

Response to Question:

Is Anyone Else as Suspicious as I about Oil Prices?

by Dale Allen Pfeiffer

11/10/06 www.mountainsentinel.com Recently, someone asked this question of an email list to which Elizabeth (my wife) is subscribed. I penned the following response, and then decided to share it with the general public.

All year I have been saying that oil storage statistics do not support the rising prices. Storage has been high all year, but the prices continued to climb right up to the end of summer.

Last spring, the reasons offered for climbing prices were a large number of refineries idling production in order to do maintenance, and cost increases due to ethanol additives. But the projected maintenance idles did not affect refineries as badly as it was suspected they would, and ethanol additives alone could not explain cost increases. Yet the prices continued to rise.

During the summer, prices spiked up to record highs because of the Israeli invasion of Lebanon, and fears of potential hurricanes. Never mind that neither Israel nor Lebanon are major oil producers. Nor did the invasion (deplorable though it was) threaten any oil shipping lanes. And every one of the potential hurricanes fizzled out.

All summer, despite the fact that US gas consumers did a lot of traveling, storage remained high. Based on the facts, oil prices should not have spiked the way they did.

And then we have the oil majors boasting of the highest profits in corporate history.

Finally, there was BP's announcement that they were idling half of their North Slope production, and insider speculation that this was just the tip of pipeline maintenance problems. This was a genuine loss of production, not a rumor. And prices declined.

At this point, prices have dropped by a third, though there is little fundamental difference in the market now from the record highs set during the summer.

I stated over a month ago that this the closest thing we have to proof that oil prices are being manipulated.

Since then, I have noticed one other thing that helps to explain why gasoline prices are so low right now. If you drive around and look at gas station prices, you will notice that gasoline prices tend to be about 50 cents less than diesel prices (I haven't done this in a few days, so there may have been a change).

Right now, the refineries are producing more gasoline at the expense of diesel production. Normally, this time of year, refineries produce more distillate (diesel & heating fuel) in order to meet the winter heating demand. This year, instead, they are producing more gasoline even as gasoline demand is declining from its summer high.

They are depressing gasoline prices at the expense of diesel production. So consumers are feeling the prices ease up at the pump, but high diesel prices will keep up the prices of other consumer goods. And if we have a severe winter, those who use heating oil could run into problems.

To me, this all says that the oil majors are holding down the price of gasoline for the coming election.

None of this has anything to do with peak oil, or very little. But it does give ammunition to the naysayers, so that they can allay people's fears.

The bottom line is that oil production will begin an irreversible decline within the next few years. It will most likely decline by 2 to 7% per year. And we should have started preparing for this 20 years ago. It's too late now.

Consumer capitalism is doomed. But that does not mean we cannot replace it with something that is—in many ways—better. There is a growing relocalization movement. The question is, will it be enough to make a difference, or is it too little too late.

And then we have the neocons moving this country ever closer to a fascist empire where they can lock up dissenters and clamp down on the general public while ensuring that the elite remain at the top.

Personally, I am growing sick of the whole mess. I would like to throw in the towel on energy issues and return to writing novels. In novels, I can say what I want without getting involved in the circus of controversy, argument, disinformation and false accusations.