

Soaring Commodity Prices Show Threat to Dollar System

by Lothar Komp

More than three decades after President Nixon dismantled the Bretton Woods monetary order, global financial markets are in an untenable situation. At the heart of the issue is the U.S. dollar, still the most important reserve currency in the world. The dollar is the currency upon which the interest rates of hundreds of billions of dollars worth of loans, mortgage credits, and financial derivatives are pegged, and with which practically all raw material purchases are transacted.

The transformation of the United States from a prominent industrial nation, into a consumer society dependent on foreign manufacturers, has triggered an unprecedented flood of U.S. currency into Asian central banks. As a result of the enormous quantities of American debt holdings which accumulated in foreign countries, by virtue of export surpluses and foreign exchange market interventions abroad, merely a press release expressing market fears, by an official in Japan, South Korea, or China, is enough to make the dollar's tumble continue.

Additional turbulence results from the highly inflationary blow-up in the raw materials markets. Over the course of time, these markets have fallen almost completely under the control of private, speculative interests. As a result of central banks pumping liquidity into the financial system, and the control of raw commodity prices by futures exchanges in London and New York, the prices for a wide spectrum of raw materials—from crude oil to copper and iron ore—have been forced to stratospheric levels.

On March 8, the Reuters CRB index (Commodity Research Bureau), which covers 17 of the most important raw materials, stood at its highest level in more than 24 years. In February alone, the index rose around 7.1%, more than in any other month in the last 21 years. The copper prices at the London Metal Exchange (LME) shot to a 19-year high on

March 8. On the same day, the price of oil, which only six years ago stood at \$10 per barrel, again broke through \$55-mark. Simultaneously, the currencies of raw-material-rich countries such as Australia, Canada, and South Africa rose to several-year highs in relation to the U.S. dollar. A good measure of the disintegration of dollar's worth is the price of gold, which on March 8 rose \$6, to \$440 per fine ounce. Two days later, the former Australian prime minister Paul Keating warned of preparing for a "catastrophic crash" of the dollar and the outbreak of a "panic."

The disintegration of the global financial system has already progressed too far for any quick fix to correct it. The only solution exists in the New Bretton Woods, which would not only re-establish currency regulations, as demanded by LaRouche, but in addition, introduce bankruptcy procedures for existing financial commitments, and align financial markets in accordance with the principle of the general welfare. The longer this one promising solution is postponed, the larger the damage to the economies of the world. As a result of the effects of the raw materials price hikes this now becomes clear.

Commodity Prices Explode

The steel industry world-wide is groaning under the load of the prices for iron ore, coking coal, and scrap iron, each of which have risen dramatically. The delivery prices for coking coal quadrupled in the last two years. Formerly prominent coke producers, such as Germany, recently eliminated their own capacities, because the steel enterprises believed they could supply themselves in the future with cheaper imported coal. There is no actual physical scarcity of iron ore. The well-known ore sites in Australia, South Africa, Latin America, and Russia are enormous and have sufficient supply to last

for many decades. However, already in the last year the ore prices rose significantly. On February 23, the two controlling iron ore producers—the Brazilian Companhia Vale DO Rio Doce (CVRD) and the British-Australian group of mining industries of Rio Tinto—delivered a shock with the announcement of a 71.5% price increase for their ore supplies to the large steel enterprises of Japan, South Korea, and China. The steel companies were forced to accept the hike. These agreements serve as a guide for all future contracts over ore supplies world-wide.

This year, steel enterprises will be forced to raise their prices again by approximately 50%. Again the automobile sector and many other industrial sectors, including machine-tool production, are under pressure. As a result, the Federal Association of German industry (BDI) organized a raw materials crisis summit in Berlin on March 8. Hundreds of thousands of industrial-sector jobs are at stake. Even the German chancellor showed up at the event, but could offer no convincing solutions.

Several other raw materials besides iron ore are urgently needed by the physical economy, but like iron ore, these world-wide resources in each case are controlled by a small group of powerful trusts. Approximately 10 years ago, *EIR* published an investigation, which pointed out in detail that more than 50% of the production of nearly all raw materials was in the hand of enterprises, all of whom had settled in the territory of the former British Empire. Since then only a few have changed. The three largest mining industry companies in the world today are: the British-South African group of Anglo-American, the British-Australian BHP Billiton, and the British-Australian Rio Tinto. All three enterprises have dozens of holdings in an assortment of mining industry projects around the globe. Rio Tinto, for example, is the second-largest producer of iron ore and coal, the third-biggest uranium and diamond producer, the fourth-largest copper producer, and the sixth-largest manufacturer of aluminum in the world.

Anglo American, which was founded by the Oppenheimer family of South African in 1917, first specialized in the production of gold, platinum, diamonds, and copper in southern Africa. However, since the mid-1990s, Anglo American has additionally expanded outside of Africa, and currently maintains, among other things, nickel and zinc mining industry in Venezuela, copper mining industry in Chile, and coal mines in Colombia. In 2001, Anglo American, together with the Oppenheimer family, seized the majority stockholdings (60%) in the diamond company De Beers.

In the same year the Australian mining industry group, BHP, purchased the British firm Billiton. Today, the world-wide activities of BHP Billiton cover the following raw material sectors: Copper in Argentina, Peru, Chile, and the U.S.A.; Aluminum in South Africa, Mozambique, Surinam, and Australia; Gold in Argentina; Lead in Australia, Canada, and South Africa; Coal in Colombia, the U.S.A., Australia, Indonesia, and South Africa; Nickel in Colombia, Indonesia,

and Australia; Iron ore in Australia and Brazil; Bauxite in Australia, Brazil, and Surinam; Manganese in Australia and South Africa; Chrome in South Africa; Diamonds in Canada; Cobalt in Australia and Colombia; Zinc in Australia, Canada, and South Africa. On March 7, BHP Billiton issued a take-over bid for the Australian mining industry enterprise WMC Resources. WMC controls enormous reserves of raw materials in the Olympic Dam mine. It's common knowledge that this mine contains a third of the world's uranium reserves. In addition, WMC owned the fourth-largest reserves of copper and gold, and is the fifth-largest nickel producer world-wide.

Control of the physical production of raw materials by a small number of private financial conglomerates is a troubling development. However, raising of the price of industrial consumption to excessively high levels, requires another element: the creation of futures exchanges, with which banks, speculative funds, and other financial investors determine the price of commodities in a very obscure manner. For example, the price of two-thirds of the world's available crude oil is determined by the speculative bets placed on the International Petroleum Exchange in London, and a handful of other so-called spot markets whose activities make entirely no sense to outsiders. The only oil, which comes in the proximity of the so-called market, is the British North Sea oil, Brent Crude. And because British North Sea oil is on the decline, the volume it delivers amounts only to an extremely small portion of total world-wide oil production.

Governments Must Act

As long as private financial interests can arbitrarily manipulate the prices for industrial raw materials of all kinds, the long-term development of national economies remains threatened in a fundamental way. This applies particularly to densely populated countries such as China and India, with their potentially enormous demand for industrial goods. China has long been the largest steel producer of the world, and currently consumes a third of world-wide iron ore production. But the per-capita consumption of steel in China amounts to only 200 kilograms per year, compared with 600 kg in Japan and 1,000 kg in South Korea.

No less important is long-term raw material security for advanced industrialized countries such as Germany.

In his published 50-year-plan for the development of the planet, and through an *EIR* seminar in Berlin in the middle of January, Lyndon LaRouche stressed that governments must use their power, in order to prevent control of raw materials by private financial interests: "Therefore, we need an agreement between nations, which states that it is in the interest of the whole earth, with regard to the use of our natural resources, that the needs of the general welfare come before those of private interest. Private interests are permitted, but must be subject to regulations. These regulations must guarantee that each country receives sufficient access to raw materials, which are necessary for its people and their development."