that as of the end of 1998 Saddam possessed major quantities of WMDs across a range of categories, and particularly in chemical and biological weapons and the means of delivering them by missiles. All the intelligence services of the world agreed on this.

From that time until late last year, Saddam was left undisturbed to do what he wished with this arsenal of weapons. The international system had given up its ability to monitor and deal with this threat. All through the years between 1998 and 2002 Saddam continued to act and speak and to rule Iraq as a rogue state.

President Bush made it clear by 2002, and against the background of 9/11, that Saddam must be brought into compliance. It was obvious that the world could not leave this situation as it was. The U.S. made the decision to continue to work within the scope of the Security Council resolutions—a long line of them—to deal with Saddam. After an extended and excruciating diplomatic effort, the Security Council late in 2002 passed Resolution 1441, which gave Saddam one final chance to comply or face military force. When on December 8, 2002, Iraq produced its required report, it was clear that Saddam was continuing to play games and to reject his obligations under international law. His report, thousands of pages long, did not in any way account for the remaining weapons of mass destruction that the U.N. inspectors had reported to be in existence as of the end of 1998. That assessment was widely agreed upon.

That should have been that. But the debate at the U.N. went on—and on. And as it went on it deteriorated. Instead of the focus being kept on Iraq and Saddam, France induced others to regard the problem as one of restraining the U.S.—a position that seemed to emerge from France's aspirations for greater influence in Europe and elsewhere. By March of 2003 it was clear that French diplomacy had resulted in splitting NATO, the European Union, and the Security Council . . . and probably convincing Saddam that he would not face the use of force. The French position, in effect, was to say that Saddam had begun to show signs of cooperation with the U.N. resolutions because more than 200,000 American troops were poised on Iraq's borders ready to strike him; so the U.S. should just keep its troops poised there for an indeterminate time to come, until presumably France would instruct us that we could either withdraw or go into action. This of course was impossible militarily, politically, and financially.

Where do we stand now? These key points need to be understood:

There as never been a clearer case of a rogue state using its privileges of statehood to advance its dictator's interest in ways that defy and endanger the international state system.

The international legal case against Saddam—17 resolutions—was unprecedented.

The intelligence services of all involved nations and the U.N. inspectors over more than a decade all agreed that Saddam possessed weapons of mass destruction that posed a threat to international peace and security.

Saddam had four undisturbed years to augment, conceal, disperse, otherwise deal with his arsenal.

He used every means to avoid cooperating or explaining what he has done with them. This refusal in itself was, under the U.N. resolutions, adequate grounds for resuming the military operation against him that had been put in abeyance in 1991 pending his compliance.

President Bush, in ordering U.S. forces into action, stated that we were doing so under U.N. Security Council Resolutions 678 and 687, the original basis for military action against Saddam Hussein in 1991. Those who criticize the U.S. for unilateralism should recognize that no nation in the history of the United Nations has ever engaged in such a sustained and committed multilateral diplomatic effort to adhere to the principles of international law and international organization with the international system. In the end, it was the U.S. that upheld and acted in accordance with the U.N. resolutions on Iraq, not those on the Security Council who tried to stop us.

The question of weapons of mass destruction is just that: a question that remains to be answered, a mystery that must be solved. Just as we also must solve the mystery of how Libya and Iran developed menacing nuclear capability without detection, of how we were caught unaware of a large and flourishing black market in nuclear material, and of how we discovered these developments before they got completely out of hand and have put in place promising corrective processes. The question of Iraq's presumed stockpile of weapons will be answered, but that answer, however it comes out, will not affect the fully justifiable and necessary action that the coalition has undertaken to bring an end to Saddam Hussein's rule over Iraq. As David Kay put it in a February 1 interview with Chris Wallace, ''We know there were terrorist groups in state still seeking WMD capability. Iraq, although I found no weapons, had tremendous capabilities in this area. A marketplace phenomena was about to occur, if it did not occur; sellers meeting buyers. And I think that would have been very dangerous if the war had not intervened.''

When asked by Mr. Wallace what the sellers could have sold if they didn't have actual weapons, Mr. Kay said: ''The knowledge of how to make them, the knowledge of how to make small accounts, which is, after all, mostly what terrorists want. They don't want battlefield amounts of weapons. No, Iraq remained a very dangerous place in terms of WMD capabilities, even though we found no large stockpiles of weapons.''

Above all, and in the long run, the most important aspect of the Iraq war will be what it means for the integrity of the internationals system and for the effort to deal effectively with terrorism. The stakes are huge and the terrorists know that as well as we do. That is the reason for their tactic of violence in Iraq. And that is why, for us and for our allies, failure is not an option. The message is that the U.S. and others in the world who recognize the need to sustain our international system will no longer quietly acquiesce in the take-over of states by lawless dictators who then carry on their depredations—including the development of awesome weapons for threats, use, or sale—behind the shield of protection that statehood provides. If you are one of these criminals in charge of a state, you no longer should expect to be allowed to be inside the system at the same time that you are a deadly enemy of it.

September 11 forced us to comprehend the extent and danger of the challenge. We began to act before our enemy was able to extend and consolidate his network.

If we put this in terms of World War II, we are now sometime around 1937. In the 1930s, the world failed to do what it needed to do to head off a world war. Appeasement never works. Today we are in action. We must not flinch. With a powerful interplay of strength and diplomacy, we can win this war.

## OIL SUPPLY

Mr. LEVIN. Mr. President, last Thursday a press release from the Department of Interior came across my desk that at first glance appeared to be the announcement of an April fool's joke. The press release stated beginning April 1, the Interior Department will deliver about 115,000 barrels of oil per day to the Department of Energy for the Strategic Petroleum Reserve. I thought this was an April fool's prank because this is about the worst possible time for the administration to be taking oil off the market for the Strategic Petroleum Reserve.

Crude oil and gasoline prices are historic highs and inventory levels are near historic lows. Consumers are paying record prices at the gas pumps. Manufacturers and farmers and a whole lot of other folks are paying high prices for diesel fuel. Our airlines face soaring fuel costs and so does the trucking industry. Our economy, which has major problems, will be weakened further by high energy prices.

To make the timing even worse, the Department of Interior plans to begin its oil deliveries to the DOE on April 1, the same date the OPEC cartel is scheduled to start cutting its oil production. The purpose and effect of OPEC's cuts are to raise oil prices further. The effect of the administration's stated plans to keep filling the Strategic Petroleum Reserve regardless of the price of oil, if implemented, will be the same, principally because tight supplies and private inventories will become even tighter due to the administration's additional demands for oil for the Strategic Petroleum Reserve.

Regrettably, the Interior Department's announcement is no April fool's joke. To the contrary, it is another misstep in the administration's illogical and counterproductive practice of putting oil into the Strategic Petroleum Reserve, regardless of the price of crude oil.

Over the past 2 years, this practice has pushed up oil prices with minimal improvement to our overall energy or national security and with great detriment to our economic security.

Let's just review what has happened with energy prices. Crude oil prices have been steadily increasing over the past 2½ years. Last week crude oil reached a 13-year high of over $38 per barrel. So far this year, crude oil is averaging about $35 per barrel. In 2003, a barrel of crude oil cost on average over $31. That was a record at that point. Climbing crude oil prices have led to higher prices for refined products, including gasoline, home heating oil, jet fuel, and diesel fuel.

Today, as well as four times in the last 10 days or so, the price of gasoline reached a record high. Nationally the average price of a gallon of gasoline is now $1.75. In Michigan, the average price of a gallon of unleaded is up to $1.78. There are fears prices could go over $2 if there is even a small interruption in supply.

The DOE's Energy Information Administration, the EIA, projects prices will rise on average to $1.83 per gallon this spring, and that prices will remain at high levels throughout the year, averaging nearly $1.70 per gallon over the course of the entire year. These high oil and gasoline prices are hurting consumers and businesses. The EIA recently stated the average consumer paid $200 more for gasoline in 2003 than the previous year. Prices this year are already a dime per gallon more than in 2003. Over the course of a year, each 1-cent increase in the price of a gallon of gasoline takes $1 billion out of the pockets of American consumers.

Following the laws of supply and demand, the principal reason oil prices are so high is the amount of crude oil in private sector inventories in the United States is so low.

In fact, our private sector inventories are hovering around record low levels. In January, crude oil inventories fell to levels lower than at any time in the 28 years the Department of Energy has been tracking those inventories.

Why are supplies so low? This administration's oil policies are partly responsible. Since late 2001, the Department of Energy has taken millions of barrels of oil off the market and put them into the Strategic Petroleum Reserve.

In late 2001, the reserve held about 560 million barrels of oil. Since then, day after day, for over 2 years, the Department of Energy has added an average of about 100,000 barrels of oil per day to the Strategic Petroleum Reserve without regard to the price of oil.

Today, the Strategic Petroleum Reserve holds nearly 650 million barrels, or 93 percent of its capacity of 700 million barrels.

DOE plans to keep on adding oil to the Strategic Petroleum Reserve, no matter what the price, no matter how dangerously low private sector inventories are. In April, the DOE plans to add about 200,000 barrels per day to the Strategic Petroleum Reserve, just as it has been doing this month.

By taking oil off the market and pushing up prices when supplies were tight and prices were high, filling the Strategic Petroleum Reserve has decreased the amount of oil in private inventories. That is because when current prices are high, companies with oil in inventory will draw from those inventories to supply oil to their customers—including the SPR—before they buy expensive new oil.

From April 2002 through the end of last year—a period in which the oil markets were extremely tight, reflecting high prices and low supplies—oil inventories in the private sector decreased by almost as much as the petroleum reserve inventory increased. From April 2002 to December 2003, the Department of Energy deposited about 78 million barrels of oil in the petroleum reserve. During this same period, the United States private sector inventories declined by about 61 million barrels. So the 78 million barrels of oil that were deposited into the petroleum reserve are shown by this red line in the last approximately year and a half, the decline in the private inventories is shown by this white line over the same period. So you can see from the chart that the amount deposited in the reserve is almost the same—slightly more—as the decline in private inventories. That means, despite filling the reserve for almost 2 years, the total oil in inventory, private and public reserve, in the United States during this period increased by only 17 million barrels—under 2 percent.

Several studies have demonstrated that the decrease in U.S. private inventories since April 2002 is directly related to filling of the Strategic Petroleum Reserve. While there are other factors as well, such as OPEC production limits and increased global demand for crude oil, especially in China, the filling of the Strategic Petroleum Reserve has been a major contributor to the decrease in private sector inventories.

Goldman Sachs, one of the largest and most successful crude oil traders in the world, reported the following on January 16th of this year:

> Large speculative positions, builds in Strategic Petroleum Reserves, and low inventory coverage have contributed to current price levels.

Goldman Sachs also stated:

> Past government storage builds [build-ups] will provide persistent support to the market

and that

> current plans for the injection of 130,000 [barrels/day] of royalty-in-kind barrels into the petroleum U.S. Strategic Petroleum Reserve (SPR) between now and the end of September . . . will likely provide even further support.

Here, the word ''support'' means keeping prices high.

In early 2002, the Department of Energy's own staff warned that filling the Strategic Petroleum Reserve in a tight market would reduce private sector inventories and raise prices and tried to persuade the administration to postpone putting oil into the reserve so oil supplies would be more plentiful.

In the spring of 2002, as prices were rising and inventories falling, the Department of Energy's own petroleum reserve staff warned the following:

> Commercial inventories are low, retail prices are high, and economic growth is slow. The Government should avoid acquiring oil for the Reserve under these circumstances.

The administration chose to ignore those warnings. The reserve deliveries proceeded. As the DOE staff predicted, oil supplies tightened and prices climbed.

Last week, the Secretary of Energy repeated the administration's position that it would not suspend shipments of oil into the Strategic Petroleum Reserve, despite the high prices and low private inventories of oil. The Secretary rejected criticism of the Energy Department's position by claiming that the amount of oil placed in the reserve is too small to make any difference in the price of oil.

But in 2002, the Department of Energy's own staff refuted that very claim. The DOE Strategic Petroleum Reserve staff explained how taking these barrels off the market for an extended period of time would result in a large decrease to the overall supply of oil on the market. This is the DOE staff warning, which was ignored by the DOE and the administration:

> If we look at the Strategic Petroleum Reserve in the perspective of daily supply and demand, the SPR fill rates are inconsequential. The fill rate is 100,000 to 170,000 barrels per day compared to world production and consumption of 75 million barrels per day. However, when OPEC countries are determined to maintain discipline in their export quotas, the cumulative impact of filling the SPR becomes more significant when compared to U.S. and Atlantic basin inventories. Essentially, if the SPR inventory grows, and OPEC does not accommodate that growth by exporting more oil, the increase comes at the expense of commercial inventories. Most analysts agree that oil prices are directly correlated with inventories, and a drop of 20 million barrels over a 6-month period can substantially increase prices.

In fact, commercial inventories did fall, on average, by 20 million barrels in each of the 3 successive 6-month periods. So what the DOE expert staff said is exactly what has come to pass.

''Most analysts agree,'' they said, ''that oil prices are directly correlated with inventories, and a drop of 20 million barrels over a 6-month period can substantially increase prices.''

The Strategic Petroleum Reserve holds by far the largest strategic oil reserves in the world. In contrast, U.S. private sector oil inventories have fallen well below normal levels. Private sector inventories of gasoline are also well below average.

In an article explaining why oil prices are so high, this week's edition of The Economist reports the following:

> Another fact . . . propping up oil prices may be what [a] trader calls ''supply-disruption risk.''

And then The Economist goes on as follows:

> These worries have, in part, been fueled by a most unexpected source: the American Government. Despite the high prices, American officials continue to buy oil on the open market to fill their country's Strategic Petroleum Reserve. When prices are high, why buy, you might ask, and thereby keep them up? The Senate has asked that question as well. It passed a non-binding resolution this month calling on the Bush administration to stop SPR purchases; but Spencer Abraham, the Energy Secretary, has refused.

Mr. President, I hope the Energy Secretary and this administration will reconsider that refusal because the day after the Senate adopted our amendment I cosponsored with Senator COLLINS to cancel the planned shipments of 53 million barrels to the SPR, oil prices in New York and London fell by $1 per barrel on the news that this oil might not be placed in the Strategic Petroleum Reserve. But after the Department of Energy and key Members of Congress announced opposition to our amendment, even though it was adopted in the Senate, oil prices went right back up.

This real-world price change shows that the cancellation of the currently planned shipments to the Strategic Petroleum Reserve would provide some immediate relief from high oil and gasoline prices and also provide long-term relief, as the additional oil supplies would enable inventories to be built back up to normal levels.

In his testimony before the Senate Armed Services Committee last week, the Secretary of Energy cited ''national security'' as the rationale for continuing to fill the SPR despite high oil prices and low supplies. This rationale is unpersuasive for two reasons.

First, the 50 million barrels of oil that the administration plans to put into the SPR over the next year could be more productively used to replenish private sector inventories. Putting this oil into the SPR will raise our governmental inventories from 650 to 700 million barrels, an increase of about 8 percent; whereas keeping it on the market could boost our private inventories from 290 million barrels to 340 million barrels, an increase of about 17 percent. We, therefore, can get more bang for our buck—or, in this instance, bang for our barrel—by keeping this oil on the market.

Typically, a variety of interruptions in oil supplies can occur in the commercial marketplace. These disruptions may be caused by bad weather, political unrest, or mechanical failure in the actual production of oil. Although any particular disruption may not be foreseeable, based on past history it can be predicted, in general, that some such disruption will occur sooner or later. Because our private inventories are so low, those inventories will not be available to cover any such disruptions.

Since the SPR was established over a quarter century ago, we have never needed to release more than 30 million barrels from the SPR at any one time. At the outbreak of the first gulf war, in early 1991, we released 30 million barrels. In the fall of 2000, the last time we released oil from the SPR, we released around 30 million barrels. Even after we lost all oil production in Iraq last year, this administration did not release any oil from the SPR. It, therefore, appears, for the time being, that holding the SPR at the current level of 650 million barrels, which is 93 percent of capacity, would be sufficient security to cover events that are reasonably foreseeable.

Because current inventory levels in the private sector may be inadequate to cover minor supply disruptions, in the event of such a disruption the price of oil would likely spike to well over $40 per barrel, gasoline prices would jump to well over $2 per gallon, and we might even have to tap into the SPR. The way to avoid this painful scenario is to raise private sector inventories by keeping millions of barrels of oil on the market rather than putting them into the SPR. It does not make sense to increase our ability to respond to the most unlikely events at the expense of our ability to respond to the more certain ones.

Adding more oil to the SPR will increase our energy security only slightly while decreasing our economic security significantly. We cannot measure our national security solely by the number of barrels of oil in the SPR. Our economic well-being is also critical to our national security. In deciding whether or not to put oil into the SPR, the administration should adopt a broader view of what is important to our national security.

Affordable gasoline for American consumers is important to our economic and national security. Affordable jet fuel and the health of our airline industry is important to our economic and national security. Affordable diesel fuel and the health of our manufacturing, trucking, chemical, and agricultural industries is important to our economic and national security. When oil, gasoline, jet fuel, and diesel fuel prices are at or near record high levels, we should consider the importance of increasing the supply of oil to these industries as well as to the SPR program.

This real-world price change shows that cancellation of the currently planned shipments to the SPR would provide immediate relief in the oil and gasoline markets, and also provide long-term relief as the additional oil supplies would enable inventories to be built back to normal levels.

It is bad enough that the Department of Energy has refused to suspend SPR deposits. To make matters worse, the Department of the Interior has now announced that it too will take even more barrels off the market starting April 1.

Currently, the administration plans to remove 5.6 million barrels from the market and put them in the SPR during the month of April—about 190,000 barrels per day. The latest announcement means that, beginning April 1, the administration will be taking even more barrels—for a total between 200,000 and 300,000 barrels per day—of oil off the market.

How much oil is 200,000–300,000 barrels per day? A lot. It is as much oil as we import from many countries, or as much as we get domestically from major oil-producing states. In December 2003, for example, we imported 211,000 barrels per day from Kuwait. In the same month, the State of Louisiana produced 244,000 barrels daily. Oklahoma produced about 180,000 barrels a day.

Moreover, by taking more oil off the market for the SPR when prices are high, the administration is needlessly increasing the cost of the SPR program for the taxpayers. In effect, the taxpayers will be paying over $35 per barrel for this oil for the SPR. By canceling these expensive deliveries, we could use the money obtained from the sale of this oil for our urgent homeland security needs. Indeed, this is just what the Levin-Collins amendment would do.

The administration sometimes claims that if we suspend SPR deliveries to increase supplies, OPEC might reduce production to counter our efforts. This is not a very good reason for not doing anything to improve our situation. To begin with, we shouldn't avoid doing something that makes sense for our national interests because we're afraid that OPEC might respond by taking action adverse to those interests. We must determine our own security, and not act in fear of OPEC. If they act negatively to us, we should have a response ready. Second, OPEC has not threatened to take any such action. The administration shouldn't project actions that OPEC hasn't even hinted at.

In fact, an article from last Friday's Oil Daily indicates that the effect of the Senate Budget Resolution amendment to postpone SPR deliveries is having a positive effect on OPEC—that in the wake of the passage of our amendment some OPEC members ''are doubly keen to reassure major consumers that they are happy to meet any shortfall [in supply].''

Finally, the same argument could be made against any proposal to increase our domestic oil supplies. If we accepted this argument, there would be no point in us trying to increase supplies in any manner whatsoever. It is always possible that OPEC will counter our measures to increase our energy supplies, but we cannot be paralyzed into inaction by fear of what OPEC might do.

I support filling the SPR, but not at any price. It is time for the administration to consider the effect of filling the SPR on our economic security. It is time for the administration to protect American consumers and businesses rather than just the SPR program. It is time to count jobs and growth, not only barrels of oil. It's time to stop filling the SPR.

I ask unanimous consent that the Department of the Interior press release regarding the reservation of oil for the SPR program, a recent article from The Economist on high oil prices, an article from last Friday's Oil Daily, and a bipartisan letter to the President from 53 House members urging the suspension of shipments to the SPR be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the Department of the Interior, Minerals Management Service, Office of Public Affairs, Mar. 24, 2004]

STRATEGIC PETROLEUM RESERVE EXCHANGE CONTRACTS AWARDED; MMS, WYOMING TEAM UP ON RIK SALE

Three major oil companies have been awarded contracts by the Minerals Management Service (MMS) for the exchange of an estimated 100,405 barrels per day of Gulf of Mexico Royalty-in-kind (RIK) crude oil to support the national Strategic Petroleum Reserve Fill Initiative unveiled by President George W. Bush in November 2001.

With these contracts, MMS will take its oil royalties in-kind (in the form of product), rather than in value (cash), from offshore federal lease operators and deliver it to onshore oil market centers where the Department of Energy (DOE) will take custody of the oil. The DOE, in turn, will exchange the RIK oil for oil of suitable quality that can be delivered to Strategic Petroleum Reserve storage sites located in Texas and Louisiana.

The RIK program provides a deliberate and cost-effective means to continue filling the nation's Strategic Petroleum Reserve in support of national objectives for energy security and to mitigate potential supply disruptions.

Contracts in the latest sale were awarded to ChevronTexaco, Shell Trading and ExxonMobil. Delivery on the six-month contracts is scheduled to begin April 1, 2004. The oil will be delivered from more than 100 facility metering points in the gulf of Mexico.

The MMS RIK Program Office will also ship an additional 12,135 barrels per day of royalty crude oil directly to DOE at onshore market centers, with one producer transporting an additional 2,700 barrels per day directly to the DOE. That translates to a total of approximately 115,000 barrels per day of wellhead oil being committed to the Strategic Petroleum Reserve Fill Initiative. To date, approximately 646 million barrels of oil have been added toward the approximate 700 million barrel capacity of the Strategic Petroleum Reserve.

JOINT WYOMING SALE

The Minerals Management Service also announced that it has again teamed with the State of Wyoming for the sale of royalty crude oil produced in Wyoming. The February sale was the 12th in a series of joint sales dating back to 1998 when the State of Wyoming and the MMS first entered into the Wyoming Oil Pilot Program.

Three firms were awarded contracts for approximately 1,300 barrels per day of both Federal and State sweet and general sour production. Winning bidders were Teppco, Nexen and Tesoro Refining. Delivery is scheduled to begin April 1, 2004, and continue through Sept. 30, 2004.

The Minerals Management Service is the federal bureau in the U.S. Department of the Interior that manages the nation's oil, natural gas and other mineral resources on the Outer Continental Shelf in federal offshore waters. The bureau also collects, accounts for, and disburses mineral revenues from Federal and American Indian lands. MMS disbursed more than $8 billion in 2003 and more than $135 billion since it was created in 1982. Nearly $1 billion from those revenues go into the Land and Water Conservation Fund annually for the acquisition and development of state and federal park and recreation lands.

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[From the Economist, Mar. 27, 2004]

A BURNING QUESTION; OIL

Why are oil prices so high?

Many people have been wondering why oil has become so costly. Its spot price has been close to $40 a barrel; one year forward, it fetches well over $30; and this week petrol prices hit record highs in the United States. Weekly, analysts have been tweaking their forecasts upwards.

The answer may come as a surprise. The usual culprit is the Organisation of Petroleum Exporting Countries, the cartel that tries to manipulate prices by adjusting agreed output quotas. In February OPEC shocked the markets by announcing that its members were to slash their ''cheating'' on official quotas by 1.5m barrels per day (bpd); the quotas themselves were to be trimmed by another 1m bpd at the beginning of April.

However, industry experts say that OPEC countries have hardly cut output at all in recent weeks. So freely are they still cheating that only Saudi Arabia, the kingpin of the cartel, has much spare capacity left. What is more, OPEC ministers might not cut their quotas after all. Some are wavering, and the oil might keep gushing. The ministers are due to meet in Vienna on March 31st.

If OPEC is not turning off the spigot, what explains the run-up in prices? One reason is surely demand: the strongly growing economies of America and China are guzzling more oil. If this goes on, OPEC's capacity constraints might bite. However, Algeria's oil minister, Chakib Khelil, thinks speculation is a more likely answer. He wants OPEC to cut output on April 1st for fear that the price might drop suddenly—by at least $7, he thinks.

Such talk is common from OPEC ministers. Usually it is self-serving nonsense, intended to deflect criticism of the cartel. This time there may be more to it. One reason to believe it comes from energy traders. The big trading firms typically deal with both ''commercial'' transactions—hedging ploys by firms such as airlines—and ''non-commercial'' ones by financial speculators such as hedge funds. Richard Schaeffer of ABN Amro, a Dutch bank with a big presence on the New York Mercantile Exchange (NYMEX), reports that the amount of speculation in oil is ''more than I've seen in a very long time.''

What is more, despite some sell-offs early this week, there have clearly been some big bets on high oil prices. Non-commercial net long positions in futures markets are at an unprecedented level (see chart). There is, says one trader, a lot of ''paper froth'' supporting oil prices. In its latest oil report, the International Energy Agency said that ''the funds are having a field day''.

But why exactly have speculators piled into the oil market now? One reason may be uncertainty or disappointment with returns on financial assets. John Shapiro of Morgan Stanley believes that hedge funds, endowments and other investors have been drawn to the oil market by the lack of alternatives. He points to low interest rates and, until recently, the relatively poor performance of the stockmarket.

Another factor attracting punters and propping up oil prices may be what Eric Bolling, an independent trader on the NYMEX, calls ''supply-disruption risk.'' Political troubles in Venezuela, Nigeria and Iraq have long worried those who fear an interruption of exports. A bigger and newer aspect of this risk, however, is the fear of terrorism that might be targeted at oil infrastucture.

These worries have, in part, been fuelled by a most unexpected source: the American government. Despite the high prices, American officials continue to buy oil on the open market to fill their country's strategic petroleum reserves (SPRs). Why buy, you might ask, when prices are high, and thereby keep them up? The Senate has asked that question as well. It passed a non-binding resolution this month calling on the Bush administration to stop SPR purchases; but Spencer Abraham, the energy secretary, has refused.

The administration's persistence, coupled with increased strategic purchases by other governments, has fuelled suspicions that officials might have some intelligence about terrorist threats to oil infrastructure. The upshot is that concerns about disruptions to supply, by OPEC or by terrorists, now add up to what Mr. Schaeffer calls an ''unprecedented premium'' on the price of oil. He observes that in the past, prices have spiked on worries that supply might be interrupted, but have then fallen back quickly. This time the premium seems to be lingering.

Some experts worry that the longer prices stay high because of this speculative frenzy, the harder they will fall. Perhaps all that can be said is that reading the oil market is as difficult today as it has been for a long time: strong demand, political unrest and OPEC discipline could drive the price higher, and encourage still more speculative buying; a slowdown in America or indiscipline in the cartel could remove a lot of froth in a hurry. Even if the price does drop, however, it need not collapse, because thanks to OPEC the oil market is like no other.

If speculators head for the door, Saudi Arabia, which has been called the central bank of the oil world, has one card to play that even the Fed does not. Ali Naimi, the Saudi oil minister, can announce that he will slash his country's output at once. Speculators will surely take notice, for he has a proven record of propping up prices. That is the sort of influence over markets that even Alan Greenspan must envy.

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[From the Oil Daily, Mar. 26, 2004]

PRICE SLIDE MAY HELP OPEC REACH CONSENSUS

(By Karen Matusic, Manimoli Dinesh, and Paul Merolli)

WASHINGTON.—The first signs that oil market bears may be emerging from a long hibernation might be a blessing in disguise for Opec ministers meeting Wednesday in Vienna.

After fretting for weeks about their inability to do anything to stem a runaway oil market and disagreeing publicly about whether to implement a lower production ceiling on Apr. 1, Opec ministers may find it a bit easier to reach consensus, ironically because of a sharp decline in prices. Prompt futures on the New York Mercantile Exchange (Nymex) fell from a high of $38.50 per barrel on Mar. 19 to a low of $34.75/bbl on Mar. 26 in reaction to the fifth crude stock build in the US during the past six weeks.

The confusion is evident in public statements from Opec ministers—not to mention oil analysts, who have repeatedly raised their price forecasts. Some ministers insist that Opec will cut the production ceiling to 23.5 million barrels per day on Apr. 1 as planned, even though insiders admit the group has yet to make good on earlier promises to mop up excess supply; others say they may consider a delay.

''The price fall will strengthen the hand of those [Opec] members who want to see a [23.5 million b/d] ceiling come into play,'' an Opec delegate tells Oil Daily. ''Before that, there was some pressure from consumers for us to do something, but we really have been doing all we could. Those prices were really too high. Now it seems as they are falling and will soon be at reasonable levels.''

Together, the 11 Opec members are now producing about 28 million b/d. That would leave the 10 quota-bound members, who exclude Iraq, having to remove more than 2 million b/d from markets in the next few days to comply with the new ceiling. Come Mar. 31, one possibility might be to announce that the 23.5 million b/d ceiling is coming into effect while knowing that no member is likely to adhere to the new limits. Already there are signs that Saudi Arabia is increasing supplies to the US based on higher than usual tanker fixtures for April and early May.

''Confusion means they will do nothing,'' says PFC Energy analyst Roger Diwan. ''Prices are coming down, and it makes it easier for them to reinforce quota discipline. Now it is a matter of how long it takes them to trim down.''

Oil traders are hedging their bets ahead of the Vienna talks, mainly because they have been caught off-guard twice since September, by surprise announcements that Opec was cutting its production ceiling just minutes after ministers entered their meeting room insisting that a rollover was a done deal.

Though some observers question Opec's credibility after failing to implement promised production cuts, the Saudi-led initiative to convince big market speculators that Opec would do all it could to maximize oil prices was successful in that it seems to have thwarted an expected second quarter price plunge. While prices may continue to fall, they will do so from a much higher base.

''Stocks are tight, and it will take time to build,'' PFC's Diwan says. ''It looks like OPEC will bridge the second quarter. I do not think they mind looking as if they lack credibility at $35 [per barrel].''

The political heat on OPEC to open the taps has been rising, especially in the U.S. where motorists are paying record-high prices for gasoline, well ahead of peak summer driving season. Slammed by Democrats for record high prices and ''failed'' energy policies, the Bush administration is prodding OPEC to increase production.

President Bush, who in the 2000 election campaign mocked the Clinton administration for what Republicans called ''tin-cup diplomacy'' in its dealings with oil producers, now seems happy to admit he is prodding OPEC to increase production. Bush's Chief of Staff Andrew Card said in a television interview on Thursday that the administration wants OPEC to open the taps while Energy Secretary Spencer Abraham confesses he is in regular contact with OPEC, something he had downplayed in the past.

''There's been on going discussions with OPEC, but we prefer to keep them private,'' said a Department of Energy spokeswoman, declining to offer further details,

OPEC insiders retort privately that the sizzling prices are not being caused by shortages of OPEC oil—but by tight U.S. gasoline supplies, geopolitical concerns and big overbought positions built up by speculators. Nonetheless, more moderate OPEC members are doubly keen to reassure major consumers that they are happy to meet any shortfall after the Senate voted to divert some 53 million bbl of crude, originally destined for the Strategic Petroleum Reserve (SPR), to the spot market.

That set alarm bells ringing among some OPEC members, aware that the release of emergency reserves is the only real leverage that consumers have over producers. Bill Greehey, the outspoken chairman and chief executive of U.S. refiner Valero, said the U.S. government should use the SPR to counterbalance OPEC, releasing or buying crude to offset OPEC's moves.

''There is no need to release the SPR because there is no shortage of crude—and we will make sure of that,'' an OPEC official tells Oil Daily.

The measure requires support from the House of Representatives to become law, and the Bush administration has made it clear that America's emergency stockpile should only be used in emergencies—not to cool off prices. It underlined that point last week when it awarded new contracts to fill the SPR. In a dig at Abraham, Democrats also released congressional records from 2000 revealing that Abraham, then a senator, urged a release of SPR oil to moderate prices.

HOUSE OF REPRESENTATIVES,
*Washington, DC, March 22, 2004.*

Hon. GEORGE W. BUSH,
*The White House, Pennsylvania Avenue, N.W., Washington, D.C.*

DEAR MR. PRESIDENT: We are writing to urge that you suspend shipments of oil to the Strategic Petroleum Reserve (SPR) and allow more oil to remain on the market and available to consumers when supplies are tight. We hear from our constituencies daily about the financial strain of increasing gasoline prices.

We are urging you to call upon the Department of Energy (DOE) to review and revert back to its previous policy of filling the SPR when crude oil prices are relatively low and deferring oil deliveries when prices are relatively high. Filling the SPR, without regard to crude oil prices and the availability of supplies, drives oil prices higher and ultimately hurts consumers.

In addition, we are concerned about missed opportunities for saving taxpayers' money. Filling the SPR regardless of oil prices increases taxpayer costs. Prior to 2002, DOE granted oil company requests to defer scheduled oil deliveries to the SPR when oil prices were high, in return for deposits of extra oil at a later date. These deferrals save taxpayers money and add extra barrels of oil to the SPR.

We urge the DOE to study the development of procedures to assure that the SPR is filled consistent with the objective of minimizing acquisition costs—or revenue foregone when the oil is acquired under the royalty-in-kind (RIK) program—and consistent with maximizing domestic supply. We urge the Administration to reevaluate the practice of diversion of RIK and other oil to the SPR so that it will be opportunely timed so as to not exacerbate crude oil price increases.

We recommend you restore market-based criteria for granting deferrals by urging the DOE to restore its SPR business procedures allowing deferrals of oil deliveries to the SPR when crude oil prices are high or commercial crude oil supplies are tight.

Again, we urge you to take these recommendations under consideration and to suspend shipments to the SPR until crude oil supplies increase and prices decrease.

Sincerely,

Robert W. Goodlatte; Walter B. Jones; Gil Gutknecht; Jo Ann Emerson; Jack Kingston; John Shadegg; Spencer Bachus; Mike Rogers; David R. Obey; James P. Moran.

Barbara Cubin; Phil English; C.A. ''Dutch'' Ruppersberger; Nancy L. Johnson; Bart Gordon; Eliot L. Engel; Kenneth R. ''Ken'' Lucas; Tom W. Osborne; James C. Greenwood; Eric I. Cantor.

Sue Wilkins Myrick; Dave Camp; John T. Doolittle; James P. McGovern; Lee Terry; John J. Duncan, Jr.; Mike Rogers; Don Sherwood; Bill Shuster; John Boozman.

Howard P. ''Buck'' McKeon; Steve King; Frederick ''Rick'' Boucher; Steve Chabot; Mike McIntyre; Roscoe G. Bartlett; Dennis ''Denny'' Rehberg; Jo Ann S. Davis; Virgil H. Goode, Jr.; Ellen O. Tauscher.

Fred Upton; Howard Coble; Timothy V. Johnson; J. Randy Forbes; Collin C. Peterson; Joe Wilson; Mark A. Foley; Ander Crenshaw; Roy Blunt; Cass Ballenger; Gerald C. ''Jerry'' Weller.

Mr. LEVIN. Mr. President, the Senate has spoken. The administration should listen to common sense and to what the market says, that when supply in the private sector goes down, prices go up, and the Strategic Petroleum Reserve fills have made a major contribution to high oil and gasoline prices in this country. It adds little to our energy or economic security for the administration to pursue the course it is on. I hope it will reconsider the SPR deposits.

I yield the floor.

The PRESIDING OFFICER. The Senator from Minnesota.

Mr. DAYTON. Mr. President, I certainly agree with my colleague, the Senator from Michigan, about the need to deal with our present situation which affects my State, as well as everyone else.

I also want to point out to my colleagues that the ultimate solution to our oil dependency needs is not going to come from more oil, more tax breaks for oil, more searching for oil, or extracting oil from environmentally sensitive areas. It is going to be in developing viable alternatives to oil, one of which is right in front of us, available to us now, and is barely being tapped by this Nation. And that is ethanol.

I have a Ford Explorer I drive all over Minnesota on a fuel called E–85—85-percent ethanol, 15-percent regular gasoline. The engine is produced by the manufacturer with a very slight modification. Last summer in southern Minnesota, E–85 fuel was 22 cents a gallon less than regular unleaded. I have not checked in the last couple of weeks, but given the price of gasoline, I suspect it is even less expensive now.

Just imagine if we were to take half or more of the $115 billion that we spend every year to import foreign oil—over half of all the oil we consume—and instead of spending it overseas, we were to put it in the pockets of American farmers, who then would spend their dollars in their local communities. Those dollars would multiply, and we would fuel an economic resurgence of rural America far greater than any Government program could possibly devise. It is a cleaner burning fuel, so we would improve the quality of our environment. We would reduce our dependency on foreign oil. We would raise the price of commodities such as corn and soybeans for soy diesel and some of the other agricultural products, so farmers could make a profit in the marketplace at those higher prices rather than have to be subsidized by the American taxpayer. It is basically a policy grand slam, and yet in this country right now less than 2 percent of the gasoline supply consumed is ethanol.

In Minnesota, my State, 7 or 8 years ago the legislature passed, with much controversy, a mandate that required that every gallon of gasoline sold in our State contain 10-percent ethanol. Prices have been slightly lower than those States nearby which do not have that requirement. The fuel supplies have been consistent.

As I said earlier, that only touches the surface of what is possible for ethanol as a substitute fuel for gasoline. Yet, Minnesota, despite all those gains and no difficulties, is still the only State in the Nation that has a 10-percent ethanol mandate.

We can fill up reserves, and we can try to bring in more. We can jawbone the Saudis, and we will keep paying through the nose regardless until—and only until—we shift our use of fuels from what we are depending on now to what we can use or must use for the future.

Here for the first time in my public career—and I was commissioner of energy and economic development for Minnesota 20 years ago and served in the Governor's office in Minnesota almost a decade before then and worked on energy policy. In the span of those 30 years, this is the first time I have seen a real opportunity that every American can in their vehicle be consuming a fraction of the gasoline they are using now, and we do not have any interest in pursuing it.

Senator DASCHLE and Senator GRASSLEY, through their efforts, have put and kept some energy measures in the Energy bill which is now stymied. Senator GRASSLEY has done a terrific service to the ethanol-production States wherein the current transportation bill passed by the Senate takes away that penalty for using ethanol that is in the formula for the highway trust fund.

Even with those measures, we are looking at barely doubling the increase of ethanol in consumption nationwide, so it would be less than 4 percent in a decade. Again, Minnesota has been at 10 percent for the last 8 years.

When those prices keep going up and staying up, I want my colleagues to keep in mind we have an alternative. We have an opportunity to make a significant and immediate transition. It will take a few years, but it is right there. But we have to get beyond where we are today.

## JOBS ACT

Mr. DAYTON. Mr. President, I also wish to comment on what happened last week to the so-called JOBS Act which disappeared from the Senate floor. One minute last week we were voting on the JOBS bill, and the next minute it was gone—outsourced, I guess. It was replaced by other legislation which we acted upon last week. Today we are on to yet another measure before the Senate.

We have not been told when this JOBS Act might reappear or even if it is coming back at all, which means, I guess, the JOBS Act has suffered the same fate as some 2.25 million jobs during President Bush's term because they, too, have disappeared. No one knows when or even if they are coming back.

It is clear now that the President's previous proposals enacted by Congress—tax cuts for the rich and the super rich and for large, multilarge corporations—have not stopped the loss of American jobs, and they have not brought them back. One out of every six manufacturing jobs in the United States has disappeared in the last 3 years, and the number of manufacturing jobs in this country is now the lowest it has been in 53 years. Over 8 million Americans are unemployed. The average length of unemployment is the longest it has been in 20 years in this country.

So the administration must have a plan, a policy, to stimulate job creation in this urgent situation; right? Wrong. The Secretary of the Treasury Snow testified before Congress just 2 weeks ago that the lack of job recovery is ''a mystery'' to him. The President has stated that his No. 1 priority is to make his tax changes permanent when they expire in the year 2011.

In the debate over the budget resolution on the Senate floor 2 weeks ago, our colleagues across the aisle said their No. 1 priority was to accelerate the date for eliminating the estate tax from 2010 to 2009. So the No. 1 economic problem facing the Nation today is the loss of jobs and the lack of their recovery, and Republican priorities are more tax treats for the rich and the super rich in the years 2009 and 2010. I guess the rich and the super rich do not really need more money anyway, so they can afford to wait 5 years or more to get it. But the 8 million Americans out of work cannot wait that long.

So there is this cloud of complete unreality surrounding Republican economic policies these days. It is as though all the country is on reality TV and they are still on Fantasy Island. Meanwhile, our Democratic caucus is being blocked from even voting on measures that would provide help and jobs to Americans who need them right now.

No. 1, we need to extend unemployment benefits because 786,000 Americans exhausted their unemployment benefits during January and February alone. In just those 2 months, over three-quarters of a million Americans exhausted their unemployment benefits, meaning they and their families have no source of income right now.

In the name of humanity, how can we do nothing to relieve that kind of human pain and suffering?

Secondly, the House of Representatives must pass the transportation funding bill, and the President must either sign it or veto it so that we can override that veto now. The Senate bill we passed almost a month ago would mean significantly more construction projects, and therefore thousands more jobs all over America, starting now, in this construction season, which does not last very long in northern States such as Minnesota, are just about to get underway.

The President and the House have been tossing that bill back and forth like it is a Sunday Frisbee game. Here is an immediate job-creating opportunity, and they are dawdling and dickering because I guess it is not their jobs, at least not yet.

The third measure we must undertake is to protect the jobs and incomes of those who are now working, especially the 8 million workers the Secretary of Labor has decided all by herself no longer have to be paid overtime. That number includes police officers, nurses, firefighters, and laborers. What do we tell them and their families? Sorry, you did not contribute enough to the necessary reelection committees, but the people who employ you do?

The Congress has already cut their personal taxes, their dividends tax, their capital gains tax, and now they are going to be eliminating their estate tax even earlier than before.

They are a greedy bunch and they want more. This is an election year and campaigns are expensive so, sorry, now in America you will not even be able to earn extra money by working harder. You cannot get ahead because those special friends want to get farther ahead without having to work at all.

Fourth, we need to bring back the JOBS Act, which reportedly was pulled from the Senate floor last week because it would have involved a vote of the Senate on this very protection of overtime measure. The truth is, as that evidences, the sponsors of the so-called JOBS Act do not want votes on that and other amendments because, in fact, the secret is that bill is not about jobs at all.

Only in Washington would something named the JOBS Act have nothing to do with creating jobs, and I mean absolutely nothing. The people who wrote that bill only want the American people to think this is a JOBS Act. They want the 8 million Americans who do not have jobs right now to think this is a JOBS Act so they will think: Oh, what a Congress. Our country needs jobs, so Congress passes a JOBS Act.

Well, as Abraham Lincoln said, you can fool all of the people some of the time, and what better time to try than right around election time.

The truth is, this bill is a tax cut for already profitable businesses, and the largest tax reductions take place, once again, in those years 2009 to 2012. So, obviously, it has nothing to do with providing jobs now.

That is the bill's best part. Other parts increase the tax avoidance schemes for foreign business operations. There are $36 billion in tax breaks for profits made producing goods and providing services in other countries, employing foreigners not Americans. Now that sure makes sense. We are losing American jobs in record numbers to foreign operations so the Senate is going to give more tax advantages to those foreign operations so they can take away more American jobs? Is the JOBS Act intended to add American jobs or eliminate them?

I hope my colleagues will take a look at some of the foreign business favors in this bill before we vote on them. It increases the kind of commodities hedging that is exempt from U.S. taxation. It eliminates rules that are meant to restrict the deferral of foreign income by foreign investment companies and foreign personal holding companies from U.S. taxation. It eliminates withholding taxes on dividends paid by certain foreign corporations.