Oil Dealers: Energy Markets Out of Control

Heating Oil Dealers Want Congress to Restore Free Market Principles to Commodities Exchanges; Shutdown May Be Necessary

March 4, 2008 (Boston, MA) — Home heating oil dealers buffeted by rising energy prices called on Congress today to restore free-market principles to commodities exchanges, saying that perhaps trading should be suspended to allow Congress to put an end to rampant speculation and profiteering.

“Energy prices are completely disconnected from market fundamentals like supply and demand,” Shane Sweet, Executive Vice President of the New England Fuel Institute, said. “The energy market is now completely controlled by speculators and profiteers who have driven prices to artificial highs, and the fact is these artificially high energy prices are crippling consumers, businesses, the country, and quite possibly the global economy. Congress cannot allow this to continue.”

Congress, Sweet said, should immediately hold hearings to discuss why the markets should not be shut down in order to end the out-of-control energy crisis that has driven the cost of oil to historic highs.

The Mercantile Exchange and the InterContinental Exchange (ICE) were created in order to discover the true value of energy commodities, Sweet said. Instead, they have become nothing more than a haven for investors who use them as a place to park and hedge their shrinking US dollars.

Meanwhile, Sweet said, as the Fed cuts interest rates and tosses out rebates to taxpayers to stimulate spending, the value of the dollar will continue to plummet and the cost of energy will continue to climb unless Washington steps in to restore free market principles.

“The NPA group respectfully reminds Congress that the energy present and future of this country is at least as important as steroids in baseball,” Sweet said. “If they agree, they should immediately hold hearings on how organizations that were once supposed to serve as discovery mechanisms for the free-market price of energy have instead become havens for wealthy investors seeking shelter from a weakening dollar.”

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1. Outgoing OPEC president of the United Arab Emirates said on Monday that the surge in oil prices to 100 usd a barrel had nothing to do with market fundamentals, the WAM state news agency reported. The surge was because of ‘speculation, investment funds (purchases), regional tensions and other factors unrelated to supply and demand’, it quoted UAE Energy Minister Mohammad bin Dhaen al-Hamli as saying. *Forbes.com, Jan. 7, 2008*

2. Many analysts believe oil prices aren’t justified by crude’s underlying supply and demand fundamentals. While supply disruptions in Nigeria and the prospect of a supply cutoffs from Iraq and Venezuela helped boost oil prices last year, domestic oil inventories are now rising even as a number of forecasters are cutting their demand growth predictions due to the slowing economy. *Associated Press, March 3, 2008*

3. Experts, including the former head of Exxon Mobil, say financial speculation in the energy markets has grown so much over the last 30 years that it now adds 20 to 30 percent or more to the price of a barrel of oil. Some of that added cost reflects illegal manipulation, although no one knows how much because so much of the market operates in secret. *New Jersey Star Ledger, Jan. 6, 2008*

4. The price of oil closed at a record $102.72 on the NYMEX Thursday. Investors pounced on commodities markets, including oil, as the weakened US dollar encouraged speculators to move to areas with quick price fluctuations. *UPI Business, February 28, 2008*

5. “We are in the mode where the fundamentals of supply and demand really don’t drive the price,” Lee R. Raymond, the chairman and chief executive of Exxon Mobil, the world’s largest energy company, said at a meeting last week with analysts in New York. “Oil is a commodity, and history tells us that commodity prices never stay high forever.” *San Diego Union Tribune, March 15, 2005*

6. OPEC can do nothing about oil prices that hit a record high of $100 on Wednesday as the rise is due to geopolitics and speculation and not supply problems, Qatar’s oil minister Abdullah Al-Attiyah said on Wednesday, ”I don’t think Opec can do anything,” Al-Attiyah told newswire Reuters by telephone. “If this was related to supply then we could move. But I am confident that it is geopolitics. Speculation has been very strong. It’s a game for speculators.” *Arabian Business, Jan. 3, 2008*

7. Consumer advocates and energy dependent businesses getting slammed by higher fuel prices say sophisticated “investors” at hedge funds and investment banks have used these unregulated markets to artificially drive up the price of commodities. “All we’re looking for is the same set of ground rules to ensure that there is the same disclosure” across all commodities markets, said Eric DeGesero, executive vice president of the Fuel Merchants Association of New Jersey. *Fox Business News, Jan. 4, 2008*

8. “As oil prices continue to climb, families in northern Michigan and across the country are being hit hard by rising fuel costs,” Stupak said. “People don’t mind paying a fair price for a product, but a price that is being manipulated by speculators is not fair. These high prices are more than just supply and demand.” *Sootoday.com, Jan. 3, 2008, Sault Ste. Marie, Ontario, Canada*

9. Others analysts blame oil traders for bidding up the price of oil, a process being fed by a weakening dollar, which makes oil cheaper for those buying it with euros or other currencies that have gained strength against the dollar. “Wall Street greed is pushing the American family and our small businesses to the breaking point,” said Shane Sweet, chief executive of the New England Fuel Institute, which represents about 1,000 retailers of heating oil and other fuels. *Washington Post, Jan. 3, 2008*

10. Oil speculators, for example, have goosed the price well above what is justified by supply and demand. Fadel Gheit, a veteran oil analyst in New York, points out that, historically, oil prices have run roughly triple what it costs to physically extract the crude from the ground. With extraction costs now averaging $15 to $18 a barrel globally, Gheit reckons we’re paying a “speculative premium” of as much as $57 a barrel. *Paul Roberts, The Guardian (UK), Jan. 8, 2008*

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