Oil Industry Gutted Refining Capacities

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As **Figures 1** and **2** document, for the past 20 years, the U.S. petroleum industry has gutted its refining capacities, by failing to invest in new refineries, thus contributing mightily to the present oil price crisis.

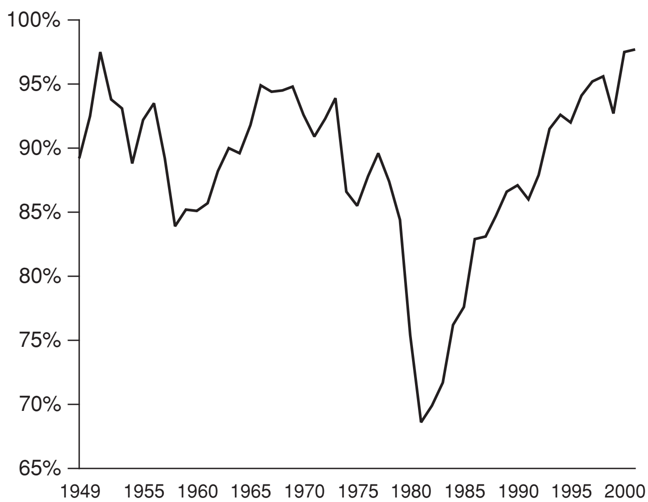
U.S. refining capacity reached a peak of approximately 19 million barrels per day in 1979-80—just before the explosion of deregulation. At the time, American refineries were operating at less than 70% of capacity. The steep decline in capacity utilization during the second half of the 1970s was, in part, a reflection of the Carter Administration's implementation of the "controlled economic disintegration" doctrine of the New York Council on Foreign Relations and Trilateral Commission. This policy was compounded by Federal Reserve Board Chairman Paul Volcker's high-interest-rate policy, which further gutted American industry and agriculture.

By normal industry standards—i.e., pre-deregulation, or prior to today's intense speculation—new refinery capacities should be built whenever production capacities rise above 75% utilization. That point was reached in 1984. However, the oil industry, instead of investing in new plant and equipment, moved, increasingly, toward a "just in time inventory" system, in which inventories were depleted, as a means of avoiding investment in new refining capacities. At every turn, the spot and future market speculators were sitting in the wings, exploiting these disastrous decisions by establishing further control over prices.

For a number of years, in the mid-1990s, the major petroleum multinationals saw it to their advantage to keep prices artificially low, in order to drive independent and middle-sized oil producers and retailers out of business. In the past year, with control over U.S. retail gasoline prices in the hands of four gigantic oil companies, prices have gone through the ceiling. And refining capacities are near 100% utilization.

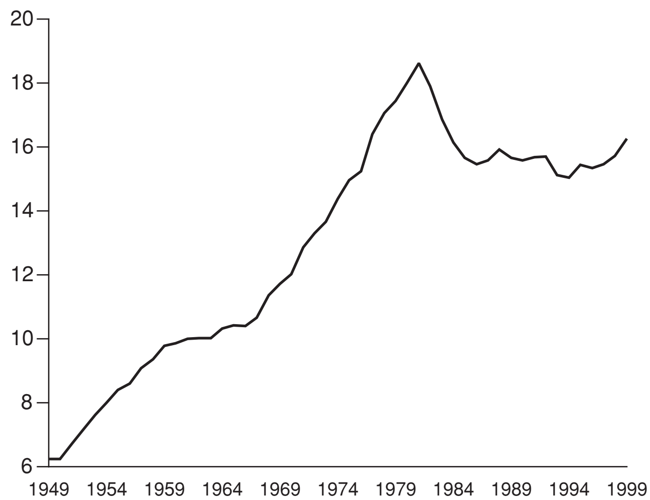
There is no short-term solution to the present oil price crisis, and the looming shortages of refined home heating oil this winter, unless the global refining capacities are brought into play. According to the latest statistics available through the International Energy Agency (IEA), Mexico is only using 74% of its refining capacities, Japan is using 77%, and Canada is using 86%. Italy is at 75% of capacity. Every other member of the Organization for Economic Cooperation and Development is at or near full-capacity utilization. No data are available from the IEA for non-OECD countries, including OPEC member-states.

FIGURE 1
U.S. Oil Refinery Utilization
(Percent)



Sources: U.S. Department of Energy, Energy Information Agency; International Energy Agency, Monthly Oil Report, July 2000; other oil industry sources.

FIGURE 2
U.S. Crude Oil Refining Capacity
(Millions of Barrels per Day)



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