Leaders demand end to speculation driving energy crisis

By Elisa Barwick

The energy crisis and food, gas and petrol shortages affecting the UK, are spreading across Europe. Containers are piled up at ports, their contents undelivered. Ships are bypassing the UK altogether. On the continent, the shortage of 400,000 heavy goods vehicle drivers and shortages of energy are impacting hard. A German energy retailer has collapsed, and a Czech power company has halted operations. In Lebanon, which has faced ongoing power outages due to decades of neoliberal economic destruction, the entire electricity grid shut down on 9 October when the country's two largest power stations ran out of fuel. On the other side of the continent, China and India struggle with shortages of fuel for electricity production, experiencing rolling blackouts. In the USA, lack of spare parts, shipping congestion and rising energy prices, combined with collapsing infrastructure, threatens goods production and the autumn harvest.

This impinging reality has resulted in a significant loss of traction for the agenda to move the planet rapidly towards zero carbon emissions which was supposed to be hashed out at the UN Climate Change Conference (COP26) in Scotland on 31 October-12 November. Commentators from Swedish activist Greta Thunberg to the City of London's *Economist* magazine are already forecasting failure.

On 12 October, following a meeting of Beijing's National Energy Commission, Chinese Prime Minister Li Keqiang stated that energy security and self-supply would be prioritised and that China would "build advanced coal-fired power plants as appropriate in line with development needs". Chinese authorities have ordered coal mines in Inner Mongolia to increase production by 10 per cent and on 5 October China's Banking and Insurance Regulatory Commission ordered banks to prioritise lending to mines and power plants in order to increase thermal coal and electricity output. Over half of India's coal-fired power plants, which supply some 70 per cent of electricity, have just one to three days' worth of fuel on hand, according to the federal grid operator. (This includes the impact of flooded coal mines from monsoon season.) Gas-fired plants are also running low on supply. Nations are beginning to recognise the dire consequences of reducing access to reliable baseload energy. Vietnam's Ministry of Industry and Trade has announced a plan to double the amount of coal-fired electricity generation by 2030. Even Germany has seen a steady increase of coal in its energy mix over several months.

Additionally, it appears that nuclear power will be back on the agenda at COP-26, whether the event organisers like it or not. In August we reported that every application to showcase nuclear energy in the COP-26 "Green Zone" technology display pavilion had been rejected. ("China set to test world-first molten salt nuclear reactor", *AAS*, 18 Aug.) The UK is expected to announce funding for a new nuclear power plant in addition to a plan for 16 small modular reactors; France has announced plans for its first small modular reactor; in Germany, which has been intent on wiping out its nuclear industry, a group of public figures are calling for the reversal of planned plant closures; Japanese Prime Minister Fumio Kishida has declared "it is crucial we restart our nuclear plants"; and in Australia, where nuclear power is illegal, the tide is starting to turn (p. 6).

Congestion at Britain's largest port, at Felixstowe, Suffolk. Photo: Screenshot

Commodities speculation

A major factor in spiralling energy and other commodity prices is financial speculation. China has been cracking down on speculation of all kinds in recent years, as became evident with the crisis at real estate company, Evergrande. ("Evergrande: a lesson for regulators", *AAS*, 22 Sept.) At the Russian Energy Week International Forum on 13 October, Russian leaders condemned the role of speculation in driving up prices, demanding it be reined in. President Vladimir Putin pointed out that the European Commission, at the direction of "British experts", curtailed "so-called long-term contracts and [transitioned] to gas exchange trading". This put energy prices at the mercy of waves of financial speculation which determine prices moment-to-moment.

Putin also referenced the dramatic shift of Europe's energy balance towards renewables over the past ten years, saying, "Many countries in the region have given up their coal-burning and nuclear power plants in favour of wind power generation that is heavily dependent on weather conditions." He recommended fast-tracked scientific research, to look "beyond the horizon of not just one decade, but two or three decades", in order to provide for the needs of citizens.

Deputy Prime Minister Alexander Novak called for "an investigation into the activities of stock market speculators, because objectively the current price does not reflect the current situation". Novak reiterated that the price surge is the result of "European politicians' choice of spot contracts over long-term ones and a faulty forecasting of the supply and demand balance in their countries". Reviewing supply disruptions, he noted that these "factors would not have had such a major influence on the growth of prices without the current market speculation and general hysteria".

Confirming this profiteering factor from the other side of the equation are the obscene profits being raked in by hedge funds. On 6 October, Bloomberg reported hedge funds have made 80-94 per cent returns for the year through to the end of September, following up to 154 per cent returns last year, in the case of oil trader Pierre Andurand's Commodities Discretionary Enhanced Fund. Those profits have been driven by bets on rising oil prices and European gas, carbon and power prices.

On 21 September Bloomberg reported that "robot hedge funds", which operate according to computer-driven algorithms, are also cashing in. Many funds have moved out of less lucrative, traditional gambits such as stock and

Continued page 9

Leaders demand end to speculation driving energy crisis

From page 8

futures markets and US Treasuries into trading power, coal, natural gas and carbon emissions. Bloomberg's Commodity Spot Index has surged a record 50 per cent this year.

In "Hedge funds reap windfall by betting on specialist commodity markets", London's *Financial Times* reported that hedge funds have made huge gains this year, particularly by expanding into UK natural gas and German electricity. Other investments are in shipping, fertiliser inputs, coal and iron ore.

But the speculators do not just make a profit by betting from the sidelines, which would be bad enough. They actually drive the markets up (or down as the case may be), to ensure their bets pay off, adversely affecting consumers and economies in the process.

Banks have form

In 2019, JPMorgan Chase was charged with attempting to rig the markets for gold, silver and other precious metals in a criminal RICO (Racketeer-Influenced and Corrupt Organisation) suit. The 1933-99 Glass-Steagall regulation and the *1957 Bank Holding Companies Act* banned bank holding companies from owning and trading commodities or commodity infrastructure for their own accounts, in order to prevent price manipulation in the same markets in which they trade. After the collapse of Enron in 2001, JPMorgan was also found to have manipulated electricity prices on the US West Coast; and Goldman Sachs has been caught deliberately stockpiling metals in its warehouses to jack up prices. There are many more examples. ("Bank crimes once stopped by Glass-Steagall keep getting worse", *AAS*, 16 Oct. 2019)

The *Gramm-Leach-Bliley Act*, which repealed Glass-Steagall in 1999, made possible "a broader concentration of financial and industrial power than we've seen in more than a century", wrote journalist Matt Taibbi in a 2014 *Rolling Stone* article, "The Vampire Squid Strikes Again: The Mega Banks' Most Devious Scam Yet".

He explained: "Today, banks like Morgan Stanley, JPMorgan Chase and Goldman Sachs own oil tankers, run airports and control huge quantities of coal, natural gas, heating oil, electric power and precious metals. They likewise can now be found exerting direct control over the supply of a whole galaxy of raw materials crucial to world industry and to society in general, including everything from food products to metals like zinc, copper, tin, nickel and, most infamously thanks to a recent high-profile scandal, aluminium." They control the entire economic chain, from extraction of resources to refining and industrial processing, pipelines and transport, tankers and ports, and speculate on every step in between. There is no longer any regulation or oversight. (For an examination of the cartelisation this has created, see "'It's the cartels and deregulation, stupid!'", *AAS*, 6 Oct.)

It is notable that the company that produces over 50 per cent of the world's semiconductor chips and up to 90 per cent of advanced processors, Taiwan-based Taiwan Semiconductor Manufacturing Co. (TSMC), has alleged that some companies it supplies are stockpiling chips, according to a *Time* report of 1 October. Other voices are pointing to speculation in this area. Italy correspondent for *Executive Intelligence Review* Claudio Celani, reported that Michele Carlet, CEO of an Italian circuitboard producer, said "there is speculation ongoing. I am convinced that speculators went from sovereign bonds into commodities." With the price of moving a 20-foot container from China to the USA rising 1,000 per cent (from around US$2,000 to $20,000) over the last 12 months, it is clear that something similar is happening to freight. The Italian Institute for International Political Studies reported, "The use of practices of speculative nature cannot be excluded in a market that is de facto controlled by an oligopoly." This is in fact admitted by the Inter-Continental Exchange (ICE), an American company that operates exchanges for financial and commodity markets. Its website states that "Freight has become an active derivatives market in its own right" across a variety of shipping routes.

"Price volatility in the global energy markets has seen an increase in participation by traders, commercial entities and banks in the wet freight derivatives market which provides opportunities for clients to hedge cargo movements. We also provide access to the dry freight derivatives market which helps participants hedge price risk for the cost of moving goods such as coal, iron ore and steel across the world. Trading for dry freight derivatives takes place in USD per day on a time charter basis."

While the use of financial derivatives is often justified for "hedging risk", derivatives have overwhelmingly become tools of speculation, traded as entities in their own right.

Green bubble

Speculation that has already white-anted commodities markets, is now creating a whole new bubble based on carbon emissions trading. Matt Taibbi's 2009 "The Great American Bubble Machine" was about Goldman Sachs's role in setting up this money-spinning operation. Today, the bankers are in high gear.

At an event on the sidelines of the annual IMF and World Bank meetings in Washington, DC, UN Special Envoy on Climate Action and Finance and former Bank of England head, Mark Carney, skited that he has organised asset managers, banks, insurance companies and pension fund to pump US$90 trillion into green investments within five years. At the same time, money is being withdrawn from high-density baseload power which could have fuelled real development and uplifted millions of people from poverty.

British hedge fund billionaire and climate activist Sir Christopher Hohn, founder of London-based hedge fund The Children's Investment Fund Management, has written to the Bank of England, the European Central Bank, the European Banking Authority and the US Financial Stability Oversight Council proposing financial reforms to back in the speculators' cause. These include setting higher capital requirements for carbon-intensive lending and requiring banks to increase climate-related disclosures from corporations they lend to.

"Banks are unwilling to change their lending practices away from dirty companies" and central banks are "allowing systemic risk to build", Hohn said, adding that "Failing to act risks endangering the long-term stability of the UK banking system." This call for regulation and enforcement to protect and extend financial and economic monopolisation, stands in stark contrast to the *laissez faire* approach to regulations that protect consumers.

The solution begins with: Reintroducing Glass-Steagall regulation; moving from spot markets to long-term supply and delivery contracts; banning speculation on commodities; nationalising energy production and transportation infrastructure; expanding production of reliable baseload energy supply (including going nuclear); and reducing reliance on renewables.