

# GOLDMAN'S LATEST SCAM: TURNING EMPTY SPACE INTO RICHES

Who knew that Detroit was so commodity-rich it was ruining entire segments of industry?

Only, I presume Detroit gets little to none of the fortune Goldman is making by hoarding aluminum in warehouses in the city, thereby driving the price up and making millions on warehouse rent. This Reuters article describes the scam, but it works sort of like this.

The London Metal Exchange has rules to smooth out market prices for the commodities sold on its market (the rules thus serve the same goal as derivatives). As part of this, the exchange regulates over 640 metals warehouses around the world. The idea is, the metals can be stored there during recession, then used after the economy improves. The LME requires that a certain amount of metal must be delivered each day, to keep it flowing. But it sets those limits **by city**, not by warehouse. So in a city like Detroit, owning a concentration of warehouses allows a firm to create an artificial bottleneck in supply of the metal. And it's costing the people who actually want to use aluminum to do something productive with it.

"It's driving up costs for the consumers in North America and it's not being driven up because there is a true shortage in the market. It's because of an issue of accessing metal ... in Detroit warehouses," said Nick Madden, chief procurement officer for Atlanta-based Novelis, which is owned by India's Hindalco Industries Ltd and is the world's biggest maker of rolled aluminum products. Novelis buys aluminum directly from producers but is still hit by the higher prices.

[snip]

Premiums for physical aluminum – the amount paid above the LME’s cash contract currently trading at \$2,620 a tonne – in the U.S. Midwest hit a record high of \$210 a tonne in May, up about 50 percent from late last year. In Europe, the premium is at records above \$200 a tonne, double the levels seen in January 2010.

The ripple effect into Asia has seen the premium paid in Japan increase 6 percent to \$120 a tonne in the third quarter from the previous quarter, the first rise in nearly six quarters.

One of the keys to this scam is that the traders that own the warehouses also own the exchange.

The lack of real change has some in the industry questioning the very structure of the LME, which, unlike its publicly owned U.S.-based rival commodities exchanges, is owned by many of the financial institutions that trade there.

[snip]

That concern is growing. Critics of the exchange point to a potential problem with zinc supply though New Orleans, where inventories now account for 61 percent of total LME-registered stocks.

Most of the warehouses in New Orleans are owned by Goldman and Glencore.

And those same traders are buying up warehouse companies around the world.

Now, given that the two cities mentioned in this article—Detroit and New Orleans—are seriously hurting, it seems one solution would be for the cities to impose a tax designed to move product (presumably, such a tax would also create more work for those working in the warehouses). If concentrated empty space is their competitive advantage, why shouldn’t they stick it to

Goldman?