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Consumers, business owners continue to be at the mercy of the market

Perfect storm of circumstances may mean that station owners and motorists maybe in for a long (and expensive) driving season!

Sal Risalvato, Executive Director of the New Jersey Gasoline, Convenience, Automotive Association (NJGCA), made the following remarks concerning the rising cost of motor fuel:

"Energy prices, like all commodities, fluctuate in response to market conditions, holding consumers and small business owners at their mercy. Sometimes these prices can fall into predictable patterns, which help customers and business planners anticipate costs and expenses. But for the last five years, gasoline prices have been volatile and unpredictable", Risalvato said.

"Have you noticed? Last year – like the four preceding years – prices have climbed sharply during the first six months of the year, only to settle down sharply the second half of the year. We saw the worst example of this in 2008 when prices skyrocketed to $4.25 or more a gallon and crude jumped to $150 a barrel, but the overall pattern has remained pretty consistent", Sal said.

"During these spikes, I have been one of the loudest and sharpest critics of energy traders constantly driving up the price of motor fuel. These speculators were artificially betting up the price of gasoline, despite supply and demand numbers remaining sufficient and stable. In every incident, the market eventually corrected itself because supply interruptions did not exist, leaving speculators stuck with their oil, which then had to be sold at a cheaper price," stated Risalvato.

“However, this time around, I may give speculators a pass as their concerns about future supply are warranted. For the first time in the last five years, I honestly think any fears driving up the price of oil are legitimate, and speculators are betting that supply and demand ratios will make crude oil a much more valuable commodity. Currently the market is facing an ideal-disaster scenario as uncertainty wrecks havoc on energy markets. The very real possibility of a supply interruption in the Mideast coupled with refineries preparing to switch to summer gasoline blends could see pump prices skyrocket,” said Sal.

“Obviously this scenario isn’t unique to the oil markets – it’s true of almost any commodity. If this was the produce market, and this year’s grapefruit harvest was expected to yield low numbers due to draught, frost, or foul weather conditions, the price would react the exact same way. Prices would then continue to stay high until evidence of higher crop yields came to market or higher prices caused demand to drop and match the supply”, said Risalvato.

As the market maelstrom swirls, one tangible constant is that gasoline retailers and consumers are always at the mercy of the oil producers, the oil speculators, and the refiners.

“In the macro-picture of oil production – from the ground source to the corner gas station – the motorists and the small business owner are always at the tail end of the spectrum. Neither has any control over the marketplace or the price of the product at the pump. And as the price rises, retailers work on continually shrinking margins even as consumers dig deeper into their pockets to purchase fuel”, stated Sal.

“I’ve said many times over the years that the best remedy for high gas prices IS high gas prices. That’s because, when motorists react to the price, they change their driving habits, buy less gasoline, and (eventually) the prices comes back down”, said Risalvato.

That is why Risalvato also warned, “Since the circumstances in the Middle East are a very real threat, and crude oil could be in short supply of crisis proportions, The United States may need to rely on the Strategic Petroleum Reserve. President Obama must refuse to release any oil from the SPR in order to manipulate the marketplace. The SPR must be saved for a real crisis if our foreign supply is actually cutoff.”

“Will that happen this time around? That’s anyone’s guess. Hopefully diplomacy will work, peace will prevail, global oil inventories will remain stable, and prices will fall – but then again perhaps not. While we can speculate all day long about the eventual outcome, we know for certain that both small business retailers and motorists will continue to be held hostage to geopolitics and market forces”, Risalvato concluded.

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