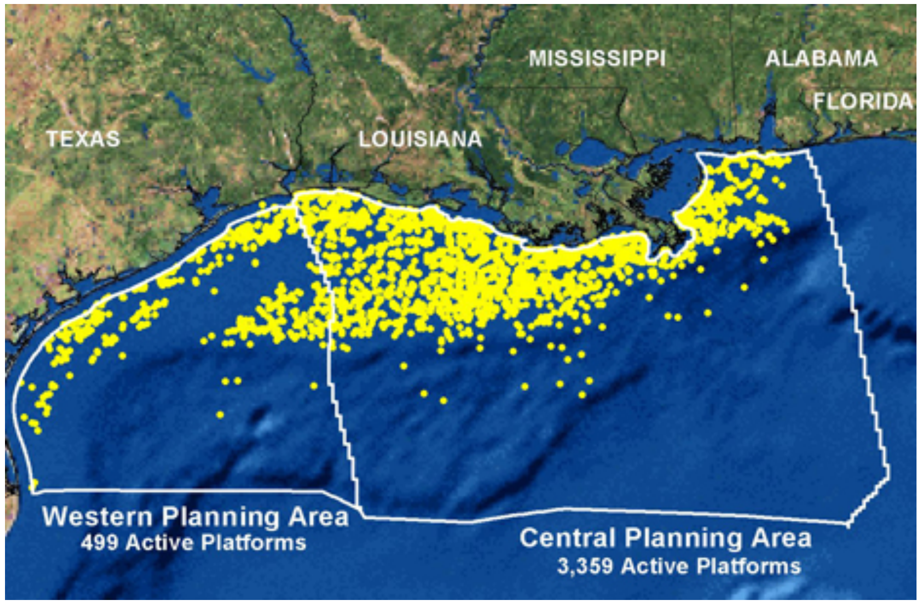
 www.GILBERTHETHERWICK.com ISSUE #6 - MARCH 22, 2011

The Grouse House Gazette

Weekly Thoughts on Music, Nature, and Politics, from the Catskill Mountains

PUMP IT UP!

IS OBAMA TO BLAME FOR THE RISING PRICE OF GASOLINE AT THE PUMP?



Active Oil Platforms in 2011 - Map courtesy of National Oceanic and Atmospheric Administration

There is perhaps no more confusing an issue today than the reasoning behind the fluctuation of oil and gas prices.

Also quick to never miss an opportunity to bash President Obama by Tweeting, Facebooking, or Foxing her pontifications, Sarah Palin recently cited the Obama imposed moratorium on gulf coast drilling as the reason for our currently high gas prices. I'm sure this made total sense to Fox News viewers. "Supply and demand"… and all that. And doesn't everyone realize that Obama stopped all drilling in the Gulf of Mexico?

Unfortunately for Sarah this is all far from the truth.

If you were only to watch Fox as your source for news (see this weeks Fox Watch) you could be led to believe that all oil drilling ended in the Gulf of Mexico after the BP disaster and that rigs in the Gulf were not producing today. But actually there are over FOUR THOUSAND rigs in the Gulf that have never stopped pumping oil and were not affected by the brief moratorium. It was only the SEVENTY-NINE deep-water rigs that were affected and the moratorium on those rigs was lifted in October of last year. And while these deep-water rigs are certainly huge, when you consider the lax safety standards and the revelation that the government agency charged with protecting the public's safety was severely corrupted by the oil companies, it made total sense to stop and evaluate the situation. (See chart of currently operating oilrigs courtesy of the National Oceanic and Atmospheric Administration).

Obviously most people today point to the unrest in Egypt and Libra as being the "sparks" that ignited the current spike in oil prices. But this is only part of the equation. With Libya only supplying 2% of the world's oil most of it was easily made up by increased production by Saudi Arabia. So the concept of "supply and demand" doesn't hold up as a total reason for the recent fast price increases. In fact, the primary reason for the increase was caused by the SPECULATION that there would be a future increase due to the conflict, which then caused a faster actual increase caused by "futures" trading of people on Wall Street betting on the situation getting worse. Which explains how prices go up nearly instantly on news of political unrest or natural disasters even though the oil being pumped in the affected region is still weeks or months away from the gas pumps.

The time between the pumping of oil from the ground and the pumping of gasoline into our cars is anywhere from two to three weeks for oil from the Gulf of Mexico to two to three months for oil from the middle east or foreign sources. But between these two points in time a lot of things happen to the price.

After being pumped, crude oil is either sold on the "spot market" (which is a last minute sales exchange where oil companies and their distributors buy and sell to each other) or it can be sold straight to refineries for turning into gasoline. It is at the refinery that additives (such as ethanol) and extras are added that give each brand a supposedly unique difference. Before this point the oil could come from almost anywhere on the open market. In summer months a more expensive blend is produced which is less subject to heat evaporation, and explains why gasoline prices always go UP in summer months.

Your car also gets better gas mileage in the summer months than in the winter because engines are more efficient in warm weather. Which also gives incentives to raise the prices as you are buying less gas to go further distances.

Once the oil is turned into gasoline at refineries it is either sold again on a gasoline "spot market" or directly to distributors who then either deliver it to their own stations or sell it to other gasoline retailers. The wholesale price is posted by distributors at 6:00PM each evening for sale the following day to retailers. The station owners call in each day to get the distributor price and then set their own retail prices based on both this current distributor price as well as the pricing of other competing stations around their location. Which is why prices vary by intersections or parts of town. The gasoline retailers are making the least amount of profit in the equation as they generally only make about three or four cents a gallon. And in competitive markets and locations they frequently sell BELOW the price they pay to their distributors. So their profits don't come from gasoline but from the food, soft drinks, and milk that you buy when you fill up. Which is why it's hard to find a gasoline retailer these days that doesn't also have a small retail store in the mix.

CONTINUED ON PAGE 2

CONTINUED FROM PAGE 1

And it also explains the fairly recent emergence of huge stations with shops with far larger selections of products than in the past. The real money is in Coca Cola and potato chips rather than gasoline. It has also been proven in studies that more than any other commodity, the price of gasoline will cause Americans to drive from one retailer to another to save as little as two cents per gallon. So stations frequently call their distributors in a panic when a competitor across the street lowers prices by as little as one or two cents. They may not make much (or they even possibly lose money) on gasoline, but if cars aren't rolling in every day to buy other products, they could be out of business.

So who actually sets the oil and gas prices? And who are the speculators?

While rising gas prices have been frequently blamed by the Republicans (and Fox News) on Obama, and by liberal Democrats on the enormously profitable oil companies, the price of the oil itself only accounts for about fifty to sixty percent of the resulting price of our gasoline. Most of the price spikes, and particularly those caused by outside incidents such as wars and hurricanes, are usually the results of "futures" contracts being traded on the New York Mercantile Exchange and other exchanges around the world.

By buying "futures" of oil or gasoline, Wall Street commodities traders are buying, holding or selling these commodities based on what they believe the price will be in the "future". Which is how the prices can instantly go up fast as they did with the beginning of the recent problems in Egypt and Libya, or with approaching hurricanes. So like stocks, bonds, and other commodities trading, the game is to buy low and sell high. And the commodities don't ever have to actually be delivered, as it's just a numbers game of money and paper. And the traders can make fortunes by betting AGAINST positive outcomes for global confrontations and hurricanes by simply buying up large "futures" of oil and gas at current prices. Then after driving the prices up they sell at the higher price and Americans pay for these profits through higher gas prices at the pump.

So we all pay higher prices on gasoline, airplane tickets, food, and just about everything else as a result of paper and computers spinning around in circles at a little known financial exchange across the West Side Highway in New York City.

It definitely caused the mysterious price spike in 2008 and it is certainly affecting the price increases we are seeing today. So it's not the oil companies or the guy on the corner making pennies on a gallon, but rather the same financial people who also brought about the near total destruction of our economy two years ago when they played similar games with housing and debt.

And the game is also being played today with food. Haven't you wondered why orange juice prices go up instantly at the grocery store after an unexpected freeze in Florida? It's because people in financial exchanges are betting FOR an increase in prices and AGAINST the American people.

Obama's Financial Reform Bill passed last year actually made important steps toward controlling this kind of damaging trading by putting limits on the amount that any one individual or company could trade in "futures" such as oil, gas, and food. But unfortunately this part of the new law has yet to be enacted and the practice is obviously continuing with proof being the current gasoline prices resulting from traders betting against a positive outcome to the current unrest in the Middle East and Africa. And to make matters worse, the recent budget passed by Republicans in the House of Representatives included slashing the budget of the Commodity Futures Trading Commission whose mission it is to enforce the new law. Their budget calls for cutting the employees of the commission (essential our "police officers") by two thirds. These cuts were enacted under pressure from banking and financial lobbyists and will result in basically taking the cops "off the beat" of financial trading. So the games will continue.

FOX WATCH! This week on Fox News as a scientist being interviewed explained that there was no danger of substantial amounts of radiation reaching California… In a split screen was a map of the Pacific with huge pulsating arrows moving from Japan to the West Coast… followed quickly by text listings of all of the horrific effects that radiation poisoning has on the human body. Then on a later report as cruise missiles were hitting Libya the "crawl" at the bottom of the screen said "Obama vacations in RIO while U.S. forces bomb Libya!".
FAIR AND BALANCED!

WRITE TO:
Gilbert Hetherwick
Hetherwick@me.com