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The Solari Report

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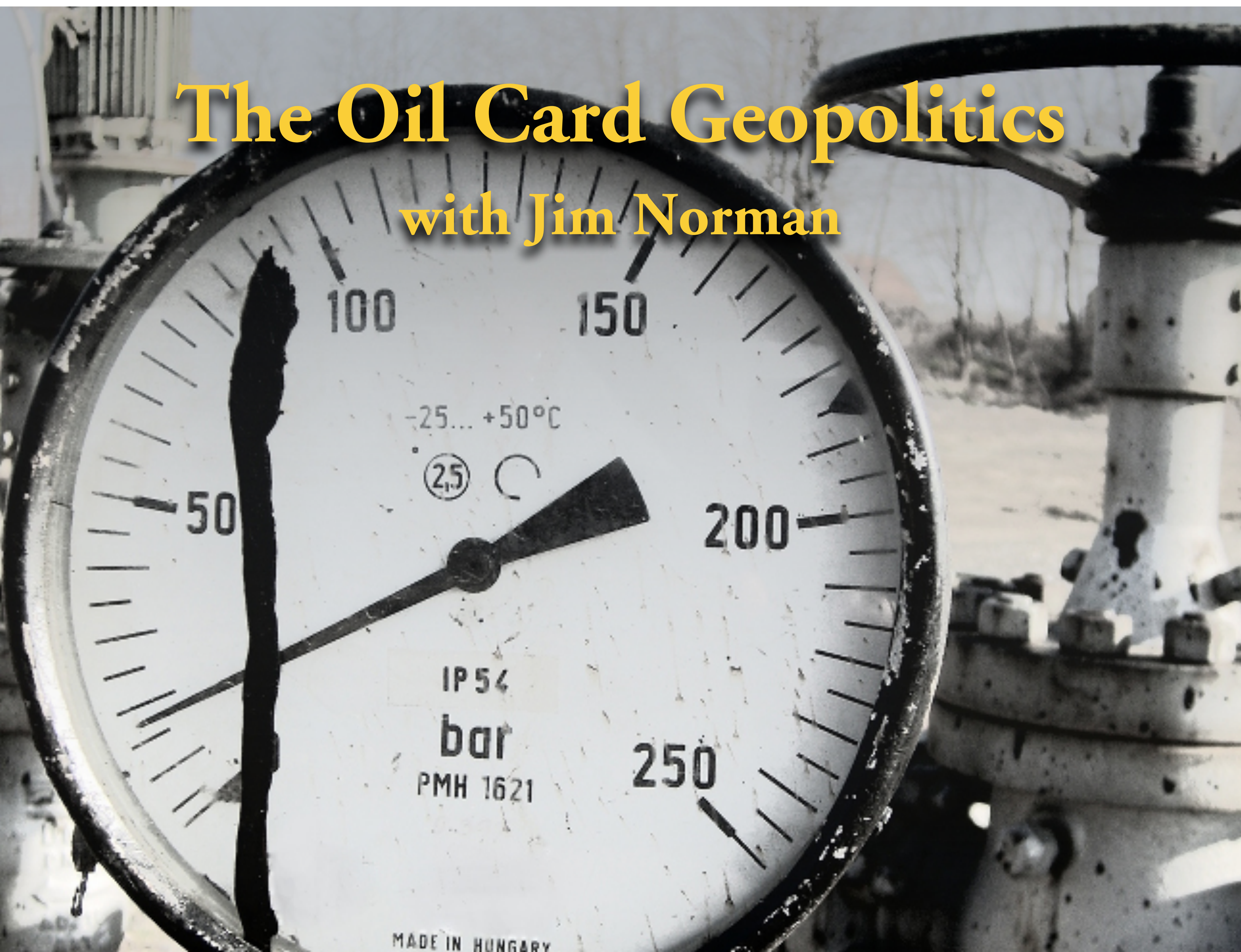
The Oil Card Geopolitics

with Jim Norman



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C. Austin Fitts: It's my pleasure to introduce you to Jim Norman. He's a veteran business journalist and energy reporter. He writes for McGraw-Hill's Platts Oil News, and he's been a Senior Editor at Forbes and BusinessWeek. He's won an AP award for investigative reporting on oil and gas scams, he's been on The Solari Report twice last year, both to introduce *The Oil Card* to us and to cover the Gulf oil spill. His knowledge of the energy market is really extraordinary. He can talk at the macro level or all the way down at the street level to the gas pump. He's somebody who can connect the dots between global markets and what it means to you and me, and our assets and life on Main Street.

So, it's a pleasure to welcome Jim in from New York.

Jim Norman: Hi Catherine. Thanks for having me back again.

C. Austin Fitts: Well, tell us. I don't even know where to begin. Not everyone heard your first interview, explain to them the premise of your book, *The Oil Card*, how you came to understand what was going on in the deeper system and how you came to write the book.

Jim Norman: The basic thing about this book is, it's a how to, how to manipulate oil prices on a global macro level. Intuitively, people would say that's impossible, you can't do it, it's a huge fungible market, you can't do that. But in fact, if you go back and see, there's a clear paper trail record of how the United States and its allies actually did manipulate downward the price of oil in the 1980s to bust the Soviet Union. It took a decade or more, but we were extremely successful at it. And you could go back and see exactly the levers that were used, we leaned on the Saudis to produce more oil, we leaned on the Majors to produce more oil; the NYMEX came into existence which was characterized by a barrage of short selling, a whole bunch of stuff going on that basically depressed the price of oil as a global commodity and it took away enough of the hard currency for the Soviet Union that they actually had to go hat in hand to borrow $100 billion dollars to feed their people, which was the beginning of the end because when the popular uprisings began in Eastern Europe the strings attached to those loans prevented them from sending their armies into Eastern Europe. The Soviet Union ultimately collapsed. The Russian economists, going back and looking at it and saying, what did us in? Yup, it was that oil price.

When I started to see oil prices take this hockey stick upward trend, it actually started in late 90s, in 1998 I would say.

C. Austin Fitts: Can I just point out one thing? Before it started back up you notice we went in to Russia at that point, encouraged the privatization of a great amount of assets including oil so you had a lot of European and American players pick up equity pieces. So, keep going. Now that the prices go up, it's a different cast of characters who now own and control the Russian oil as the price goes back up.

Jim Norman: Right. The way I look at it is, the ownership issue, that's a very interesting corollary to pursue here, but the main thing I try to focus on is the use of macro commodity pricing as an economic weapon, actually an instrument of economic warfare. That was actually the term that was being used by the Reagan National Security Council and I think they were so successful at it, that it's an irresistible temptation to use it again. This time you can see the vulnerabilities of China, in terms of their exposure to having to import vast amounts of crude oil, iron ore, bauxite, copper — a whole range of metals and agriculture products that they reprocess and then sell again as exports.

So, if you can run up their cost of inputs sufficiently, and push down the dollar enough to hurt their terms of trade, you can make life very painful for an economy like the People's Republic which is so dependent on exports for such a large share of their GDP. The dirty little secret is that the Chinese really don't make a lot of money. They keep their people employed, they turn a lot of activity, but in terms of actual profitability of their basic industries, — if you deducted the subsidies that they get and the bad loans and their banks — it's probably been a net wash for many, many years and it's getting worse right now as we continue to drive down the dollar.

C. AUSTIN FITTS: Yes, they are getting squeezed.

JIM NORMAN: They're fairly squeezed. They're not having a good time, and what you see —this book I came out with in 2008, — since then, this economic war between the United States and China, has just come out of the woodwork. They're not even pretending to hide it anymore. It's an out and out currency war. Chinese bid up the dollar by buying dollar denominated debt, building up massive amounts of foreign currency reserves that they can never really spend very well. In the meantime, we're out there pushing down the dollar with QE2 and it has engendered a global currency war with just about every country intervening to push their currencies downward to remain competitive in exports.

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So, you've seen a bit of blip up here lately in the dollar, I don't know if it's because we want it to rise or what.

C. AUSTIN FITTS: It kind of cycles up and down on the way down. I don't think this is more than an interim cycle.

JIM NORMAN: I think the trend is still very much with us, and it's toward higher commodity prices and lower currency. Again, aimed at trying to reign in and slow down economic growth in China because that translates into military powers ultimately. If you look at the Mercantilistic practices the Chinese have been pursuing, whether or not they mean it this way, certainly our National Security establishment use it as a threat and is responding to it. The thing about this economic war stuff is that you find it goes on over very long periods of time, decades really, but it can be waged with severe intensity even though there's no actual casualties, I mean bodies laying on the ground necessarily. It can be tremendous amounts of money employed on a global scale. The pace of the activity also becomes a weapon in itself. If you can control the pace of warfare you can wear the other guy out before they can respond. That's another aspect of it. I think that the rate at which we're able to control events has got to be rather tiring for the Chinese and others as well. My contrarian perception is that we're not victims necessarily in this thing. We're the aggressors in many ways, and successfully so.

C. Austin Fitts: I think it's very wearing for anyone who's trying to get something done in the real economy. Because if I'm trying to grow something, and ship it abroad and trade, and I'm using a financial system — whether it's the banking system or currency or all the different things — and I'm just trying to use it to do a legitimate business that the world wants done, and you're instead using the whole system for economic warfare. It drives me crazy because I get hiccuped and thrown all over the place.

Jim Norman: You can't get a set price on anything. That's what got me so enraged to write this book. I said, these oil prices are crazy, and this was at $50 a barrel before they ran up to $150 dollars a barrel, then they fell and now they're back up to $100. And they could go to $200! I mean there's no limit.

C. Austin Fitts: I think that's their goal. I think they want it at $200.

Jim Norman: The way you do it is, actually the formula is not that hard to do. If you want to run the price up, all you do is snug up the physical market so there's not a lot of extra barrels sloshing around. Then you throw money at the futures market which trades many, many times more paper barrels per day than the actual physical market, and that's really where the price gets set. So if you put enough dollars to work you can move the price to the moon and back if you want. Which is why its interesting to see what has happened here in the last few weeks with another round of margin increases on a whole range of commodities including crude oil, which had a dampening effect of helping to pull the price back from the NYMEX price for crude which had gotten up to $115 a barrel then it came down to like $95, its back to around $100.

It's like somebody is kind of saying, let's keep it around $100 here for awhile, and cool things down a little.

C. Austin Fitts: When I first started to get into precious metals, having watched how they manipulated the mortgage market, I knew the capacity to manipulate was extraordinary and then I got into the precious metals market and I saw the extent to which you could literally control and manage a global market. This thing has many decades of history so it didn't just happen overnight. To me, part of it is when even the head of the IMF knows you have the power to do that to him, people tend to toe the central line. So all of that I knew, but until I read your book. I'll never forget, you had one sentence where you described the fact, and this is a couple of years ago, that Exxon Mobile's finding cost per barrel was $4.00.

Jim Norman: It was $4.00 back in the early 80s. It has since fallen to about $0.40. The finding cost is less than $1.00 a barrel now. The finding of a barrel in the ground. The cost of finding and developing it so that you can produce it, actually getting it out of the ground, the total is maybe $15.00 a barrel.

C. Austin Fitts: Imagine if the cost of a pair of shoes, let's say the average price of a pair, let's say it's a hundred dollars, imagine if the mark-up was 85% on shoes? It's just amazing to me to think of what the mark-up on this stuff is.

Jim Norman: Right. But what's more amazing to me is, why are these guys sitting on their hands if this is the case? This is one of those dog that didn't bark moments in the book. If these guys can actually find oil so cheap and sell it so rich, why aren't they making hay while the sun shines? In fact, their liquids production has been flat and falling during this period, the major oil companies. This is at a time when the independent companies, the little guys, who are usually cash strapped and short on technology, these guys are going gang busters increasing their liquids production at double digit rates just from drilling wells in

North Dakota, and at places where it's relatively hard to get the oil out of the ground. But they can do it and they can increase their production with no problem. But the majors just sit there on their hands, "Oh we just can't find any more oil."

The point is, there's a whole bunch of ways the National Security establishment can't keep a lid on oil production. The Gulf oil drilling moratorium in and of itself, however horrendous that spill was, and it was horrendous, still we ought to be able to be out there drilling oil if we really want to get it out of the ground. But, Washington has basically said "no" to that.

The other thing that troubles me so much from a government policy standpoint is the fact that the CFTC which controls these futures markets has just stood back, opened the flood gates to a torrent of managed money, pension money, public employee pension funds, government run basically pension funds have allocated astounding amounts of their portfolios to futures trading, which until a few years ago, was unthinkable. Now, it's viewed as a no-risk asset class. You just buy the Goldman Sachs index, it's a great hedge for whatever, and they justify pouring huge amounts of money, as a result these futures markets have been so skewed by these huge amounts of managed funds that have come in there, all of it on the long side, overwhelmingly on the buy side of these contracts.

Technically, that money is not classified as speculative money because it goes into the market through the swap desks at the big banks. The swap desks take the money from the pension funds, the pension fund gets what looks like an investment in an index, then the swap desk spreads the money over the, pattern of contracts, over the curve to mimic the index. But that swap desk is treated under CFTC rules as if it were a commercial player. In other words not subject to position limits and I don't think they are even subject to the same margin requirements as other people. So, what happens is, the problem is not too many speculators in the technical sense, the problem is not enough speculators. It's the speculators we have to rely on to come into the market and bring the price back down by selling, for every long there's got to be a short.

Normally, the so-called commercial players in the futures market, that would be the natural oil producers, the majors or the refiners, the people who actually deal in the physical commodity…

C. AUSTIN FITTS: The guys who are going long and short to do a real business who needs a hedge.

JIM NORMAN: They are the ones who are generally relied on to rationalize the price. When the price gets out of whack, then you expect the guys with real barrels to come in and bring the price back to normal. But they've been completely overwhelmed by all of this management money that's come in. So, what's intriguing is when the CME and the other exchanges start to jack up their margin requirements here in the last few weeks. Supposedly over increased volatility, what's the net effect of that? Ultimately, I think it will be to further drive away the speculators, the little guys, who are much more susceptible to margin costs than these big exchange traded funds or pension investors. The manage money guys don't really give two hoots about it.

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C. AUSTIN FITTS: They can't afford to deal with the volatility.

JIM NORMAN: Right. That's true. Plus, we've already killed off a lot of the shorts anyway just by letting the market run up so much. Anybody who's been shorts to this run up has had their head handed to them. You get into a runaway position like you did in 2008 where once these prices start on an upward geometric climb the market just runs away form you. It doesn't even take a lot of money to push it upwards. It's a one way street so I think that there's always the risk of that again.

Is there a concerted effort to try and keep the price under control? Maybe. The IEA, the International Energy Agency in Europe, they just came out asking OPEC to pump more oil because we think there's an oil shortage going to happen. We don't want that price to run up too much now do we? To me, this is just pure theatre because it's just ringing these alarm bells, needlessly…

C. Austin Fitts: You're clucking to the horse while you're pulling hard on the reins and drawing them in.

Jim Norman: Yes. OPEC would tell you the world is swimming in crude oil and it is, right now. We've got so much crude oil in storage all over the globe and we don't have enough barrels to store it in. There's no shortage of physical crude anywhere. Even with Libya off the market. I mean that's like a million barrels a day.

C. Austin Fitts: Did we go into Iraq to shut off oil? I mean did we go in to keep the price high by shutting off the supply?

Jim Norman: I think that was part of it. What I say in the book, and this is one of those contrarian things; Iraq was about oil, duh. But, not in the way most people think. It wasn't that we wanted to go in and grab the oil ourselves and own it, the Dick Cheney kind of conspiracy thing. The problem was, Saddam had started to do deals with the Chinese to sell in the ground oil reserves to his People's Republic of China. So as soon as U.N. sanctions would have been lifted at the end of 2003, you would have had Chinese boots on the ground garrisoning large underdeveloped oil fields in Iraq. And once you have that happen, you would never get them out of there. And that's why the Bush Administration ran out of time. The only way to preempt that was to invade the country. Take them off the market. And it did take a million and a half or two million barrels a day of production off the market which helped push the price up some more. But the main objective was to avoid Chinese ownership of in the ground reserves in the Middle East. And that I think was also a key factor in what you see going on in these Arab Spring actions.

In Libya, what I had been hearing is that in fact Gaddafi was getting ready to throw out all of the existing western company oil contracts that Libya had signed and rewrite them all with even more onerous terms. He was already taking like 90¢ on every dollar that was being produced there, but it was like he was going to take yet more, or maybe turn them over to the Chinese. But I think he was nervous about that because he saw what happened to Saddam, and in fact the Chinese had actually bid to take over a Canadian oil company that had found a bunch of reserves in Western Libya and I think that Gaddafi was nervous about that, so the government itself, the National Oil Company in Libya stepped in preempted that deal, took over the oil company. But would they eventually give it to the Chinese? I don't know. What you find is, before the bomb started dropping there, the Chinese moved a warship into the Mediterranean. First time they ever deployed a combat vessel into the Mediterranean and then began a massive evacuation of 36,000 Chinese Nationals who were in Libya for whatever reason.

C. Austin Fitts: That's quite a big logistic.

Jim Norman: It was multiple boat loads, cruise liners, ferries, about one hundred or so charter airline flights, it was like a steady stream of buses moving people to Egypt. It was a massive evacuation effort. There were Chinese technicians all over Libya, not only running the oil field service industries but also rebuilding their telecom network — there's another strategic hot button. The Chinese were getting into Libya big time. It could have been just like with Saddam. Muammar was doing business with the wrong people at the wrong time and the wrong place and he's buying himself a lot of problems.

The Syrians are in the same boat. They've had a lot of long and warming relationship with the Chinese. The Chinese were pretending to build a refinery on that site where the Israeli's blew up that nuclear facility in Syria a year or so ago. You look at Yemen, I think there's a Chinese component to that thing. Wherever the Chinese go, trouble follows. Now, maybe it's just completely coincidental. Maybe these are completely sui generis, grass roots, uprisings of the people who just happen to be twittering each other at the same moment and say, "oh lets have a riot!" I don't think so. This whole thing is so well orchestrated that this is another aspect of this economic warfare milieu that we're in where there's no actual state fingerprints on things. Well, I guess there are now in Libya where we've got NATO bombing things. But, it's always under some amorphous cover story.

C. AUSTIN FITTS: Increasingly it doesn't make any sense. So we all walk around in this state of sort of free-floating anxiety.

JIM NORMAN: The book is kind of useful because it basically says if it doesn't make sense it's probably because it's some aspect of U.S. – China economic warfare. Once you look at it that way a lot of things kind of make more sense.

C. AUSTIN FITTS: Once you realize this is the way, I'm a man in the street, I'm paying $4.30 a gallon for gasoline out here in California, but when you think about it, if the United States, let's look at the flip side, if they don't checkmate China, if they don't keep the dollar as the reserve currency, if they don't extract a global taxation through the balance sheet, what would happen? If everybody in America had to pay a true market price for all the goods they buy that are produced in China, I dare say that it would hit their budget much harder than paying $4.00+ a gallon for gasoline. So, if you look at the price to the consumer in the first world of keeping the oil and gas price high, versus the cost of losing the subsidy extracting whatever is extracted globally, I bet the economics work in the short run to the net favor of mainstream. Does that make any sense?

JIM NORMAN: I see what you're trying to say. I wish I could do that math in my head. I really can't. It's hard to tell. There was that video you put up on your website, that James Goldsmith interview, I went and reviewed that and he was quite prescient. This was back in the mid-90s I think that he did that. He basically warned about this global free-trade thing. This is the GATT Agreement at the time, where basically the western developed countries lowered their trade barriers on the mistaken theory that everybody will get richer, and in fact it has eviscerated many of these western economies. Jobs have just gone and the wealth has been transferred to places like China. I think the theory was, "oh well that's good because we'll make them abide by rule of law now governed by world trade standards." Well, okay but the other guys want to lie, cheat and steal. The enforcement mechanisms are rather slow and creaky and ineffective so you've had a one-way street on trade and I think that everybody's temper is at the boiling point over this. And the Chinese just don't have many friends out there. I mean they've in fact, raped and pillaged not just us, but all our neighbor countries as well. The reaction is, I think, is going to build more and more, and you're going to see gradually a collapse of these global free trade arrangements, just like what happened during the depression.

C. Austin Fitts: In the 30s.

Jim Norman: Yes. Back then, people talked about that, what was that Smoot-Hawley Tariffs that we enacted, that's what caused the Depression. Well, people forget that back in the 30s the United States really was the world's equivalent for China at that time. We had manufacturing capacity double what we needed internally and we were exporting. We were the world's low cost producer of steel and cement and just about any other commodity. The same way the Chinese are now. And the Europeans were the ones who said, "hey you guys are wrecking our industry, we're going to put up some tariff barriers because you're not playing fair." And it's when the Europeans did that, that's when we reacted with our Smoot-Hawley Tariffs in reaction to that. But what happened? When the Depression hit, trade dried up. Unites States suffered twice as much unemployment as Europe did. Our unemployment rates were twice as high as they were in Europe because we had so much surplus industrial capacity that just went dark. Just went idle. That's the risk the Chinese are running here. They have hitched their way into basically an obsolete nineteenth century industrial model and have exposed themselves to tremendous under utilization if trade starts to collapse on them. So I think they're extremely nervous and very vulnerable.

"People forget that back in the 30s the United States really was the world's equivalent for China at that time. We had manufacturing capacity double what we needed internally and we were exporting."

C. Austin Fitts: Their problem is they just got to keep people working. And that's a huge political vulnerability.

Jim Norman: Right. You see how nervous they are over these Arabs uprisings. As soon as that happened they started to censor all the news and that stuff, they started to clamp down on internet traffic, twittering and all that stuff. The Chinese are apoplectic that something like that could break out in China and they just couldn't keep the lid on it.

C. Austin Fitts: Imagine how painful Tiananmen Square must have been to go through for a leader.

Jim Norman: Yeah, and the world reaction afterwards. They don't want to have to go there again. So the least whiff of social unrest like that they get tough right away and people just disappear and go into detention somewhere and I guess get brainwashed or re-educated or whatever. So it's brutal just like all of these governments are when it comes to maintaining control.

C. Austin Fitts: I think that having lived through a similar process here, I think we're in a situation where all governments are feeling fragile because the situation is so hard to get out of this scramble mode and find a way to cooperate because you just have so many players who won't obey any kind of federal rules. So I just think everybody's feeling very, very fragile and so tempers have really risen extraordinarily. Having been in a government position, I sympathize with how fragile it can feel because you're always wrong and there's not a lot of support for helping you craft something that is reasonable all the way around.

Jim Norman: Government legitimacy is a key commodity that you don't want to lose it. It's amorphous. Even with this Birther thing, it has got to have been a thorn in the side of a bunch of people because however wacky some of those criticisms are, my take on that is that there is a problem, not that he wasn't born in the United States necessarily, but the real problem is that Mr. Obama is really a child of the whole national security establishment. His mother's resume reads like right out of the CIA employment human relations department. His whole life was blessed. Like Bill Clinton, Rhodes scholar from Arkansas, and then suddenly Governor from Arkansas, and then President of the United States. These are unknown people of really murky backgrounds and curious ties to the spooky side of the government.

C. Austin Fitts: They're beginning to look like the oil price.

JIM NORMAN: Exactly. They're manufactured to suit the needs of the moment, almost. It's disheartening at best, but you just get used to it and live with it and hope the guy does the best he can. We've had a continual parade of cardboard cutouts for our leaders of the free world.

C. AUSTIN FITTS: It's the same thing that you said about price. If you can't see an honest economic price, because the financial system is not just something we use to transact, it's something we use it to communicate because what I need to know is, what's the most effective way to use my time and resources to get where it is I think I want to go? I'm constantly getting a false price that's always telling me to head in the wrong direction. So you get households, you get communities, you get governments, you get enterprises, everybody starts behaving in wildly unproductive ways because their incentives are telling them to head in the wrong direction.

JIM NORMAN: Right. You get bubbles here, and depressions there, misallocation of capital all over the place.

C. AUSTIN FITTS: It's misallocation of human capital and financial capital. So one of the things I struggle with is, how can I aspire to be excellent when everything's upside down? It's really challenging.

Well, let's get back to the Middle East. One of the things we were talking about with Colonel Wilkerson was the economics of building pipelines and long term infrastructure in a situation where you have these kinds of political tensions and the danger that we end up with long term military occupation to make sure, including bi-corporations with private armies, to make sure that everything goes the way their investment needs it to go.

JIM NORMAN: Right. The unrest basically precludes big pipeline investments. Like that gas line between Egypt and Israel has been blown up a couple of times in the last week or so. What's interesting is, in the last week or so there are stories finally coming out of the woodwork that the Chinese and the Russians are screaming at each other over oil. The Russians finally built this long pipeline out to the Pacific Ocean and they allowed the Chinese to build a spur to tap into that to take about 300,000 barrels a day, about enough for one refinery, that's all the Russians would sell them. The rest the Russians want to ship it all the way out to the Pacific, put it on boats and sell it to the Japanese. The Russians are kind of trying to be nice to the Chinese by giving them a little bit of that oil, but not much and now it turns out the Chinese are stiffing them on a bill because they think the Russians are charging them too much, which they are! I mean, the Russians are charging for that oil more than if the Chinese had bought the stuff on the Persian Gulf, put it on a boat and shipped it half way around the world. Normally, pipeline oil should come at a much lower price than water bound crude but the Russians have been able to extract a Persian Gulf premium for that oil. Now the Chinese are saying, "no we're not going to pay that!" So, that whole buddy, buddy thing…

C. Austin Fitts: You know the Chinese just launched their first aircraft carrier group. Did you know that?

Jim Norman: They eventually will. I'm sure it's just a matter of time. Military spending has been prodigious. The growth of their capabilities. I think the Chinese are definitely a military threat, if not to us, then certainly to all their neighbors around there. How do you think the Filipinos feel? Even the Vietnamese, or the Indonesians or even Japan.

I think you're seeing a rapid militarization of Asia. It's inexorable. That's why, as brutal as economic warfare might be, it sure beats the alternative.

C. Austin Fitts: In a funny kind of a way, it reflects an evolution towards a more civilized model.

Jim Norman: Yes, and I think that's the way things have been moving. Less bloodshed, but more brutality, in a sense. I think we're going to have more of the same.

C. Austin Fitts: One of the things I try and do on The Solari Report, is use movies to describe different phenomenon. It's all in the movies. And the first time you came on The Solari Report the movie was Syriana, which is George Clooney's movie about oil and the politics in the Middle East. The family leading a middle eastern country has two brothers; one is supporting the U.S. and the other wants to do a deal with the Chinese. You see the geopolitics and danger of doing deals with the Chinese, and how upset the Americans can get. Have you seen it?

JIM NORMAN: I gave up on movies a while back. I started to get so infuriated with them, even the best ones.

C. AUSTIN FITTS: Well, I can get infuriated with them. Actually, I'm a big George Clooney fan. Are there any movies that you think do a good job, or documentaries of explaining *The Oil Card*? Maybe it's time for you to make a documentary.

JIM NORMAN: I don't know, maybe yes. I have low expectations from Hollywood. It is the premiere global propaganda machine. Nothing comes out of there that isn't heavily doctored and skewed.

"I have low expectations from Hollywood. It is the premiere global propaganda machine. Nothing comes out of there that isn't heavily doctored and skewed."

C. AUSTIN FITTS: I've never known anything to get out that the Pentagon didn't want to come out, in my experience.

JIM NORMAN: Right. I did my small part for humanity by writing this book and I swear it's the last book I'm ever going to write. It's too much work.

C. AUSTIN FITTS: Before we close down, tell us how we can get a copy of *The Oil Card*? Ever since I read that book I feel like I understand my world. It was the piece that was missing for me, and it's made a huge difference. I read the headlines and it's like, well yes, of course that makes total sense. Everything starts to makes sense instead of, that Orwellian feeling goes away, so I really want to say this again.

If you haven't read *The Oil Card,* it's very good reading. You'll never view the world the same and you'll laugh a lot more as you read the headlines.

JIM NORMAN: The cover art alone is worth the cost. Plus, I had them print it in large type for us old people who have a hard time.

You can get it on Amazon. You can really help my poor impoverished publisher if you call him up. Chris Milligan, one of the greatest heroes of our time. The number is 1-800-556-2012. Or, there's a website, www.oilcard.com.

It will never hit the bestseller list but I think it could be around for a while as one of those cult classics. After I'm assassinated it will be valuable, I'm sure.

C. AUSTIN FITTS: I don't think that's going to happen.

JIM NORMAN: I'm small potatoes fortunately. I would love it if people would read it and critique it. I would appreciate even negative feedback. If somebody's really got an axe to grind with the thesis of the book, by all means I would love to hear it. Let's talk about it. I think that there's ideas there that definitely need to be considered, which to my dismay never make it into the public debate. There just dismissed as conspiracy theory.

C. AUSTIN FITTS: It's been very hard for people to fathom the level of the ability to now manage and control markets. It was just overwhelming to think that was even possible, but given the events of the last five years, a lot more people have come around to seeing it and understanding it.

We have a couple questions. I'd love to ask them before we go. One is, is it really peak, or is it peak the price? I have a friend who worked in the gas and oil fields in the 1950s and says many were capped with plenty of oil and gas and said that there's no peak oil problem.

JIM NORMAN: I'm definitely not a believer in this peak oil thing. Eventually, at some point I guess you'd reach a point of diminishing returns but most of the world has never been explored or drilled for oil, even the United States, which is like Swiss cheese now with wells. There is still lots of oil. Our production is going up. Certainly as the price goes up there's more oil and it becomes economical. Our recovery right now could double the amount of oil that we've recovered from existing reservoirs that people have given up on. There's no imminent danger of a shortage of physical barrels of crude oil. It's a useful propaganda tool if you want to get the price up. What's interesting to me is that there's actually a reverse psychology employed back in the 80's when we were driving the price down, people don't remember it then, but all of the major Middle Eastern oil producing countries came out in the late 80s and they all kind of arbitrarily doubled the amount of crude reserves they claimed they had in the ground. At the time it made it look like we had hundreds and hundreds and hundreds of years of oil production. There was no reason to ever trade over $10 a barrel, get used to it. And that was kind of the prevailing mentality. But you could see how easily things can change.

C. Austin Fitts: The media machinery is just unbelievable.

Jim Norman: It's the great Wurlitzer organ here of propaganda.

C. Austin Fitts: Quickly, one more. If higher oil prices are being used to bring down the Chinese economy why are we seeing an effort by the CME to raise margin requirements and oil in an effort to drive down prices? Is this just a short-term effort of the Slow Burn asserting itself to prevent a dollar collapse or are we seeing the beginning stages of the China bubble beginning to unravel which the market is picking up?

I know you sort of addressed this, but maybe you could do it one more time?

Jim Norman: I think that's a key point, a very astute observation. There's something behind this jacking up of margin requirements all of a sudden. Now, whether that is to actually bring the price down because the Chinese have caved? I guess it's possible, but I don't think that's happening yet. Now there were these talks between the Chinese in Washington. Maybe there was something going on there and maybe we threw them a bone for something that they caved in on, and we said, "Ok maybe we'll give you a break on oil price for a while. We'll see what we can do for you guys." Then, mysteriously the price comes down to $100 a barrel and margin requirements are jacked up. That's possible but as I mentioned before, I think the long term impact of these tighter margin requirements actually impact negatively on the little guys, the speculators who have been relied on to moderate the price. You could actually be setting the stage for another leg up in the market.

C. AUSTIN FITTS: Yeah, that's what I think. I also think that what happens is, essentially by running the price up you're squeezing a variety of parties and it's never good to squeeze all the time constantly. You want to squeeze and give them a break. It's kind of a harvest cycle.

JIM NORMAN: You don't want them to go away mad.

C. AUSTIN FITTS: You don't want them to collapse. You want the slave to keep on working. So, I think they kind of cycle it and at some point you need to back down. Whether it's to consolidate and drive out the little speculators or to give somebody a breather before you start squeezing again.

JIM NORMAN: Another party on the receiving end of this is the Russians. Remember when prices were about to hit $150 a barrel then they tanked down to $40, it was right at the time the Russians invaded Georgia. I think there was some kind of connection there that the Russians got uppity they went off the reservation and we hit them upside the head with a two-by-four and they withdrew from Georgia and they behaved themselves ever since. There's the usual rhetoric back and forth but ultimately we've had our way with them in terms of missile defenses. We need to keep the Russians healthy to be able to stand up against the Chinese. And the way we do that is with oil prices. But if the Russians get too greedy or too crooked or too uppity they could be vulnerable to periodic down drafts in the oil price to get their attention. I think they understand that and you see that in the somewhat moderated commentary out of Moscow. I don't know how that works but that's another variable in the puzzle.

C. AUSTIN FITTS: I just want to make sure that everybody's kids and grandkids think twice about saying that they want to become Chairman of Exxon. It's not as easy as you think.

JIM NORMAN: Those guys were all dragged before Congress and pilloried over these oil prices and it reminds me that when Lee Raymond, the former CEO at Exxon, he would be dragged before Congress and I admire him. I think he's a tough guy, smart guy, honest, the guy had balls and he told them, "You want to know why the oil prices are so high? It's geopolitics." That's what really determines it. He didn't go into any more detail about it, but that's how he delivered the message.

C. Austin Fitts: He didn't want to be accused of raping his maid.

Jim Norman: If you look at Exxon's oil and behavior back in the early 80s when we were trying to drive down the price of oil, to me this is an alarm bell. Exxon against all economic wisdom, doubled the amount of wells it was drilling, ramped up it's oil production by 12% in one year, borrowed money to drill wells, spent more than their upstream cash flow, this is so completely out of character for that company to do that. They could only have done that if they had a gun to their heads. Actually, not a gun to the head, all it takes is phone call and the capital spending programs get, they do what they have to do.

When it comes to this, it isn't the oil companies that are running the government. The oil companies live in mortal fear of what the government can do to them. Any day of the week, any hour of the day….

"Exxon against all economic wisdom, doubled the amount of wells it was drilling, ramped up it's oil production by 12% in one year, borrowed money to drill wells, spent more than their upstream cash flow, this is so completely out of character for that company to do that."

C. Austin Fitts: My experience behind that is that government is a shadow government and so it gets very murky back there.

Jim Norman: The oil owners certainly are a big piece of that somehow. When somebody can really unravel that that will be the book to read.

C. Austin Fitts: I think it will take more than one book, Jim.

This has been fabulous. I can't thank you enough for informing my world view and coming on The Solari Report and helping us all. You have a wonderful evening and keep doing what you're doing. I want to change your mind about writing another book because I would love another one.

Jim Norman: I'll think about it. If I do, you'll be the first place I'll come to try and test the theory. Thanks again for having me. This is great and blame me for any outrageous comments tonight. If any of your listeners want to discuss anything further please have them send me an email or forward it along.

C. Austin Fitts: Where can we email you?

Jim Norman: Why don't they send it to you and you can send it to me.

C. Austin Fitts: Have a great night Jim.