

The Biggest Racket in the History of the World

According to the *Oil & Gas Journal*, the most reliable source of information on the oil industry, the proven reserves of oil in the world as of January 1, 2005 were 1.27 trillion barrels. That is approximately 50 percent more than the proven reserves were 12 years ago.

The question is, why has the price of oil increased in the last 12 years by 700 percent when the proven reserves of oil in the world has increased by 50 percent? Never in the history of the world has so much skullduggery been precipitated by so very few on so many (no Churchillian pun intended.) How have the culprits been so successful and who is the mastermind and the leader of the pack? Who is the "Prime Mover"?

We need to look at BP's history in Iran. The late Professor Carroll Quigley, President Clinton's former tutor at Georgetown University, had a special gift for bringing out the wayward facts of history, but he was very establishmentarian. He was honored at a special dinner given for him by the then President, his pupil, and he was a member of the Council of Foreign Relations, had access to their facilities and library and to some materials of rather sensitive nature. In his book, *Tragedy and Hope* (1966), he points out some of the behavior of the Anglo-Iranian Oil Company, now known as British Petroleum, or as it prefers, BP. Quigley states that Anglo-Iranian Oil Company, as late as 1950, admitted to having formed 59 wholly-owned subsidiaries, to which it sold oil at negligible prices, as well as to the British Navy at the same bargain price. Upon these negligible prices, Anglo-Iranian calculated the royalties owed to Iran. Anglo-Iranian Oil Company made its real profit through the wholly-owned subsidiaries. This was the worst possible kind of pure fraud perpetrated for forty years against a poor impoverished

country that had been trying to get off its knees. The late U.S. Ambassador George McGhee, in his book *Envoy to the Middle World*, points out that the maximum royalties that Iran received for its oil over the four decades when BP was in control, were only \$25 million per year. Again, Ambassador McGhee points out (as he told the British Embassy in Teheran and to Lord Frazer in London, chairman of BP at Britannic House, today still the headquarters) that this amount was less than the Iranian government's cost of maintaining the security of Abadan and the oil wells in the Persian Gulf province of Khuzestan.

Let us jump forward to 1972, after the Yom Kippur War, when the price of oil worldwide jumped from \$3 to \$12 a barrel. Word was put out that the autocratic actions of Shah Reza Palavi of Iran were responsible for the price jump and the general public took the matter as being fact. But the true story was somewhat different. One of the real beneficiaries of the jump in the price of oil was that the North Sea oil project, where Britain has proven reserves of 18 billion barrels, was turned from an economic disaster to a huge economic boom for Britain, BP and British Shell. Let us remember that the proven reserve of the U.S. at that time was only 22 billion barrels. Yet the North Sea project had come to the verge of bankruptcy.

Why did Britain need to be rescued? The unexpected costs of developing the North Sea project had mushroomed. The British National Oil Company (BNOC) had formed with 50 percent British government, 15 percent BP, 15 percent British Shell, and 20 percent divided among other companies such as Phillips Petroleum, Amerada Hess and some European countries. The original cost of bringing the oil to shore had been projected at \$15 billion. Unfortunately, this was grossly underestimated. The construction project lost

numerous platforms to very bad weather. The undercurrent of the sea was so severe that many divers were swept away and they had to restrict working periods, sending divers down only during three months of the year. Combustion Engineering from Connecticut built most of the platforms in the North Sea believing that the original estimates were totally unrealistic. The cost of the project turned into a financial disaster, running in excess of \$70 billion—500 percent above the original estimate. An extensive propaganda campaign was disseminated, predicting that the Iranian oil reserves would be depleted within 25 years. The unsuspecting Shah of Iran took the information seriously.

The Shah decided that he would embark on a program of peaceful nuclear energy while Iran still had some money to pay for it before the oil ran out. (Iranian reserves were under 60 billion barrels at the time of the Shah in 1970. Today, Iran's petroleum reserves are estimated to be well over 130 billion. Iran's gas reserves are 900 trillion cubic feet, the second largest and the most accessible in the world—right at the mouth of the Persian Gulf.)

Two representatives of BP came to Iran to meet with the Shah and suggested that it was a wise course of action for him to reduce the production of Iranian oil from 5.9 million to 4 million barrels of oil. He was told that the price of oil would go up so substantially and that he would receive more money than before! The Shah refused the bait. In a meeting with British officials, he pointed in the direction of the south and stated, "Go talk to the Bedou (Saudi Arabia.) They are a population of six and a half million and they are producing 9 1/2 million barrels. I am a country of 35 million people and I need every cent of my oil revenue for the development and future programs which we have."

The next move was that some European papers published quotations attributed to the Shah as saying that "the British have become a degenerate people; they want to ride on the backs of hard working people." More press attacks followed. In a very short time, the Ayatollah Khomeini appeared on the horizon and the BBC put up relay stations in the Persian Gulf and began broadcasting information in support of that fundamentalist's cause. These broadcasts could, for the first time, be heard on a medium radio wave band that could be heard more clearly than *Radio Teheran*. The campaign was on.

In a span of very few months the propaganda machine became very active. In the former Anglo-Iranian oil city of Abadan, with the largest refinery in the world, the major cinema, the Rex, was set on fire with its doors locked from the outside. Some 650 people were turned into charcoal. The Shah's secret police, the Savak was blamed for the atrocity, but time has proved that Savak had nothing to do with this terrible massacre. Nevertheless, the incident became a turning point in the forces seeking the Shah's removal.

The National Iranian Oil Company the largest company at the time went on a strike and four million barrels of Iranian oil export came to a complete stop. The price of oil on the international market had gone up from \$12 a barrel to stabilize at \$33, after having reached as much as \$38 a barrel. Overnight the value of 18 billion barrels of the British North Sea oil rose to \$360 billion, or \$1.5 trillion in today's value. Britain became the only industrial country in the western world not only self-sufficient in oil, but a substantial exporter (Norway, the other North Sea country with a reserve, was primarily a fishing nation). Even today Britain is exporting 450 thousand barrels of oil to the United

States everyday. Thus with one stroke, Iran descended into the dark ages and the sun shone on BP's interests from Siberia rose around the world to Alaska.

Just a few months ago, in fact on December 5, 2005, *The Scotsman* newspaper (see attached) on its front page stated that, "North Sea Oil Fills the Chancellor of Exchequer Brown's 'black hole.'" The paper went on: "Because of North Sea oil revenues, there is no need to raise taxes. In fact, though the United Kingdom is being outpaced by all but six of the 25 European Union economies, it is expected that the North Sea oil tax will increase the revenue to the Treasury by 77 percent over last year's revenue."

Looking back, as *The Times* on November 7, 2001 (see attached), reported on its front page, Lord Brown of Madingley, Chairman of BP, "surprisingly" castigated OPEC and asked them to cut supplies stating that the price of \$18.81 a barrel was too low. When it was pointed out to him that in the last quarter BP had made over \$3 billion profit, he stated, "it is hardly enough!"

The general public and the media believe that OPEC is the culprit and that there is a real shortage of oil in the world. There is absolutely nothing further from the truth. BP is the largest producer of natural gas in the U.S. It also produces 44 percent of all U.S. liquids production. One has to look at this company historically, not only at its activities 80 years ago but also at this present decade, to fully understand its culture and mode of operation. First and foremost, it has a huge advertising blitz spending 100s of millions of dollars hoodwinking the public by stating that the letters BP stands for "Beyond Petroleum." This is just an example of the way BP tries to conceal its activities.

Let's just look at one example of BP's attempt to overreach. Just look seven years back when BP purchased AMOCO and ARCO. At that time, the price of oil was \$9.50 a barrel. If the ARCO merger had gone through as originally planned, according to the Federal Trade Commission, BP with the purchase of ARCO would have acquired a monopoly position in the production, sale and delivery of Alaska North Slope crude oil, the production, sale and delivery of crude oil used by targeted West Coast refiners, the production, sale and delivery of all crude oil used on the West Coast, the purchase of exploration rights on the Alaskan North Slope, the sale of crude oil transportation on the Trans-Alaska Pipeline System, the development for commercial sale of natural gas on the Alaskan North Slope, and the supply of crude oil pipeline transportation to, and crude oil storage in, Cushing Oklahoma.

With the purchase of ARCO, BP would have ended up with 74 percent of the U.S. 8 billion barrels of reserves in Alaska—the real strategic reserve. The 500 million barrels in the salt caverns of Louisiana, officially known as the U.S. Strategic Petroleum Reserve, is equal only to U.S. consumption for 25 days if all other oil sources dried up. ARCO held 22 percent of the Alaskan oil and 22 percent of the major pipeline which brings the oil down to Puget Sound.

Luckily for the U.S., there were three astute U.S. Federal Trade Commissioners, out of the five, who understood the consequences of this purchase. BP (not Beyond Petroleum!) would have ended up controlling 74 percent of that U.S. strategic reserve. This entity would become a virtual monopoly and, therefore, they forced BP to sell off the part of ARCO which would, in combination with BP, result in monopoly concentration. The State of Alaska was in support of the sale to BP because the State had made a side deal to

receive additional benefits and payments for Alaska in return for supporting the monopoly position. This is pointed out by the Federal Trade Commission's brilliant legal counsel Debra Valentine in the brief she filed for the FTC in case # 000416SI dated February 22,2000 in the U.S. District Court on Northern District of California, San Francisco. Some of her arguments are:

Fourth, Alaska points out that its settlement was achieved, at least in part, when BP and ARCO made "various community commitments" by agreeing to bestow upon Alaska and its citizens many benefits outside the competitive arena. But no matter how great those benefits are, they do not trump the federal antitrust laws, or otherwise justify an anticompetitive merger. *See, e.g., Philadelphia Nat'l Bank*, 384 I/S/ at 381("a merger the effect of which 'may be substantially to lessen competition' is not saved because, on some ultimate reckoning of social or economic debits and credits, it may be deemed beneficial. A value choice of such magnitude is beyond the ordinary limits of judicial competence..."); *see also FTC v. Indiana Federation of Dentists*, 476 U.S. 447, 463 (1986). The settlement certainly does not preclude the Commission from undertaking the congressional mandate to preserve competition – especially to the extent that competition benefits the citizens of other states, whom Alaska is not charged with protecting.

The FTC realized that it would need support to overcome Alaska's special pleading, so the commissioners joined the States of Oregon and Washington in a brilliant brief against this transaction. BP, in the tradition the Perfidious Albion, realized that if it did not back away and settle the matter immediately, the American media and the public at large would wake up and the monopoly ploy that they had pushed so far would be over immediately. They settled the suit very quietly and bought ARCO for \$20 billion but the 22 percent share of ARCO in Alaska would go to an American company. Phillips Petroleum ended up with ARCO's 22 percent share of Alaska's oil wells and pipeline.

The most important matter of interest to us today is what the FTC's staff attorney Valentine points out in the suit that she filed. She states in the Articles, Count I, *Loss of Competition in the Production, Sale, and Delivery of Crude Oil to West Coast Refiners*, that:

18. As alleged below, BP currently exercises monopoly power in various markets for the sale of crude oil to refineries on the West Coast. BP Exercises that monopoly power through price discrimination, including efforts to reduce the supply of crude oil to the West Coast by selling ANS crude to Asia, the United States Gulf Coast, or the United States Mid-continent. ARCO is the firm most likely to constrain BP's exercise of monopoly power, principally through ARCO's exploration and production activities, which, but for the merger, likely would increase the amount of ANS crude oil discovered, produced and available to refiners (including ARCO).

A. Relevant Product Market

19. Crude oil used by targeted West Coast refiners is a relevant product market and line of commerce in which to analyze the competitive effects of this merger. Petroleum refineries use crude oil as the principal input in making gasoline, diesel fuel, kerosene jet fuel, asphalt, coke, and other refined petroleum products. There are no substitutes for crude oil as an input into petroleum refineries or otherwise for the manufacture of petroleum-based fuels.

20. The principal sources of crude oil for refineries on the West Coast are Alaska and California, although some West Coast refineries also use imported crude oil, principally from Latin America. Although all ANS crude oil is substantially undifferentiated, different crude oils have different gravity, sulfur, aromatics, metals and other characteristics. Changing crude oils in a particular refinery may change both the refinery's overall products yields and the yield of particular products. Therefore, refiners cannot freely substitute one crude oil for another, but must make complex decisions, typically assisted by extensive computer linear programs that solve many equations simultaneously, to evaluate the economics of crude substitution.

21. BP discriminates among its customers in the price it charges for ANS crude oil based upon each customer's ability to shift to alternative sources of crude oil.

22. BP exercises monopoly power by selling ANS crude to individual customers at different prices according to their "trigger points." Refinery with the least ability to substitute away from ANS crude are targeted for the highest prices, while those with more flexibility to substitute are charged lower prices. The difference between the prices charged to targeted customers and the prices charged to the most favored customers is significant. The ability to set ANS prices in this manner and price

discriminate among customers demonstrates monopoly power (the unilateral ability to raise price profitably) in the sale of crude oil to targeted West Coast refineries.

23. BP also exercises monopoly power by charging targeted West Coast refiners higher prices that it charges foreign customers. BP exports ANS crude to Asia at a lower price, net of transportation cost, than it could obtain by selling the same cargo on the West Coast. BP exports ANS crude oil, even at a lower price, in order to restrict the supply of crude oil on the West Coast and elevate its price to West Coast customers.

24. The production, sale, and delivery of all crude oil used by refiners on the West Coast is also an appropriate relevant product market within which to assess the likely effects of the proposed merger.

25. The production, sale, and delivery of ANS crude oil is also an appropriate relevant product market within which to assess the likely effects of the proposed merger.

Count III of her argument, *Loss of Competition in pipeline and Oil Storage Services in Cushing, Oklahoma, and Resulting Effects on Nymex Trading in Light Sweet Crude Oil Futures*, states:

38. Cushing, Oklahoma is a major crude oil marketing hub in the United States. A substantial portion of the crude oil traded in Cushing consists of West Texas Intermediate (WTI) crude which arrives from pipelines originating in Texas, and imported crude which is offloaded from tankers on the Gulf Coast and transported to Cushing by pipeline. These crude oils are then transported by a network of pipelines to refineries located in the central parts of the United States.

39. Prices for WTI crude traded in Cushing serve as a benchmark for the pricing of many other crude oils around the world.

40. Cushing also serves as a focal point for light sweet crude oil futures trading on the NYMEX. When the NYMEX contracts expire, traders typically meet their obligations to deliver light sweet crude oil by tendering WTI crude oil. NYMEX contracts for crude oil futures typically designate Cushing as the delivery point.

41. Efficient functioning of the pipeline and oil storage facilities into and in Cushing is critical to the fluid operation of both the trading activities in Cushing and the trading of crude oil future contracts on the NYMEX. Restriction of pipeline or storage capacity can affect the deliverable supply of crude oil in Cushing, and consequently affect both WTI cash prices and NYMEX futures prices.

Peter R. Odell, Director of the Prestigious Rotterdam Center for International Energy Studies at the University of Rotterdam, in 1985 came out with a serious paper that in fact stated that it would be the year 2050 before the production of oil would outstrip the increase in the proven reserve of oil even if the world economy was to grow at a tremendous pace. At that time, 20 years ago, he was not even aware that huge new finds in the Sudan, off the coast of Nigeria, the Caucasus, under the Caspian Sea, and in Canada would increase the proven reserve of oil in the world to what it is today. As stated at the beginning of this paper it now stands at over 1.27 trillion barrels. This further endorses Peter Odell's argument. At the time Mr. Odell wrote this article, who would have dreamt that there would be an additional two million barrels coming on the market from the Sudan, which never had one barrel of oil production, and the Baku Caben Pipeline. Those two countries of Azerbaijan and Sudan would be increasing production substantially over the next few years. Nor could he have envisioned that Canada would reduced the cost of production of Shale Oil not very much beyond the average cost of Texas crude on North Sea Oil, with now the second largest proven reserve in the world. If the "Prime Mover" would allow, the Emirates have at least two million barrels of oil increase capacity production that would dramatically bring down the price of crude.

According to The Wall Street Journal article of June 30, 2006, BP manipulated the market to push up the price of propane by cornering the market being the largest producer of Gas in the United States. "When you squeeze a market, you are not letting fundamental factors influence the price," says Joan Manley, the CFTC's [Commodity Futures Trading Commission] deputy enforcement director. "It's your own conduct that influences the price."

Tom Fowler and David Ivanovich of the Houston Chronicle of June 29, 2006 state that:

Houston-based traders for BP illegally cornered part of the propane market in February 2004, creating a sharp jump in prices for the popular heating fuel used by millions of rural homes, according to federal investigators.

One of the traders, Dennis Abbott, 34, pleaded guilty Wednesday to charges that he and others at BP Products North America conspired to manipulate the price of propane that flows from storage fields in Mont Belvieu, in Chambers County, via pipeline to Ohio, Pennsylvania and New York.

The allegations are outlined in the criminal charges against Abbott and a civil complaint filed by the commodities Futures Trading Commission. The criminal filings note Abbott conspired with at least five unnamed BP employees, an indication that charges against others in Houston could follow.

What we have here is a situation that should make it clear that only the very feeble in the mind believe that OPEC is the "Prime Mover" in determining the price of oil and derivatives.

With four months reserve of oil in oil tankers and with supplemental of a year's reserve in strategic reserve, there is absolutely no reason for the price of oil to be \$70 a barrel. In fact, in the Middle East, the average cost of production and transportation of oil to Europe is no more than \$3.50 a barrel. The average cost in Texas is \$8.00 and in the North Sea \$7.00 to \$8.00 a barrel.

Most of the top experts in the world acknowledge that under the present circumstances the price of oil should be a maximum of \$20 to \$25 a barrel. There are 85 million barrels of oil produced a day in the world, \$50.00 a barrel more than when Lord Brown of Madingley, Chairman of BP, demanded OPEC to reduce production to raise prices. At \$18.81 a barrel (see attached article of Financial Times), practically, everybody in the

business was making a good profit. 85 million times \$50 comes to \$4.25 billion a day. That extra profit comes to over \$1.5 trillion a year. It is like a giant vacuum cleaner extended over the globe which sucks out of our pockets an excess profit of well over \$1.5 trillion a year destroying, for example, the airline business, the automobile business, and many other businesses, (but not the pig food business) causing misery everywhere. It is causing the rise of interest rates and could move in the direction not too different from the year 1980 when the price of oil helped precipitate double digit bank interest rates of up to 20 percent. Importation of crude oil and gas is costing the U.S. about \$300 billion and, therefore, accounts for over 40 percent of America's trade deficits.

They should remember that very good American adage which says that pigs get fed but hogs get slaughtered.

Strange bedfellows! The Saudis, the Russians, the Iranian Mullahs, and Hugo Chavez, with BP riding the foursome with reins firmly in hand, both politically and strategically because of their 200 years of dominance in the Middle East.

Bahman Batmanghelidj

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Summary of Public Data on BP

1. BP's earnings per share were \$3.34 in 2003, \$4.63 in 2004, est. \$6.36 in 2005 and est. \$7.20 in 2006
2. BP's oil earnings in the U.S. are estimated for 2006 to be \$11.7 billion within the U.S. and \$16.5 in the rest of the world.
3. BP has interests in 19 refineries around the world, with net capacity of 2.8 mmbd, 54% of which comes from five wholly owned refineries in the U.S.
4. BP's 2004 production of four million bde made it the second largest producer among the major oil companies behind ExxonMobil, and in 2005 surpassed ExxonMobil.
5. U.S. production accounted for 29% of BP's worldwide volumes and was 62% liquids. Its major assets are in Alaska, the Gulf of Mexico, and other lower 48 fields.
6. BP's Russian production accounts for 25% of BP's worldwide production.
7. **BP is the largest natural gas producer in the U.S.**
8. **BP is the largest leaseholder in the Gulf of Mexico.**
9. **BP's Alaskan production comes largely from the Prudhoe, Kuparak, Northstar and Milne Point areas of the North Slope. BP Alaskan production accounts for 44% of total U.S. liquids production.**