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Independent Political Party

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Australia's 'dangerous allies' ready their forces for war with Russia, China; will we follow along?

The USA and UK—Australia's "dangerous allies" in the words of the late Malcolm Fraser—have suddenly escalated their preparations for a showdown with Russia and China. The question is: will Australia go along with this insanity?

Two top national security officials of the Obama Administration have just declared war, in effect, against Russia. Director of National Intelligence Gen. James Clapper and Defence Secretary Ashton Carter have both issued high-profile statements during the past fortnight, focusing on Russia as the "mortal enemy" of the United States.

In a 31 January interview with WTOP radio in Washington, DC, Clapper ranked the threat from Russia *far above the threat coming from the Islamic State*. He termed Russia's recent advances in its nuclear weapons a "mortal threat" to the United States, whereas ISIS poses no such threat, and listed the greatest threats to the United States as a newly aggressive Russia, a belligerent nuclear-armed North Korea, Iran's proxy warfare capabilities, and Chinese espionage.

Such explicit targeting of nation-states as declared "enemies" of the United States has not been heard in Washington since George W. Bush's "Axis of Evil" rant in his January 2002 State of the Union address. What's more, Gen. Clapper's remarks, delivered in preparation for his release of the annual *Worldwide Threat Assessment* in upcoming Congressional testimony, comes at a time when the United States is directly engaged in combat in the Iraq-Syria theatre, where Russian military forces are also engaged. While the Joint Chiefs of Staff and Secretary of State John Kerry are attempting to engage with Russia in a peace initiative and, at minimum, "deconfliction" negotiations to avert direct military clashes, Clapper is pushing confrontation.

War budget

US Defence Secretary Ashton Carter backed up Clapper when he addressed the Economic Club of Washington on 2 February to preview the final Obama Administration defence budget, which can only be described as a budget for fighting World War III.

In that speech, Carter also declared that Russia and China pose the two top challenges for American defence planners, followed by North Korea, Iran, and then the Islamic State. "We will deter our most advanced competitors," Carter told the Washington audience. "We will prepare for our high-end enemy", he said, calling Russia and China "our most stressing competitors". The Defence Department has "elevated their importance in our defence planning and budgeting."

In particular, Carter announced that the Obama Administration's Fiscal Year 2017 budget would dramatically increase funding of the European Reassurance Initiative, which entails deployment of increased US military personnel and equipment into Europe, from US$789 million in 2016 to US$3.4 billion in 2017. Carter claimed that the added funding will "let us rapidly form a highly-capable combined-arms ground force that can respond theatre-wide if necessary." Translated into common language, the United States will be boosting its military presence in Eastern Europe, including the Baltic states, permanently stationing US "boots" and military hardware along the border of Russia. This is the equivalent of Russia deploying military equipment and personnel into Mexico or Canada.

Carter also announced that the USA would dramatically increase spending on modernisation of the nuclear triad—ground-, air- and sea-based nuclear weapons platforms; all told, a pledge to spend US$1 trillion on thermonuclear weapons and delivery-system modernisation in the coming decade. Even a significant portion of the increase in spending against ISIS to $7.5 billion will be allocated to producing 45,000 guided bombs and rockets—some of which will undoubtedly be part of the expanded arsenal of weapons deployed to the "Russian front".

For its part, the UK has just announced it is sending 1,600 troops to Jordan for a war game exercise designed to prepare for a military operation, not against ISIS but against Russia in eastern Europe. British black propaganda escalated dramatically on 3 February when BBC 2 aired a docudrama called "World War Three: Inside the War Room"—a live war game scenario involving leading British political figures responding in real time to a Russian nuclear attack.

In a 9 February interview with NYC radio host John Batchelor, New York University Russia specialist Dr Stephen Cohen accused Barack Obama, of whom he was previously supportive, of personally provoking World War III. Cohen warned: "The New Cold War has become much hotter, due to a decision taken in Washington. This will make the New Cold War more militarised and makes it more dangerous than the preceding Cold War, because we didn't have our military power on Russia's borders. … To say it is dangerous is to understate the situation." Cohen concluded, "Once Washington completes this quadrupling of forces, we are in a much more dangerous situation, in terms of possible nuclear conflict. *Obama can't hide from this anymore. The buck stops there. He signed off on this enormous escalation of the Cold War in the direction of hot war*." (Emphasis added.)

If the world is to turn away from the brink of a nuclear war that will annihilate humanity, the onus is on the people of Australia, the USA and UK to reject this madness and embrace an alternative to the present Anglo-American-dominated global order characterised by permanent war. The CEC's March 2015 international conference "The World Land-Bridge: Peace on Earth, Good Will towards All Men" analysed, in depth, both this strategic danger as well as the positive, optimistic alternative represented by the alliance of BRICS nations—Brazil, Russia, India, China, South Africa—*which are not our enemies*, but as the growing economic powers in the world are committed to a new, just international order in which nations collaborate on economic development, such as China's amazing "One Belt, One Road" Silk Road Economic Belt and Maritime Silk Road vision, as the basis for lasting peace.

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9 February 2016

Oil and gas sector a derivatives time bomb

The cascade of write-downs, defaults and bankruptcies now sweeping the oil and gas sector worldwide is well on the way to triggering the final, deadly implosion of the London/Wall Street-centred financial system. Like the smaller, 2007-08 mortgage debt bubble, the threat lies in the derivatives trades that are many times the value of the oil debts they are betting on, which are increasingly worthless.

Explaining the collapse in European bank stocks this year, including falls of 37 and 34 per cent in the stocks of Deutsche Bank and Credit Suisse respectively, Matthew Lynn reported in the 8 February London *Telegraph*, "Collapsing oil and commodity prices are starting to seep into the financial system, much as collapsing house prices did in 2008. The big oil and mining conglomerates have massive debts, and so do the smaller oil explorers. Hedging contracts [derivatives] on commodity prices are scattered throughout the financial system, and enormous losses may start to crystallise in the next few months."

A swathe of smaller US exploration and production companies—42 players in the so-called shale gas "fracking boom"—already went bankrupt in 2015, with combined debts of US$17 billion. Now, bigger fish are beginning to fry. Oklahoma-based natural gas company SandRidge Energy was delisted from the New York Stock Exchange in January, laid off 440 of its 1,157 employees on 3 February, and will file for bankruptcy unless it can restructure its US$4 billion debt, which is doubtful. Large mining and energy company Freeport-McMoRan, one of the world's biggest producers of gold and copper, had its credit rating slashed four levels—well into "junk" status—by ratings agency Moody's, casting doubt on its ability to continue to roll over its debts.

In Australia, Woodside Petroleum has announced that it will write down the value of its assets by US$1–1.2 billion, in part due to a six-month delay to the Wheatstone liquefied natural gas export terminal in WA. Supplier and retailer AGL announced last week that gas extraction will "no longer be a core business for the company" and that it will sell its Queensland gas wells, abandon a 300-well project in New South Wales, and write down $795 million. Even BHP Billiton has seen its credit rating at Standard & Poor's cut by one notch, with a second cut almost assured when it releases its fourth quarter 2015 report on 23 February, thanks to a multi-billion dollar write-down of its US shale assets late last year.

Major oil refiners are also suffering. Chevron, the second largest US oil company, lost US$588 million in the last quarter of 2015, and has had its credit rating cut at S&P; BP lost US$5.2 billion in 2015, its worst ever annual result; and Shell has announced that it will sell US$10 billion worth of assets, after its annual profits collapsed by 87 per cent. The Dallas, Texas branch of the US Federal Reserve described the results of its January 2016 survey of industrial conditions as an "oil depression" in every aspect equal to or worse than that of 2009, while oil industry news sites and blog posts galore are calling it a replay of the 1986 crash, only bigger. According to the US Energy Information Administration's second quarter 2015 figures, when oil was almost twice its present price, debt service already swallowed more than 80 per cent of US onshore oil producers' cash flow, and S&P data suggests that one third of all oil-related companies on its international listings will not earn enough this year to service their debts. With that in mind, it is worth noting that Citigroup, in its fourth quarter 2015 report, has already recorded a 32 per cent increase in non-performing corporate loans, and that several Wall Street banks are between them setting aside billions of dollars of "loan loss" reserves.

Derivatives the real danger

Just as in the US sub-prime mortgage crash of 2008, it is the major international banks' trillions of dollars of derivative gambling that will turn an oil-led "depression" into a global catastrophe. In a 4 February *Business Spectator* article headlined "A derivative dilemma for the banks", Victoria Thieberger cited Louis-Vincent Gave of Gavekal Economics who questions the banks' claims that they are not overly exposed to the collapse in the oil industry. Gave admits in his recent report "Red Herrings, Margin Calls And Heart Attacks" that analysts—himself included—have been "looking in the wrong place to understand banks' commodities exposures", and asks, "Perhaps what matters is not the banks' direct loan exposure to the sector, *but instead their exposure to commodity-related derivatives?*"

"In any derivatives transaction", Thieberger explains, "one side of the deal is long and the other party is short. But the prospective rise of bankruptcies among commodity companies *increases the chances that some players will not fulfil their derivatives commitments, triggering a potentially 'catastrophic' repercussion through the chain of derivatives holders*.

"*Recall that the initial trigger for the global financial crisis was about $US500bn worth of losses on US mortgages*. Gave cites figures [showing] that through the magnifying effects of derivatives markets, that wiped some $US7 trillion from global GDP and $US28 trillion from global equity markets." (Emphasis added.)

View the US$5.4 trillion "alternative energy sector" debt, mainly associated with the US fracking boom, through the "magnifying effects of derivatives" and you begin to see the scale of calamity soon to befall the world's financial institutions.

The truth is that no amount of emergency loans, bailouts or bail-ins can prop up the more than $2 quadrillion global debt and derivatives casino. It must be shut down, immediately, along with the banks that have created it, *before* it collapses—and drags the whole world down with it. Governments, not central banks, must take this action, beginning with a full Glass-Steagall separation of banking from derivatives gambling.