

Is There a Financial Scam Behind the Rise in Oil and Food Prices?

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The global economy and its recovery, and the living standards of millions of plain folks, are now at risk from the sudden rise in oil and commodity prices.

Gas at the pump is up, and going higher. Food prices are following.

The consequences are catastrophic for the global poor as their costs go up while their income doesn't. It's menacing American workers too, who in large part have not seen a meaningful raise since the days of Reagan (keeping it this way is clearly behind the current flurry of attacks on unions).

Already, unrest in the Middle East and many African countries is being blamed for these dramatic increases. It seems as if this threat to global stability is being largely ignored in our media, one that treats the oil business as just another mystical world of free market trading.

Why is it happening? Why all the volatility? Is oil getting scarcer, leading to price increases? Is the cost of food, similarly, a reflection of naturally increasing commodity prices?

While it's true that natural disasters and droughts play some role in this unchecked price inflation, it also seems apparent that something else is attracting increasing attention, even if most of our media fails to explore what is a political time bomb while most political leaders shrug their shoulder and ignore it.

President Obama recently said there is nothing he can do about the hike in oil and food prices.

Critics say the problem is that government and media outlets alike refuse to recognize what's really going on: unchecked speculation!

Not everyone buys into this suspicion. In fact, it is one of more intense subjects of debate in economics. Princeton University economist Paul Krugman pooh-poohs the impact of speculation counter posing the traditional argument that oil prices are set by supply and demand.

The Economist Magazine agrees, summing up its views with a pithy phrase, "Speculation does not drive the oil price. Driving does."

Others, like oil industry analyst Michael Klare of Hampshire College in the US see demand outdistancing supply:

“Consider the recent rise in the price of oil just a faint and early tremor heralding the oilquake to come. Oil won’t disappear from international markets, but in the coming decades it will never reach the volumes needed to satisfy projected world demand, which means that, sooner rather than later, scarcity will become the dominant market condition.”

Usually you hear this debate in scholarly circles or read it in political tracts where orthodox views collide with more alarmist projections about the oil supply “peaking.”

But officials in the Third World don’t see the subject as academic. Reserve Bank of India Governor Duvvuri Subbarao charges “Speculative movements in commodity derivative markets are also causing volatility in prices,” he said.

The World Bank is meeting on this issue this week because it is seen as a matter of “utmost urgency.”

“The price of food is a matter of life and death for the very poorest people in the world,” said Tom Arnold, CEO of Concern Worldwide, the international humanitarian agency, ahead of his participation at The Open Forum on Food at World Bank headquarters.

He adds, “...with many families spending up to 80% of their income on basic foods to survive, even the slightest increase in price can have devastating effects and become a crises for the poorest.”

Journalist Josh Clark argues on the website “How Stuff Works” that much of the oil speculation is rooted in the financial crisis, “The next time you drive to the gas station, only to find prices are still sky high compared to just a few years ago, take notice of the rows of foreclosed houses you’ll pass along the way. They may seem like two parts of a spell of economic bad luck, but high gas prices and home foreclosures are actually very much interrelated. Before most people were even aware there was an economic crisis, investment managers abandoned failing mortgage-backed securities and looked for other lucrative investments. What they settled on was oil futures.”

The debate within the industry is more subdued, perhaps to avoid a public fight between suppliers and distributors who don’t want to rock the boat. But some officials like Dan Gilligan, president of the Petroleum Marketers Association, representing 8,000 retail and wholesale suppliers has spoken out.

He argues, “Approximately 60 to 70 percent of the oil contracts in the futures markets are now held by speculative entities. Not by companies that need oil, not by the airlines, not by the oil companies. But by investors who profit money from their speculative positions.”

Now, a prominent and popular market analyst is throwing caution to the wind by blowing the whistle on speculators.

Finance expert Phil Davis runs a website and widely read newsletter to monitor stocks and options trades. He’s a professional’s professional, whose grandfather taught him to buy stocks when he was just ten years old.

His website is Phil’s Stock World, and stocks are his world. He’s subtitled the site, “High Finance for Real People.”

He is usually a sober and calm analyst, not known as maverick or dissenter.

When I met Phil the other night, he was on fire, enraged by what he believes is the scam of the century that no one wants to talk about, because so many powerful people armed with legions of lawyers want unquestioning allegiance, and will sue you into silence.

He studies the oil/food issue carefully and has concluded, "It's a scam folks, it's nothing but a huge scam and it's destroying the US economy as well as the entire global economy but no one complains because they are 'only' stealing about \$1.50 per gallon from each individual person in the industrialized world."

"It's the top 0.01% robbing the next 39.99% - the bottom 60% can't afford cars anyway (they just starve quietly to death, as food prices climb on fuel costs). If someone breaks into your car and steals a \$500 stereo, you go to the police, but if someone charges you an extra \$30 every time you fill up your tank 50 times a year (\$1,500) you shut up and pay your bill. Great system, right?"

Phil is just getting started, as he delves into the intricacies of the NYMEX market that handles these trades:

"The great thing about the NYMEX is that the traders don't have to take delivery on their contracts, they can simply pay to roll them over to the next settlement price, even if no one is actually buying the barrels. That's how we have developed a massive glut of 677 Million barrels worth of contracts in the front four months on the NYMEX and, come rollover day - that will be the amount of barrels "on order" for the front 3 months, unless a lot barrels get dumped at market prices fast."

"Keep in mind that the entire United States uses 'just' 18M barrels of oil a day, so 677M barrels is a 37-day supply of oil. But, we also make 9M barrels of our own oil and import 'just' 9M barrels per day, and 5M barrels of that is from Canada and Mexico who, last I heard, aren't even having revolutions. So, ignoring North Sea oil Brazil and Venezuela and lumping Africa in with OPEC, we are importing 3Mbd from unreliable sources and there is a 225-day supply under contract for delivery at the current price or cheaper plus we have a Strategic Petroleum Reserve that holds another 727 Million barrels (full) plus 370M barrels of commercial storage in the US (also full) which is another 365.6 days of marginal oil already here in storage in addition to the 225 days under contract for delivery. "

These contracts for oil outnumber their actual delivery, a sign of speculation and market manipulation, as oil companies win government authorizations for wells but then don't open them for exploration or exploitation. It's all a game of manipulating oil supply to keep prices up. And no one seems to be regulating it.

What Phil sees is a giant but intricate game of market manipulation and rigging by a cartel—not just an industry—that actually has loaded tankers criss-crossing the oceans but only landing when the price is right.

"There is nothing that the conga-line of tankers between here and OPEC would like to do more than unload an extra 277 Million barrels of crude at \$112.79 per barrel (Friday's close on open contracts and price) but, unfortunately, as I mentioned last week, Cushing, Oklahoma (Where oil is stored) is already packed to the gills with oil and can only handle 45M barrels if it started out empty so it is, very simply, physically impossible for those

barrels to be delivered. This did not, however, stop 287M barrels worth of May contracts from trading on Friday and GAINING \$2.49 on the day. “

He asks, “Who is buying 287,494 contracts (1,000 barrels per contract) for May delivery that can’t possibly be delivered for \$2.49 more than they were priced the day before? These are the kind of questions that you would think regulators would be asking – if we had any.”

The TV news magazine 60 Minutes spoke with Dan Gilligan who noted that, investors don’t actually take delivery of the oil. “All they do is buy the paper, and hope that they can sell it for more than they paid for it. Before they have to take delivery.”

He says they make their fortunes “on the volatility that exists in the market. They make it going up and down.”

Payam Sharifi, at the University of Missouri-Kansas City, notes that even as the rise in oil prices threatens the world economy, there is almost total silence on the danger:

“This issue ought to be discussed again with a renewed interest – but the media and much of the populace at large have simply accepted high food and oil prices as an unavoidable fact of life, without any discussion of the causes of these price rises aside from platitudes.”

What can we do about that?

News Dissector Danny Schechter made the film Plunder The Crime of Our Time (Plunderthecrimeofourtime.com) on the financial crisis as a crime story. He wrote an introduction to the recent reissue of a classic two-volume expose of John D. Rockefeller’s The Standard Oil Company, one of the top ten works top works of investigative reporting in American history. (Cosimo Books) Comments to dissector@mediachannel.org

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