

Energy Insider by William Engdahl

Lots of oil, but no gasoline

Oil production and export from producing countries remains at record highs—a virtual oil 'glut'— but none of it is being taken off the boats for refining into gasoline.

Last week this column documented little-publicized facts showing that the world is currently in the midst of what can only be described as a "glut" in world oil production. Total world production this year is at a record 63-plus million barrels per day or more than 6 percent higher than 1978—when there was no Iran crisis.

But now consider the situation at the refinery end. At the end of November, primary stocks of gasoline at the refinery level stood at 224 million barrels, according to figures from the American Petroleum Institute. The Department of Energy defines 219 million barrels for this period of seasonal demand as a red-line "minimum acceptance level." This means that there is less than one day's supply over that level.

Already there are warnings of gas spot shortages in the New York metropolitan area, particularly Long Island where major oil refiners such as Exxon have cut back dealer allocations by as much as 19 percent over the same period last year.

Because of a form of price-induced conservation over the past 12 months, national gasoline consumption is down 5 percent over the previous year. The oil is there, sitting in primary and secondary storage, in VLCC supertankers off the coast of Norway and the Port of New York ... the gasoline is not. Refinery utilization nationally

in the last week averaged a little more than 87 percent of capacity. Previously, a figure of 91 percent was considered normal.

In short, the refiners are not refining gasoline.

Last summer, the Department of Energy set an arbitrary stockpile level of 240 million barrels of home heating oil reserve to be in place by October. This target was met, but met in part at the expense of refining gasoline. In fact, this nation has never had a level of home heating oil stocks as high as 240 million barrels.

Now, the situation is a chilling replica of the contrived shortage situation at the exact same period last year. Major oil companies such as Mobil, who are also culpable in forcing the OPEC price dramatically upward by reselling OPEC crude illegally on the Rotterdam spot market for more than twice what they pay OPEC producers such as Saudi Arabia, are withholding stocks. They argue the uncertainties in the Middle East. The fact remains that with the Dec. 17 OPEC meeting in Caracas—where official OPEC prices are expected to rise a significant \$4 per barrel over the current \$23.50 price—the major holders of unrefined crude stocks stand to gain an enormous paper "windfall" profit showing on unrefined inventories. In short, it is overwhelmingly in their interest to allow a precarious supply situation in gasoline to de-

velop in the United States.

Add to this an administration embargo against import of Iranian crude. Although the amount is on the order of several hundred thousand barrels daily, less than 3-4 percent of total U.S. supply, the embargo creates a further pressure of apparent crisis in supply, for the Iranian oil is being sold on spot markets for as much as \$46 a barrel, according to reliable estimates. The net result is not political pressure on Iran but rather a further upward pressure on world oil prices.

At this point, another ominous element has been added into the makings for an orchestrated crisis to develop early next year. Late last month the administration managed, quietly, to get Congressional passage for a long-sought emergency gas rationing authority. In tandem, Deputy Energy Secretary John Sawhill, who sits on the board of the anti-energy environmentalist Aspen Institute think tank, together with Robert O. Anderson of Atlantic Richfield, just announced formation of an energy "crisis management" task force incorporating the new Federal Emergency Management Agency (FEMA). Sawhill heads the task force which would run all allocation of energy supplies in the event of a disruption of supply such as the trouble in the Persian Gulf could trigger. In this situation, with existing gasoline stocks so perilously low, the country could be thrown under wartime emergency powers over all aspects of the economy and national life, administered by Sawhill's task force. Does this sound anything like an energy dictatorship? We think so.

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