

## Mideast unrest spikes cost at pump



Written by

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As unrest in the Middle East and North Africa sends oil prices to levels not seen since 2008, consumers and businesses are watching nervously and beginning to think how they might soon have to adjust their budgets.

Rising fuel prices "are a major concern for us — a cost we can't avoid," said Jo Natale, spokeswoman for Wegmans Food Markets Inc., whose truck fleet includes 180 tractor trailers that logged 26 million miles last year.

For consumers, just about every day recently has brought higher prices at the gasoline pump. The average cost of regular in the Rochester area has risen 5 cents this week to \$3.38 a gallon, well short of the all-time high of \$4.25 in July 2008 but much pricier than the \$2.70 motorists were paying late last summer.

As crude oil goes up, gasoline is quick to follow.

Costlier oil "hits gas and diesel prices right away," said Lawrence Southwick Jr.,

professor emeritus at the State University of New York at Buffalo School of Management.

Describing the dilemma of a service station operator, Southwick said: "If you're selling gasoline and (suppliers) are going to raise the price of oil tomorrow, you're having to replace the gas you bought cheap with more expensive tomorrow." And so you raise your prices, he said.

Rising oil prices foreshadow all sorts of higher costs across the economy. "It really hits things like the airlines," Southwick said. "Fuel is a huge cost there. Farmers, they use an awful lot of energy."

Eight countries in the world's most important oil-producing region are in some stage of upheaval. As longtime rulers face revolts, fear of what could happen to oil fields, refineries, pipelines and shipping routes is what has driven oil prices past \$100 a barrel this week for only the second time in history.

Oil climbed as high as \$103.41 on

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Thursday on the New York Mercantile Exchange before settling at \$97.28, a 15 percent rise since the start of last week.

Gasoline prices are likely to flirt with \$4 a gallon in some parts of the country by summer. In New York state, where high fuel taxes add to the pain at the pump, prices could go beyond \$4.

The Middle East and North Africa supply about 29 percent of the world's oil. Throughout the region, oil production is controlled not by independent companies but by governments — which is one reason why oil prices are so tightly linked to political stability.

In the late 1970s, supply disruptions during Iran's Islamic revolution and fears it would spread across the region kept prices high for about two years. In the past decade, the war in Iraq, attempted attacks on Saudi Arabia oil facilities and large protests in Iran have caused jitters in the markets and pushed prices higher.

But never before has instability plagued so many countries across the region at the same time. "It's not an isolated incident," said analyst Fadel Gheit of Oppenheimer & Co. "That's why the market is reacting the way it is."

So far, the most dramatic upheaval has occurred in countries that aren't huge oil producers. Violence in Libya has affected up to 750,000 barrels a day of production, or less than 1 percent of global demand, according to the International Energy

Agency.

The fears of most analysts fall under these scenarios:

- Oil fields, pipelines and refineries come under attack, as happened in Iraq following the U.S. invasion in 2003.
- Oil shipments get disrupted by problems in shipping lanes and ports. Some of this is already happening in Libya, where shippers are being held offshore until the safety of the ports can be assured.
- Unrest spreads to Saudi Arabia, the world's second biggest oil producer and owner of the biggest reserves of oil. This is the worst-case

scenario for oil markets.

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