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THE FUTURE OF HEAVY FUEL OIL

In a talk before the Annual Convention of the National Oil Jobbers Council in Chicago Mr. John H. Lichtblau, Oil Economist and Research Director of the Petroleum Industry Research Foundation, said that the 540 million barrels of heavy, or residual, fuel oil consumed last year in the United States had a wholesale value of well over a billion dollars and contributed 12% to total U.S. primary heating consumption. Stressing the great importance of residual fuel oil imports, Mr. Lichtblau stated that at the East Coast, which accounts for the bulk of U.S. fuel oil consumption, imports currently supply 63% of domestic demand. The reason for the high rate of imports is that domestic refiners are interested in the production of gasoline and middle distillates but not in residual fuel oil which they regard as an accidental by-product - like the saw dust in a saw mill operation, according to the speaker.

Predictions that the decline in the domestic refiners' yield of residual fuel oil was about to level off have proved wrong so far, the oil economist said, pointing out that residual fuel oil yields this year were again below those of a year ago. Mr. Lichtblau predicted that refinery economics would eventually bring about a levelling off in the decline in domestic residual fuel oil production. But, said he, not this year nor next.

Under these circumstances the wisdom of restricting residual oil imports was certainly questionable, Mr. Lichtblau said, citing a statement made in 1959 by the then Senator John F. Kennedy, to the effect that the restrictions were "... completely unjustified, uneconomic and short sighted ...".

The speaker said that the coal industry which was the driving force behind the restriction was really very little affected by these imports. In Mr. Lichtblau's estimation, less than 3% of U.S. coal consumption is currently in active competition with imported residual fuel oil. He also denied coal's claim that reductions in coal prices to East Coast customers, to meet competition from imported fuel oil, have affected coal's price structure throughout the country. The speaker pointed out that most of such reductions have taken the form of lower rail freight tarrifs and were therefore not borne by the coal industry.

Turning to demand, Mr. Lichtblau said that while natural gas consumption for industrial and commercial heating east of California had risen by 150% and coal consumption by 33% since 1950, residual fuel oil consumption had been stagnant. Even on the East Coast where consumption had increased at an annual average of about 1%, residual's share of the market has been steadily declining. Among the reasons for this development, apart from the restriction on imports and the declining domestic production, the speaker mentioned the fact that the price of the imported product was not always low enough to meet competition from other fuels.

But, he said, part of the reason was also that while the coal and gas industries were making major promotional and technical efforts to develop new markets, residual fuel oil continued to be treated as an uneconomic by-product. This has affected not only residual fuel oil but other oil products as well, said Mr. Lichtblau. For instance interruptable gas sales to industrial and commercial users, have enabled the gas industry to offer service at lower cost to the home heating market.

In the speaker's view, residual fuel oil consumption was unlikely to decline from its present level in the foreseeable future. But he was much less sanguine about the product's ability to share in the growth of the market for industrial and commercial fuels until the removal of the residual oil import restrictions.