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Why your bank might own an oil tanker



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Oil tankers arrive at Grangemouth oil refinery.

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by Mark Garrison

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Why on Earth would a big bank own a tanker full of oil or a warehouse stacked with metal? That's the question a [Senate hearing](#) and [numerous articles](#) asked Tuesday.

Big banks' dealings in the commodity storage business may sound like the most esoteric of financial esoterica. But it's an issue that potentially affects all Americans, down to the price of gas fueling their cars and the electricity powering their homes. The Senate hearing drilled down on the cost of a humble can of beer.

"It has cost MillerCoors tens of millions of dollars in excess premiums over the past several years and billions to the entire industry, with no end in sight," began the testimony of Tim Weiner, the brewer's global risk manager for commodities and metals.

Weiner says other beverage companies -- heavy hitters like Coca-Cola and Dr. Pepper Snapple -- share his frustration with a system where banks hold raw materials like aluminum. He also mentioned the complaints of aluminum foil makers Reynolds and metal manufacturers Novelis and Ball. Some of that added cost winds up in the price tag of things we buy every single day.

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“Banks are doing this to make money,” says Duke University finance professor Campbell Harvey. “Somebody’s gotta pay the price. When the banks get injected in the middle, it makes sense that the cost increases.”

The issue isn’t banks trading commodities through complex Enron-style deals. They actually have warehouses stuffed with metal and tankers full of oil. Critics say banks are using these facilities to choke supply, which jacks up prices.

Banks say they’re just doing with commodities what they’ve always done with money, keep it safe for the owners until they need it. Storing raw material is also a way for banks to hedge their bets, providing income during economic downturns.

“Storage facilities in commodities tend to be one of those kinds of assets that can actually perform well during the down part of an economic cycle,” says University of Houston professor Craig Pirrong, a commodities expert. “That’s when storage facilities make their money.”

Bankers deny they’re manipulating markets and point out that they’re playing by the rules. But with powerful industries lining up against them and regulators taking a fresh look, the rules may change.

About the author

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