TODAY (Jane Pauley): Last week the Shell Oil Company began to ration all of its gasoline, limiting its dealers to 75 percent of their previous monthly allotments. Well, that rationing is expected to last through December or the early part of January, and now there are reports this morning that some other oil companies may start rationing gasoline as well. Within the last six to eight weeks, in another piece of business the price of home heating oil rose by eight percent, and all these things together bring back some memories, and not so good memories of 1974: the big lines in front of the gasoline pumps... gasoline shortages. Are we due for another round of that?

With us this morning, John Lichtblau, an oil economist with the Petroleum Industry Research Foundation, and James Flug, a consumer advocate, specializing in energy, and they, I hope are going to tell us what is going on in these two separate areas of energy, gasoline and home heating oil. First of all, Mr. Lichtblau, is there a shortage of gasoline?

Lichtblau: Well, there is no overall shortage of gasoline at this time. We don't really expect one. Driving has been unusually high for this time of the year.

TODAY: Why has driving been unusually high?
Lichtblau: Part of the reason has been the mild weather. Gasoline demand usually drops after Labor Day: it hasn't this year.

TODAY: People are simply on the road a lot?

Lichtblau: They are more on the road then was expected, so that was part of the reason. But whatever shortage, whatever problem you have in gasoline is with one single sub-product of gasoline, unleaded gasoline. There is no overall problem with gasoline. And there is no real shortage of unleaded gasoline, but it is in tight supply, and a number of companies, as you have said, have announced that they have problems at the moment.

TODAY: You can understand the confusion. Essentially you say that there is no real shortage of gasoline, and yet things are in tight supply. Consumers don't understand why there can be gasoline at one pump and not at the other.

Plug: It's worse than that, Jane. There's first of all a real doubt that there's even a shortage of premium unleaded. Two of the companies that are supposedly having those shortages, Amoco and Mobil, have been on the TV right up to this very moment with ads promoting premium unleaded gasoline. Now, if there's a tight supply of premium unleaded, why are they pushing it? So that's the first question, whether there really is a tight
supply or whether something's going on. Historically, when we've had stories of tight supply, it's usually been for a reason. It's usually been at a time when there's plenty of supply and somebody wants to raise the price. That's what looks like may be going on here now. The companies, the Department of Energy want to take the price controls off gasoline, and this may be part of building a case for taking controls off gasoline.

**TODAY:** Mr. Lichtblau, would you explain? The fuel oil companies say that part of the reason there is this temporary shortage in unleaded gasoline is because of federal pricing regulations. How has that affected, and might they in fact be...

**Lichtblau:** Well, the federal pricing regulations is one of the most ridiculous regulations we've had in a long time. For instance, right now, while Shell Oil is short of gasoline, they have been forced last week to lower the price of gasoline some more. The principal reason why Shell Oil is short of gasoline is because, under the regulations, they must sell gasoline at a lower price than their competitors, substantially lower. So as they sell gasoline at a lower price they get far more business, of course, so when they get more business they can't supply it. And as a result, they have to ration it. Had they been able to raise the price to the level of their competitors, there would have been no problem with that company, despite the fact that
one of their refineries is down. Now they are more in shortage, as the price is to come down more. The whole thing is a completely meaningless regulation, which was put in at one time, in December 1973, when there was a real critical shortage, because of the Arab oil embargo. For the last four and a half years there was absolutely no shortage, and there was no reason to continue these price controls. Whenever you have that kind of a problem, whenever you have price controls in the absence of a shortage, you eventually create a shortage through the price controls.

And I think this is what... it hasn't happened yet...
This is a classical case: we don't have a gasoline shortage, but we are going to have one by 1980 if this continues.

Flug: Jane, that is the kind of thing we usually get just before a price increase in fuels. Now, the fact is that Shell's profits were up 19 percent in the third quarter of this year from last year on a sales increase of only 11 percent. That is, their profits went up much faster than their sales. So I'm not worried about Shell's profits. Secondly, why do we have controls? We have controls because the energy industry is not competitive. We just had a study from the Department of Energy on fuel oil where they showed that part of the reason that fuel oil prices have gone up twice as fast as inflation in the past few years since controls on fuel oil prices came off was because there
is a probable lack of competition in the refining industry. Now, the same refineries that make fuel oil make gasoline and the problem is that this industry is built in a certain way so that the oil never gets out onto the free market. The companies sell to themselves, buy from themselves. Shell hasn't cut buying gasoline everywhere: it's buying from its own refineries, so when one of its refineries breaks down, it is on the hook, and if it goes out into the open market and buys gasoline to make up for its own breakdown, then it drives that market through the roof, drives the independent marketers of gasoline out of the market because they can't afford to match Shell's purchasing.

Lichtblau: Obviously I don't agree with this. This Department of Energy study that Jim Flug is referring to is a very strange study. It ignores completely the findings of government agencies, such as the Department of Justice, and an agency within the Department of Energy, which completely contradicts it and finds substantial competition within the industry. Instead, it has taken entirely and exclusively the word of an outside self-appointed consumer task force for the basis of its findings. The Department of Justice has come in and said, we find the oil industry competitive, and that has been said at the hearings, and yet has been totally ignored. But the question is not one of competition or not. When you
restrict a commodity, something happens. When you restrict
the price of a commodity, you cannot expect this will have no
other impact

TODAY: The price of oil will have to go up once the
OPEC oil ministers get together shortly, won't it?

Lichtblau: Yes

Flug: If they raise it. There is no reason for them to
raise it because there is a glut of oil on the world markets now.
The main concern in the oil and gas industry now is what to do
about the excess of oil and the excess of natural gas. The
partners in the Arabian-American oil company, which are four
large American oil companies -- Mobil, Exxon, California Standard,
and Texaco -- just decided to cut back to their investment in
future production facilities because there will be too much oil
in the next decade if they keep going the way they are.

TODAY: But you don't know that the price is still going up?
Flug: It didn't have to. It may, but it didn't have to
because there is plenty of oil in the world right now.

Lichtblau: It will go up.

TODAY: Three words: it will go up.