US airline CEOs call for controls on oil speculation

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A coalition of US airlines is calling for tighter regulation of trading in petroleum futures contracts, which they cite as a major source of record fuel prices. An open letter sent by the CEOs of 12 major airlines, including Northwest, American, United, Delta and Air Tran, called on customers to contact their representatives in Congress to demand they deal with "poorly regulated market speculation."

The airline chiefs assert that speculation may account for as much as $30 to $60 a barrel—that is, as much as 43 percent—of the current $140-plus price of oil. They note that controls over oil futures trading have been relaxed or scrapped over the past period.

Airlines are staggering under the impact of rising fuel costs. Carriers have raised fees, cut back service and announced massive layoffs. Northwest Airlines last week said it would cut 2,500 jobs, including pilots, flight attendants and mechanics. Total job cuts announced in the industry over the past several months exceed 26,000.

In addition, Northwest, United, American and US Airways are charging for checking baggage, and US Airways announced it would remove entertainment systems on its domestic flights to reduce weight and save on fuel.

The call by the heads of all the major US air transport corporations for a crackdown on oil speculation utterly exposes the claims of the Bush administration and others that soaring fuel prices are simply the product of supply and demand factors, and that speculation plays no significant role.

A July 7 article in the *Wall Street Journal* entitled "Commodity Regulator Under Fire" quotes an analyst for Lehman Brothers who, pointing to the influx of huge amounts of capital into commodity speculation, says, "We are seeing the classic ingredients of an asset bubble."

The *Journal* cites a number of important facts and figures. By one estimate, the value of unregulated over-the-counter commodity investments totals $9 trillion, with 50 percent or more related to crude oil. This amount far exceeds the $4.78 trillion traded on US commodities futures exchanges regulated by the Commodities Futures Trading Commission. (CFTC).

The scale of commodities futures trading on nominally regulated markets is more than 1,000 times the level three decades ago. In 1976, that figure was $4 billion. This vast increase is a concentrated expression of the growth of financial speculation and parasitism in the American economy.

The role of Democratic as well as Republican administrations in fostering this trend is reflected in the fact that the number of regulators overseeing exchanges has been cut back. Last year, the CFTC had a staff of just 437, 12 percent fewer than it employed in 1976, shortly after it began operating, according to the *Journal*.

The largest unregulated sector of the commodities market is the customized market for derivatives, known as swaps. Big Wall Street investment banks such as Goldman Sachs and Morgan Stanley have set up swaps to allow hedge funds, pension funds and commodity traders to speculate on prices among themselves, outside of any scrutiny by federal regulators. Trades through swaps can be larger than those on futures exchanges. The majority of commodity swaps involve oil.

Not coincidentally, the treasury secretary during the Democratic Clinton administration, Robert Rubin, and the treasury secretary in the Bush administration, Henry Paulson, both held top position at Goldman Sachs before assuming their government posts. Paulson has repeatedly declared that speculation is not a major factor in the run-up of oil and gasoline prices.

Some financial experts say that the entry of giant institutional investors such as government and corporate pension funds and sovereign wealth funds into commodity speculation is a major factor in the spike in oil prices.

Over the past five years, from 2003 to 2008, investment in index funds tied to commodities has grown twenty-fold, from $13 billion to $260 billion. Increasingly over the past two years, positions have been taken out based on the anticipation of price increases.

A loophole in CFTC rules permits large investment banks to side-step reporting requirements and limits on trading positions that apply to other investors. According to *BusinessWeek*, "The loophole allows pension funds to enter into swap agreements with an investment bank, which can then trade unlimited numbers of the contracts in futures markets." The top five users of swaps are investment banks.

Currently, there is a raft of bills before Congress aimed at placing curbs on commodity speculation. They contain such measures as requiring higher margins—the amount of upfront cash required to trade—and the curtailment of oil futures trading by large institutional investors.

In the recently enacted farm bill, Congress addressed the "Enron loophole," which exempts overseas electronic energy trades from regulation. The change in rules enacted in 2000 at the instigation of Enron helped the company in its manipulation of the California energy market that resulted in the near-bankruptcy of the state. However, in the new farm bill Congress barred unregulated trades only in natural gas, not oil.

In response to the calls for Congressional action to rein in speculation in oil, major commercial banks and Wall Street investment banks have flooded Washington with lobbyists to block any serious reform.

Bank of America, JPMorgan Chase, Citigroup and others insist that oil price rises are due to factors other than speculation, such as the falling dollar and increased demand, particularly from China. While these factors no doubt play a significant role in upward price pressures, they do not explain the scale and rapidity of the explosion in oil prices. That is largely due to a massive influx of speculative capital into energy and food commodities futures as a hedge against financial instability and an alternative source of profits to the slumping stock market and the collapse of speculative activity in housing and leveraged corporate buyouts.

For his part, acting CFTC Chairman Walter Lukken maintains that the flow of speculative capital into oil futures has not contributed significantly to the more than doubling of crude oil prices over the past two years. Instead, he says the influx of investor cash has provided the liquidity needed to make the markets run smoothly. He has sought to forestall Congressional action by claiming the CFTC needs more time to collect and study data.

Meanwhile, banks and oil companies are reaping massive profits from the run-up in oil prices. Oil giant ExxonMobil earned a record $40.7 billion in 2007. The top four oil companies took in a combined total of over $100 billion last year and another $36 billion in the first quarter of 2008.

Even if Congress eventually enacts some limited curbs on oil speculation, they will not resolve the energy crisis in the interests of millions of ordinary working-class and middle-class people. The vast flows of international finance capital involved are beyond the power of any national government, including the United States, to control.

Far from the market being the engine of economic development, the anarchy of capitalist production and exchange is threatening to plunge the world into a depression and force hundreds of millions into destitution. A rational solution can be found only by mobilizing the international working class in a political and revolutionary movement against the profit system.

Among the measures immediately required is a complete accounting of the looting carried out by the energy conglomerates, banks and big commodity speculators. Their ill-gotten gains must be expropriated and used to provide relief to the public.

The energy and finance industries must be reorganized on the basis of production for human need, not private profit. This requires that the oil monopolies and the banks and Wall Street investment houses be placed under public ownership, subject to the democratic control of the working class.

Such policies can be implemented only through the development of an independent political movement of the working class against the Democratic and Republican parties and the establishment of a workers' government.

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