

Oil Price Manipulation?

by
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(Sept. 3, 2006) In all of our energy updates since the first issue of **The Mountain Sentinel** was launched, we have stated that there is no good reason for oil prices to rise as they have. Demand has been strong, but production has been adequate to meet it. In fact, stockpiles of petroleum and petroleum products have remained at healthy levels. This, in itself, should deflect any tendency toward rising prices. With stockpiles at the levels they have been, the only thing that should affect prices is infrastructure problems—trouble at refineries or bottlenecks to transport. Although there have been worries, there have been no shortfalls in supply.

However, prices have continued to rise with each impending hurricane, and with every hint of geopolitical trouble in the Middle East, Africa or Latin America. There has been little actual change in production, but prices have marched ever upward. The reason, we are told, is futures speculation. Market speculators are driving up the price of oil at every hint of a possible shortfall. Yet this does not fully explain what is happening, particularly at the pumps.

I have a friend who owns a music store right next to a gas station. Every day, he sits in his store and watches the station owner change the price of gasoline. My friend has observed the price changing sometimes twice in one day, without any new shipments being added to the supply at the station. He has noted that these changes tend to occur about 3 to 4 in the afternoon, before the rush of drivers heading home from work. Of course, the station operators and the oil industries maintain these price raises are necessary to pay for the increasing price of future shipments. But as my friend has noted, gasoline stations are the only business that will raise prices due to future increases in future supply. As my friend said, “If I get a call from D’Addario telling me they’re raising prices, I don’t pull down all the strings and reprice them. I wait until I have to reorder, and then I raise the price.”

The industry line on these price increases would be easier to swallow if matched by price drops when the futures prices decline. However, this is just not the case. When futures prices do drop, the price at the station will go down in time, but is very unlikely to return to the same price it was at before futures speculation drove it up. The tendency over time is for prices to trend upward overall. The pattern is a significant price rise, followed by easing prices declining by only a fraction of the rise, then another rise, and on and on. The graph of gasoline prices resembles a stepwise progression, progressing ever upward.

And then there are the reports of record oil industry profits, which we have commented on previously in **The Mountain Sentinel**. The nature of oil and gasoline price fluctuation and the unspeakable profits of the oil majors, when compared to the healthy stockpile levels and the lack of and serious problem in actual production, strongly suggests that the oil market is being milked, along with the economy and the public.

Through the summer, this phenomenon was even more remarkable. Oil soared to record highs based on reports of a couple weak storms that were rather unlikely to threaten Gulf of Mexico oil operations, and the Israeli incursion into Lebanon. The latter event, in particular drove oil prices to the sky, even though neither Israel nor Lebanon are oil producing countries. Once a ceasefire was declared and the potential hurricanes fizzled out, oil prices dropped significantly. This despite BP’s announcement that it was shutting off half of Alaska’s north slope production—which definitely was a significant drop in production—and indications that pipeline corrosion was endemic throughout the industry.

In spite of BP’s announcement of shutdown that would certainly impact production levels, oil prices descended after resolving a few vague worries that would have had minor impact on production at the best. So what is going on here?

The last time I can recall something similar happening, it was prior to the 2004 presidential election. Oil prices

had been working their way up throughout the previous year, and gasoline prices were contributing to voter disenchantment with the Bush junta. Then in the last couple of months before the election, oil prices eased downward and remained down until after the election. Currently, we are approaching a midterm election where polls show that Republican control of Congress is very much at stake. And if the Republicans do lose Congress, there is the possibility of a push for impeachment.

You really have to wonder. The evidence strongly suggests that oil prices are manipulated. For more than a year, they have been rising based on rumors. And all through the rise in oil prices, even as the oil majors announced their obscene profits, the White House—staffed and operated by oilmen and women—remained silent on the subject. And now, as we approach the midterm election, in spite of a definite cut in production, prices are dropping.

Ladies and gentlemen, I think we can safely assume that the fix is in. In the months following the election, we can expect oil prices to begin climbing again. And the rise might even be hastened if Democrats take control of Congress.

Don't forget New Orleans, or the dead in Iraq and Afghanistan, or all of the other stolen elections.