided that every time America transgressed against Russian interests he would retaliate by stopping another American company from exploiting Russian resources." [23]

During the past few decades, major oil companies have consistently opposed US policies and military threats against countries like Iran, Iraq, and Libya. They have, indeed, time and again, lobbied US foreign policy makers for the establishment of peaceful relations and diplomatic rapprochement with those countries. The Iran-Libya Sanction Act of 1996 (ILSA) is a strong testament to the fact that oil companies nowadays view wars, economic sanctions, and international political tensions as harmful to their long-term business interests and, accordingly, strive for peace, not war, in international relations.

On March 15, 1995 President Clinton issued Executive Order 12957 which banned all US contributions to the development of Iran's petroleum resources, a crushing blow to the oil industry, especially to the Conoco oil company that had just signed a \$1 billion contract to develop fields in Iran. The deal marked

a strong indication that Iran was willing to improve its relationship with the United States, only to have President Clinton effectively nullify it. Two months later, sighting "an extraordinary threat to the national security, foreign policy and economy of the US," President Clinton issued another order, 1259, that expanded the sanctions to become a total trade and investment embargo against Iran. Then a year later came ILSA which extended the sanctions imposed on Iran to Libya as well.

It is no secret that the major force behind the Iran-Libya Sanction Act was the America Israel Public Affairs Committee (AIPAC), the main Zionist lobby in Washington. The success of AIPAC in passing ILSA through both the Congress and the White House over the opposition of the major US oil companies is testament to the fact that, in the context of US policy in the Middle East, even the influence of the oil industry pales vis-à-vis the influence of the Zionist lobby.[24]

ILSA was originally to be imposed on both US and foreign companies. However, in the end it was the US companies that suffered the most due to waivers that were given to European companies after pressure from the European Union. In 1996 the EU pursued its distaste of ILSA by lodging complaints with the World Trade Organization (WTO) against the US and through adopting "blocking legislation" that would prevent EU companies from complying with ILSA. Meanwhile, the contract that Iran had originally signed with Conoco was awarded to TotalFinaElf of France for \$760 million; the deal also left the door open for Total to sign an additional contract with Iran for \$2 billion in 1997 with their partners Gazprom and Petronas.

In May of 1997 major US oil companies such as Conoco, Exxon, Atlantic Richfield, and Occidental Petroleum joined other (non-military) US companies to create an anti-sanction coalition. Earlier that same year Conoco's Chief Executive Archie Dunham publicly took a stance against unilateral US sanctions by stating that "US companies, not rogue regimes, are the ones that suffer when the United States imposes economic sanctions." Texaco officials have also argued that the US can be more effective in bringing about change in other countries by allowing US companies to do business with those countries instead of imposing economic sanctions that tend to be counterproductive.

Alas, Washington's perverse, misguided and ineffectual policy of economic sanctions for political purposes—often in compliance with the wishes of some powerful special interests—continues unabated. "Even with the increased pro-trade lobbying efforts of the oil industry and groups like USAEngage, whose membership ranges from farmers and small business owners to Wall Street executives and oilmen, the lack of support from Washington and the Bush administration could not allow them [major oil companies and other non-military transnational companies] to overtake or counteract the already rolling momentum of AIPAC's influence on Middle East policy or the renewal of ISLA." [25]

Despite the fact that oil companies nowadays view war and political turmoil in the Middle East as detrimental to their long-term interests and, therefore, do not support policies that are conducive to war and militarism, and despite the fact that war is no longer the way to gain access to oil, the widespread perception that every US military engagement in the region, including the current invasion of Iraq, is prompted by oil considerations continues. The question is why?

### Behind the Myth of War for Oil

The widely-shared but erroneous view that recent US wars of choice are driven by oil concerns is partly due to precedence: the fact that for a long time military force was key to colonial or imperialist control and exploitation of foreign markets and resources, including oil. It is also partly due to perception: the exaggerated notion that both President Bush and Vice President Cheney were "oil men" before coming to the White House. But, as noted earlier, George W. Bush was never more than an ineffective minor oil prospector and Dick Cheney was never really an oil man; he headed the notorious Halliburton company that sold (and still sells) services to oil companies and the Pentagon.

But the major reason for the persistence of this pervasive myth seems to stem from certain deliberate efforts that are designed to perpetuate the legend in order to camouflage some real economic and geopolitical special interests that drive US military adventures in the Middle East. There is evidence that both the military-industrial complex and hard-line Zionist proponents of "greater Israel" disingenuously use oil (as an issue of national interest) in order to disguise their own nefarious special interests and objectives: justification of continued expansion of military spending, extension of sales markets for military hardware, and recasting the geopolitical map of the Middle East in favor of Israel.

There is also evidence that for every dollar's worth of oil imported from the Persian Gulf region the Pentagon takes five dollars out of the Federal budget to "secure" the flow of that oil! This is a clear indication that the claim that the US military presence in the Middle East is due to oil consideration is a fraud .[26]

While anecdotal, an example of how partisans of war and militarism use oil as a pretext to cover up the real forces behind war and militarism can be instructive. In the early stages of the invasion of Iraq, when the anti-occupation resistance in Iraq had not yet taken shape and the invasion seemed to be proceeding smoothly, two of the leading champions of the invasion, Secretary of Defense Donald Rumsfeld and his deputy Paul Wolfowitz, often boasting of the apparent or pre-mature success of the invasion at those early stages, gave frequent news conferences and press reports. During one of those press reports (at the end of an address to delegates at an Asian security summit in Singapore in early June 2003), Wolfowitz was asked why North Korea was being treated differently from Iraq, where hardly any weapons of mass destruction had been found. Wolfowitz's response was: "Let's look at it simply. The most important difference between North Korea and Iraq is that economically, we just had no choice in Iraq. The country swims on a sea of oil." [27]

Many opponents of the war jumped on this statement, so to speak, as corroboration of what they had been saying or suspecting all along: that the war on Iraq was prompted by oil interests. Yet, there is strong evidence—some of which presented in the preceding pages—that for the last several decades oil interests have not favored war and turbulence in the Middle East, including the current invasion of Iraq. Nor is war any longer the way to gain access to oil. Major oil companies, along with many other non-military transnational corporations, have lobbied both the Clinton and Bush administrations in support of changing the aggressive, militaristic US policy toward countries like Iran, Iraq and Libya in favor of establishing normal, non-confrontational trade and diplomatic relations. Such efforts at normalization of trade and diplomatic relations, however, have failed time and again precisely because Wolfowitz and his cohorts, working through AIPAC and other war-mongering think tanks such as the American Enterprise Institute (AEI), Project for the New American Century (PNAC), and Jewish Institute for National Security Affairs (JINSA) oppose them.

These think tanks, in collaboration with a whole host of similar militaristic lobbying entities like Center for Security Affairs (CSA) and National Institute for Public Policy (NIPP), working largely as institutional façades to serve the defacto alliance of the military-industrial complex and the pro-Israel lobby, have repeatedly thwarted efforts at peace and reconciliation in the Middle East—often over the objections and frustrations of major US oil companies. It is a well established fact that Wolfowitz has been a devoted champion of these jingoistic think tanks and their aggressive unilateral policies in the Middle East. In light of his professional record and political loyalties, his claim that he championed the war on Iraq because of oil considerations can be characterized only as demagogic: it contradicts his political record and defies the policies he has been advocating for the last several decades; it is designed to divert attention from the main forces behind the war, the armaments lobby and the pro-Israel lobby.

These powerful interests

are careful not to draw attention to the fact that they are the prime instigators of war and militarism in the Middle East. Therefore, they tend to deliberately perpetuate the popular perception that oil is the driving force behind the war in the region. They even do not mind having their aggressive foreign policies labeled as imperialistic as long as imperialism implies some vague or general connotations of hegemony and domination, that is, as long as it thus camouflages the real, special interests behind the war and political turbulence in the Middle East.

The oil and other non-military transnational corporations' aversion to war and military adventures in the Middle East stem, of course, from the logical behavior of global or transnational capital in the era of integrated world markets, which tends to be loath to war and international political convulsions. Considering the fact that both importers and exporters of oil prefer peace and stability to war and militarism, why would, then, the flow of oil be in jeopardy if the powerful beneficiaries of war and political tension in the Middle East stopped their aggressive policies in the region?

Partisans of war in the Middle East tend to portray US military operations in the region as reactions to terrorism and political turbulence in order to "safeguard the interests of the United States and its allies." Yet, a close scrutiny of action-reaction or cause-effect relationship between US military adventures and socio-political turbulence in the region reveals that perhaps the causality is the other way around. That is, social upheavals and political convulsions in the Middle East are more likely to be the result, not the cause, of US foreign policy in the region, especially its one-sided, prejudicial Israeli-Palestinian policy. The US policy of war and militarism in the region seems to resemble the behavior of a corrupt cop, or a mafia godfather, who would instigate fights and frictions in the neighborhood or community in order to, then, portray his parasitic role as necessary for the safety and security of the community and, in the process, fill out his deep pockets.

No matter how crucial oil is to the world economy, the fact remains that it is, after all, a commodity. As such, international trade in oil is as important to its importers as it is to its exporters. There is absolutely no reason that, in a world free of the influence of the beneficiaries of war and militarism and their powerful lobbies (the armaments and the pro-Israel lobbies), the flow of oil could not be guaranteed by international trade conventions and commercial treaties.

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In reading the material from F.W. Engdahl above you may have noticed the mention of abiotic(abiogenic) oil. More on that:

"To have produced the amount of oil the Saudi Arabia's Ghawar field has produced would have required a cube of fossilized dinosaur detritus, assuming 100% conversion efficiency, measuring 19 miles deep, wide and high."

- Dr. J. F. Kenney

Here is an NPR mp3 interview of J.F. Kenney for those that like to listen to this kinda stuff rather than reading about it:

<http://www.gasresources.net/Kenney-NPR.mp3>

More in-depth articles on abiotic oil and similar stuff are at that site:

<http://www.gasresources.net>