

[The AA and manipulation of the petrol price](#) [1]

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On Friday the AA hit the newspapers with the allegation that there are shadowy companies in the petrol market. Speculators even: they buy up petrol, sit on it until the price rises and then, horrors, [make a profit](#) [3]!

Few of the traders' names – including Glencore, Cargill, Gunvor and Trafigura – are known to consumers outside the oil industry, but their effect on Britain's 33million motorists and the wider economy is profound. They buy huge quantities of petroleum on the open market and store it until the price goes high enough to make them a handsome profit, at which point they sell.

It's an interesting contention, isn't it? That future prices are well enough known that you can make sure and certain profits just by storing something for a little bit. I'm particularly suspicious of the allegation in that at least some of those companies are wholesalers of petrol: the people who buy the tanker loads that the oil majors like to sell and split it up into the truck loads that petrol stations like to buy. And yes, there are more such companies these days as the oil majors pull back from their downstream activities.

The allegation then goes on that consumers are losing out as a result of the actions of these companies. Something which is by no means certain as, yes, it's Adam Smith time at the ASI once again, points out in *WoN*, Book IV, Chapter 5 para 40 [and following](#) [4]. Smith is talking about wheat but the same basic concept applies to petrol.

The speculator at least attempts to purchase in a time of plenty, when prices are low, then sell in a time of dearth when prices are high. By doing so he raises prices when they were cheap: yes, indeed he does. But he also lowers them in time of dearth by releasing produce onto the market when it is expensive. So the net effect on the consumer might well be nothing at all: the price has been moved through time but total expenditure on wheat (or petrol) remains the same.

Our speculators have made their profit: and if the consumers are paying the same total amount that profit cannot be coming from them. No, instead, it's coming from the original sellers: in this petrol case that's the oil majors and their refineries.

Which really rather changes this story, doesn't it? Even if the AA is right here, "Speculators rip off motorists" and "Speculators rip off oil companies" will play rather differently in the public press. And it's very likely indeed that the story is actually the second one.

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[4] <http://www.econlib.org/library/Smith/smWN15.html>

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