Enclosed is an unedited transcript of the McNeil/Lehrer News Hour aired on December 26th, 1985. The program included a debate on heating oil prices between me and Ed Rothschild, a "consumer advocate" who is the Assistant Director of the Citizens/Labor Energy Coalition. The debate itself starts on page 3.

I hope you find this of interest.

John H. Lichtblau
JIM LEHRER: We know all about the world being awash in a glut of oil, and how that means oil prices are dropping. Why, then, is the price of heating oil in this country not dropping? That is the story we look at first tonight -- a night of bitter cold in much of the country. We start with a report from one of the coldest areas. The reporter is Mary Kane from Boston.

MARYANNE KANE: When the home heating oil truck pulled up to a New England home this December, it's delivering fuel at near record prices. Despite an international oil glut and OPEC predictions that crude oil prices will tumble by spring, consumers across the country are paying an average price of $1.10 per gallon -- up five cents over this time last year. And New Englanders are paying as much as $1.24 per gallon -- up ten cents over last year, the highest price in three years. Faced with his fourth bill this winter, 83-year old Joe Bargone says he can't afford it.

JOE BARGONE [sp]: Sure it's high. I'm going to sit here all winter (inaudible) because this is the last oil he's going to bring here.

KANE: Neighbor Jan Esko is also concerned.

JAN ESKO [sp]: I feel like we're going cold, or without food to pay the heating bill.

KANE: New England home heating oil prices are traditionally higher than those elsewhere in the United States because of weather, demand, and transportation costs. But, oil dealer Tom Collins says prices this December are simply out of line.

TOM COLLINS: I think it's excessive, personally.

KANE: So does Boston fuel cooperative official, Susan Brace, who provides discount oil to 2,000 Bostonians.
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SUSAN BRACE [sp]: If the world oil prices is [sic] dropping and yet the wholesale keeps going up, even before demand is very strong -- we haven't really gotten into the cold of the season — somebody's got to [sic] be making a buck.

KANE: Specifically in New England, wholesale prices have dropped about five cents since mid-November, but retail prices are up five cents. Energy analyst, Henry Lee of Harvard, on the differential.

HENRY LEE, HARVARD UNIVERSITY: Retail prices tend to be a lot stickier coming down than wholesale prices, so I would suspect that you'll see some drop in about two weeks, but I don't think you'll see a significant drop.

KANE: Lee adds, if the winter is normal to cold, prices could actually rise. One reason — dealers move as much as 90% of their product during winter, and they feel little competitive pressure to cut prices.

COLLINS: As the inventory starts coming in, I know, then you run into variations in the prices. But, on a general basis, it's always on an upward basis until probably about January or February, then it starts to break.

KANE: Add to that, low inventories. In November, heating oil stocks were 30 million barrels below last year’s level. In December, the gap was closed to 12 million. But, inventories have been controlled by U.S. refiners and distributors in anticipation of the expected drop in OPEC prices from the current $26 to $27 per barrel range to the lower 20s by spring.

ROBERT TAKVORIAN, PRESIDENT, NORTHEAST PETROLEUM: The volatility of the marketplace — that is — your effect of that volatility is on the inventories that you have on hand. And, with dramatic swings of 2, 3, even 4 cents a day, that can happen in a marketplace — one does have to manage their inventories.
KANE: That volatility and spot market prices and in the commodities market, appears to be triggered by the disarray within OPEC.

STEVEN SMITH, VICE PRESIDENT, DATA RESOURCES: There's the expectation that OPEC is, kind of, dancing now on a slippery tightrope, and may fall very, very far, that makes holders of stocks very nervous to hold stocks. And, when you get stocks very, very lean, then any kind of a surprise increase in demand causes a blip.

KANE: As for this winter, most experts agree that supplies will be adequate; and price, depending upon the severity of the weather, could increase three to five cents a gallon and then level off by spring.

LEHRER: That report by Maryanne Kane in Boston. Ed Rothschild believes the heating oil customers in her report and elsewhere are paying too much. He is Assistant Director of the Citizen Labor Energy Coalition, a Washington-based consumer group. How over-priced is heating oil, in your opinion?

ED ROTHSCHILD: Right now it's probably between five and ten cents a gallon too high given the cost of crude oil relative to last year where [it was] five cents lower. Refineries that are buying crude oil are paying less for it and yet they're charging more for the products that they're making, in this case — home heating oil.

LEHRER: Now, why is that too high?

ROTHSCHILD: It's too high because in a market that is supposed to be glutted, which it is, and excess refinery capacity, which there is, prices should be falling, not rising. But, prices have gone up because U.S. refiners have cut production, limited inventory, and that has forced the price to higher levels.

LEHRER: Is this some kind of conspiracy on their part? Or to make more — is it just the way to do business, or what?
ROTHSCHILD: Well...

LEHRER: What is your charge, sir?

ROTHSCHILD: The charge is that there's not sufficient competition in
the marketplace, there's been enormous mergers, and the fact that so few
companies doing the same kind of thing -- namely, limiting supply -- the
end result is higher prices. Whether there is a conspiracy or not, only
the U.S. Justice Department or Federal Trade Commission anti-trust
authorities with the responsibility of finding out, can find out.

LEHRER: Do you think it's serious enough to launch such an
investigation?

ROTHSCHILD: We certainly do, and so does the Governor of New York, for
example. Governor Cuomo has asked the Justice Department to look at
exactly what's happening. We've asked the members of Congress to
inquire why prices are going up at this time of year -- during this
period of glut and surplus when we expect the prices should be lower.

LEHRER: Do you expect them not to go down at all during this
wintertime?

ROTHSCHILD: I think between now and the end of February, prices will
remain at current levels. [It] all depends what happens with the
weather. If the weather remains cold, normal or colder than normal,
prices are likely to go higher; and if we get a sudden warm spell, which
not many people are predicting right now, prices could go lower -- but,
that's not likely.

LEHRER: If you're correct, who is making the excess buck here?

ROTHSCHILD: Primarily, U.S. refiners of petroleum products -- the major
oil companies who make most of the heating oil that consumers buy are
pocketing larger margins...
LEHRER: How can they do that? How does that work?

ROTHSCHILD: Well, you -- crude oil prices go down, and the price you sell your products for goes up -- the margin, the difference between the two, increases, and that's where the profitability comes from. And, most of these companies have announced huge increases in their refinery profits over the last nine months.

LEHRER: Now, why is the market pressure not just automatically bringing those prices down?

ROTHSCHILD: Well, the market pressure is in product. Demand hasn't increased, so that's not the reason, because demand has stayed flat. What's happened to supply is the other side of the question, and here the companies have limited supply, and so if there's not enough supply around for heating oil or gasoline, let's say, then the prices are forced up. And the futures market -- the spot market and day to day trading reflects the limited availability of supply.

LEHRER: What's wrong with doing that, if they are, in fact, doing what you say they're doing -- what's wrong with that?

ROTHSCHILD: If they were doing it independently and trying to best judge the market, that would be O.K. But, other people may make different decisions, saying here's an opportunity -- if we increase our refinery production and produce more and sell it for a little less, we can take a greater share of the market -- that doesn't seem to be happening.

LEHRER: Now, why is that? Why do you think it isn't happening?

ROTHSCHILD: Well, I think the companies are large enough to recognize that if each of them do the same thing, they all benefit and the consumer gets hurt. Here's a situation where the consumer always loses. During the shortest period, in which prices were going up, we
were told you have to pay higher prices — there's a shortage, it's normal. Now, when there's a glut, we're told you have to pay higher prices because we're anticipating lower prices in the future. You can't expect us to pay, you know, offer you lower costs of heating oil today.

LEHRER: I hear you, thank you. Charlayne?

CHARLAYNE HUNTER-GAULT: A different view of the price of heating oil, now, comes from John Lichtblau, President of the Petroleum Industry Research Foundation, an industry-supported firm that studies oil economics. Mr. Lichtblau, do you think that home heating oil prices are as much as five cents higher than they should be?

JOHN LICHTBLAU: They are higher than they were. Where the price should be depends on market conditions and they depend, in turn, on the weather, on import levels, on inventory, on many different factors which determine the price of oil any given moment.

HUNTER-GAULT: Well, in your assessment, why are home heating oil customers paying more now than they paid last year?

LICHTBLAU: Well, they pay more right now, and you're looking at a very short period. If you take 1985 as a whole, they are paying less. The heating oil price, wholesale and retail, for the year 1985, is down over 1984. And in '84, it was down over '83. Every year, the heating oil price, since 1981, has come down. In fact, if you look at the whole period from '81, when oil prices peaked, to '85, you see that heating oil prices have declined by the equivalent of about $8 or $9 a barrel, which is just about in line with the decline in crude oil prices. So, crude oil price declines have affected and reduced the price of oil. Right now, you have a number of special factors. You have a very cold December, much more than last year, which has affected prices. You have relatively low inventories, but only relative to a year ago. There's plenty of heating oil around to meet all the demand. A year ago,
refiners lost money on refining crude oil. When you look at the fourth quarter refinery operations in the United States, refinery margins were negative -- they were actually losing money.

HUNTER-GAULT: Why was that?

LICHTBLAU: Well, they couldn't get the cost back that the crude oil cost, plus refining costs and everything else. They simply couldn't -- that happens sometimes. So, when they are making a profit this year, you have to compare it to what happened last year when they lost money. Obviously, they can't go on losing money, so the increase in price is probably due to these and some similar factors. I think this increase is very temporary. I think unless you have very cold weather, prices will start declining. They have already declined at the wholesale level. The peak was reached at the beginning of December. Since then, wholesale prices have declined fairly significantly -- six, seven cents a gallon.

HUNTER-GAULT: But you don't agree that the prices are being manipulated -- that the supply is deliberately being kept low to keep the...

LICHTBLAU: There is no way they could be manipulated. This is, despite what Mr. Rothschild said, an extremely competitive industry, a wide-open industry, a world industry -- we import about, on the East Coast, something like 15 to 20% of our heating oil supplies come from foreign sources. There are hundreds of refineries abroad. There are -- our domestic refiners are operating well below capacity at about 80% of capacity.

HUNTER-GAULT: So, you don't think there's any reason for the Justice Department to investigate this home heating oil complaint...

LICHTBLAU: No, and if you look at the price increase -- I'm not talking about Boston, but nationwide -- you're talking about the three or four percent increase over a year ago. Well, it's unpleasant, but it's not exactly a skyrocketing increase.
HUNTER-GAULT: All right, thank you. Jim?

LEHRER: He's right, isn't he? That's not a skyrocketing increase, is it, Mr. Rothschild?

ROTHSCHILD: [Not] a skyrocketing increase, but any increase above a market level where competitive levels would determine price is a serious problem. On the whole, if we're talking about hundreds of millions of dollars, it may be fifty dollars a year to each individual consumer and a higher price, but it's that much on a national scale.

LEHRER: What about his point, though, that there's no way that the industry could be controlling these prices? It is a competitive industry, he says.

ROTHSCHILD: It's competitive at certain times, and certain times it's much less competitive. All these refineries in the world that John is talking about, a lot of them are still owned by the same companies — they happen to be located overseas. Shell has refineries all over the world. Exxon has refineries all over the world. British Petroleum has refineries all over the world. The same thing has happened in Europe, by the way, where the refiners really sharply cut back their production and drew down inventories so that prices went up both in Europe and in the United States — even before there was any demand. The point is, that prices for heating oil went up in November by ten cents a gallon, before the winter even started, when we had warm weather all along the East Coast. That's not explained by competitive forces.

LEHRER: Mr. Lichtblau?

LICHTBLAU: Well, it can be explained by competitive forces. What happened is that in October and November, crude oil prices rose very substantially. And then in December, they fell after the OPEC meeting in Geneva. So, the heating oil that you get now has been refined from
crude oil that was substantially higher than the present price of crude oil. In October and November and very early December, you had prices $3 or $4 higher than they are now. And, that oil was bought, that crude oil was bought, refined, and distributed, and this is the oil that you see now coming into the market. Within a few weeks, you will see lower cost oil coming into the market. And, there's always a lag between changes in crude oil prices, changes in wholesale prices, and changes in retail prices. Within this lag, you will see a transmission of the lower prices into the heating oil price.

LEHRER: You don't expect that to happen, Mr. Rothschild?

ROTHSCHILD: I don't expect a significant decline in home heating oil prices if the winter remains normal or colder than normal. We're getting all this cold air now, and I think consumers are paying far more than they have to...

LEHRER: But, you don't think the price is going to go down. Why don't you think the prices—do you think Lichtblau just got it all wrong?

ROTHSCHILD: No, I think the price will go down sometime in March, after the main part of the winter is over, and that's traditional -- the heating oil price is seasonal. It's up in the winter and down after the winter's over. So, I think, yes, they'll come down, but people don't buy any more heating oil in April, May, June, and July.

LEHRER: What about Mr. Lichtblau's additional point about profits. O.K., so the oil companies are making a profit -- they lost money last year, what's the big deal? They have a right to make a profit.

ROTHSCHILD: They have a right to make a profit, but the point is, these are integrated companies. And, what they're really after, is to protect their crude oil price. I think that's the basic underlying reason here that product prices, both for gasoline and heating oil are higher than they should be. These companies make about 80% of their profits on the
production of crude oil and natural gas. If the price of products goes down and crude oil follows, they make less overall. So they can take temporary increases and decreases at the refinery level -- that's not where they make most of their money. They are interested in protecting crude prices.

LEHRER: He's right about that, isn't he, Mr. Lichtblau?

LICHTBLAU: Well, they're also purchasers. In fact, these big companies, while they still produce a great deal of crude oil, they all have much less crude oil under their control than they had a few years ago. They all are major buyers of crude oil from OPEC countries, from the North Sea, where some other companies may produce it, so that, overall, they are in a market which is extremely competitive. What you have now is oil being a commodity, just like tin or pork bellies or wheat -- any other commodity. Prices fluctuate from day to day. You have no longer anyone controlling it [sic] -- OPEC is trying to maintain some control, and it's partly succeeding, but not very much. So, you have a commodity that fluctuates and you see the volatility now -- prices have gone up. I think you will see the volatility moving in the other direction, given normal weather, within sometime early next year, well before the end of the heating season. And, I think what you see is an industry that has reduced it's inventory level, not because it wants to raise prices, but, because it is generally on a cost-cutting development -- cost-cutting...

LEHRER: You say they have not done it intentionally to keep the price up?

LICHTBLAU: No, just about -- you need less inventory because the demand for heating oil has declined. So, when you compare it with previous years, when the demand was higher, you simply don't need as much anymore. You have fewer refineries, which means you need less inventory for that purpose. Carrying inventory is expensive and therefore, any industry that is not growing -- the oil industry is no longer growing -- will try to cut cost anywhere it can.
LEHRER: All right, thank you. Mr. Rothschild, you say that's not happening?

ROTHSCHILD: Well, they're cutting costs -- why aren't those savings being passed on to consumers? We certainly would like to see some of the benefits of those cost-cutting measures passed on -- that is not happening. They certainly do recognize the benefits of lower inventories. It means that they can control cost, but they can also limit supply, which affects the price in the market. When the supplies were limited, namely, the inventories were drawn down, the futures market reacted by bidding up the price, and so there was a whole...

LEHRER: We have to go. Mr. Rothschild, and Mr. Lichtblau in New York, thank you both very much.