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a NewsHour with Jim Lehrer Transcript

ONLINE FOCUS

OVER A BARREL?

March 31, 2004



OPEC announced a 4 percent cut in production, a move that is expected to drive up U.S. prices for gasoline. Oil industry experts discuss how OPEC's decision will impact the U.S. economy and world markets.

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KWAME HOLMAN: Until now, it hadn't drawn the same political attention as the war in Iraq or American job losses. But this week, concern about the soaring cost of gasoline spiked as the price at the pump hit

record levels.

CAR DRIVER: I'll take the metro instead. I just can't afford it anymore, I don't make enough money.

KWAME HOLMAN: One nationwide survey of gas stations this week put the average price for regular unleaded at a \$1.80 a gallon. That's a jump of 29 cents since late December. San Diego has the highest gas prices. And not coincidentally, that's where Democratic presidential candidate John Kerry was yesterday.

SEN. JOHN KERRY, D-Mass.: I'll tell you what. If the gas prices keep rising at rate they're going now, Dick Cheney and George Bush are going to have to carpool to work.



KWAME HOLMAN: At a rally, Kerry ticked off ideas he said would reduce the strain on gasoline supplies.

SEN. JOHN KERRY: Number one, we should be

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March 31, 2004:
Update: OPEC announced a four percent cut in production, a move expected to drive up the price of gasoline and fuel the political battle over U.S. energy policy.

March 12, 2004:
Severin Borenstein, director of the University of California Energy Institute [discusses the gas price spike.](#)

April 24, 2003:
[Experts consider the future of the Iraqi oil industry](#) and the efforts to restart its system.

March 19, 2003:
Business correspondent Paul Solman [reports on the volatile oil market](#) in the days before the Iraq war.

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putting pressure on OPEC to raise the supply and not allow those countries to undermine the economies of the world. Number two, we should stop momentarily filling the Strategic Petroleum Reserve, so the supply to the country is higher which brings price down. And finally there are 300 separate jurisdictions about additives in gasoline across the country, that raises the price of gasoline. If we were to simplify those rules and regulations, which we could do, we could lower the price of gas in the United States of America.

KWAME HOLMAN: In response, President Bush in Wisconsin claimed Democrats favored increasing the federal gasoline tax.



PRESIDENT BUSH: We don't need to be raising the federal gas tax. Gas taxes would hurt the economy. There are some -- there are some in the other party in Washington who would like to raise gas taxes. I think it would be wrong. I think it would be damaging to the economy, not positive to the economy.

KWAME HOLMAN: The president didn't refer to Kerry by name, but he clearly is the target of this television ad released today by the president's campaign.

BUSH-CHENEY CAMPAIGN AD SPOKESMAN: Some people have wacky ideas. Like taxing gasoline more so people drive less. That's John Kerry. He supported a 50-cent-a-gallon gas tax. If Kerry's gas tax increase were law, the average family would pay \$657 more a year.

KWAME HOLMAN: For the record, Kerry once did endorse a 50-cent gas tax increase as a way to reduce the federal budget deficit. That was 11 years ago. The idea never came up for a Senate vote and Kerry later rejected it. But there also is debate among economists over Kerry's claim that temporarily stopping shipments to the government's Strategic Petroleum Reserve would make more oil available to consumers, resulting in lower gas prices.

And regarding a response to OPEC's decision to cut oil production by 4 percent, White House spokesman Scott McClellan only would say the Bush

price of gas in America is a complicated balance between supply and demand.

administration is in close discussions with oil-producing countries. Delegates at today's OPEC meeting in Vienna suggested Saudi Arabia had pushed for the production cut. Here in the United States, a barrel of crude oil sold today for \$35. Recently it has cost as much as \$38 a barrel.

What factors are driving prices up?

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RAY SUAREZ: Two long-time oil watchers join me. Vijay Vaitheeswaran, the author of a new book on the future of energy titled, "Power to the People." He is also the environment and energy columnist for the Economist magazine. And Robert Lieber, author of several books on energy and policy, including "The Oil Decade." He is a professor of government and foreign service at Georgetown University.

Vijay Vaitheeswaran, if you look over the past 28 years OPEC has often cut production and tried to raise prices. That's usually when prices are low. Why did they do it this time?

VIJAY

VAITHEESWARAN: Well, we have to look at the headlines and the headlines say OPEC, the big bad culprit when prices are high. That's often right. If we look beyond the headlines and round up the other usual suspects when we look at the oil markets it's supply which is controlled largely by OPEC, demand where the U.S. is the biggest player and maybe some wild cards.



What we find now is OPEC hasn't actually been cutting back on production. A couple of months ago they had a surprise announcement saying that they were going to cut sharply effective April 1. That shocked the markets but people who tracked the tanker movements, for example, and the actual production of OPEC say they haven't lived up to their word, that is, their bark has been worse than their bite.

The truth is that most OPEC countries are cranking out oil as much as they can, as fast as they can.

You say well what's behind the picture there? The real story is demand. In China, it recently elbowed Japan aside to become the world's second largest oil-consuming economy. Of course the Goliath of oil

The real story is demand...Of course the Goliath of oil consumption, America -- we love our cars and SUV's, and a quarter of the world's gasoline comes to America. And despite the apparently high

consumption, America -- we love our cars and SUVs. And a quarter of the world's gasoline comes to America. And despite the apparently high prices, Americans are consuming oil like there's no tomorrow. So the demand is much more the driver than the supply at the moment.

RAY SUAREZ: Professor Lieber, do you agree that this is really a demand-driven increase rather than a supply-affected one?



ROBERT LIEBER: Well it's both. It certainly is true that the OPEC countries have been producing oil at very large numbers and that there's been a good deal of cheating on the OPEC

quotas. The OPEC countries are producing more than a 1.5 million barrels of oil a day above the 24 million barrels a day quota that they have set for themselves. On the other hand, gas guzzling in the United States, the demand in China is also driving this, and as a consequence demand for gasoline is up.

OPEC's impact on gas prices

RAY SUAREZ: Now when OPEC makes a decision, professor, one way or the other, to increase production, to reduce production, does that filter its way through the system and make a big change at the individual American pump? Is OPEC a big determinate in how much you pay to gas up?



ROBERT LIEBER: Over the long term, yes. By some estimates the role of OPEC has meant that since the oil shocks beginning in 1973 American consumers may have spent about \$7 trillion more for oil products than they would have if OPEC hadn't been there interfering with the market mechanism. So they do play a role.

On the other hand, as we've discussed, there's a good deal of cheating in terms of OPEC production, and there are very important things that countries can do over the long term to reduce oil consumption and hold down the increase in gas guzzling and in oil imports.

RAY SUAREZ: We'll get to the short term in just a little bit. Vijay Vaitheeswaran, in the near term, is

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VIJAY
VAITHEESWARAN,
The Economist
magazine

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ROBERT LIEBER,
Georgetown
University

there still a lot of room for increases beyond the \$38 and change that a barrel is now commanding on the world market? Are the things that have been pressing prices higher lately still putting pressure on the system to make prices go even higher?



VIJAY

VAITHEESWARAN: I think that we might well see short-term tightness in the markets but actually there are a few indicators that suggest that prices might be in a

bubble and that again that's not quite what the headlines were reflecting. If you look at what, first of all, we always need to watch what OPEC does not only what it says. So let's watch if they actually implement the cuts in production that they've talked about in the coming weeks. That will be one determinate.

But part of the reason that OPEC acted now to cut production even though prices are high is typically between winter and summer -- when America hits its so-called driving season, we all love to hit the highways and by-ways -- there's actually a seasonal drop in demand globally. This happens every year. So we're very likely to hit that and prices tend to go down unless OPEC manages supply carefully at that point. That's one point of reference.

Another is if you look at inventory data, we just had information today from the Department of Energy. Surprisingly strong buildups of stocks in the private sector -- that's six out of seven weeks that we've seen that, so that suggests that the market is not as strong as the fundamentals might have suggested otherwise.

RAY SUAREZ: Last year when we had a very similar problem, people looked to Venezuela where there had been interruptions, political turmoil in Nigeria, which had slowed the production of oil, questions lingering about how long it would take Iraq to start producing oil again. Have some of these kinks in the hose work themselves out? Is oil flowing from some of these places that have been question marks before?

ROBERT LIEBER: Yes. Oil is flowing from all of those places. Iraq is now exporting about two million barrels of



oil a day which is not included in the OPEC quota.



Venezuela is back up and Nigeria is back up, so that helps. It is certainly possible we're in a bubble.

It's also worth remembering that when you adjust for inflation, gasoline prices at the pump based on the average quoted in your set-up piece are still about a third where they were in 1981. If you adjust for inflation in today's dollars prices then were about \$2.90 a barrel. On the other hand if somebody is spending \$35, \$35 or \$40 to fill up an SUV in Southern California, the pocket book impact and the political impact is real and immediate.

Oil prices as a presidential campaign issue

RAY SUAREZ: Let's go to that pump and that frustrated consumer. Often you'll hear people say, will somebody -- well, somebody should do something. Is there a somebody? Is there something to do in the United States?



ROBERT LIEBER: In the short term not much, frankly. In the long term a lot. In the short term, you could for instance stop filling the Strategic Petroleum Reserve but that would account for a little over 100,000 barrels a day which sounds like a lot but is roughly 0.5 percent of the oil consumed by Americans every day. President Clinton did it in the fall of the year 2000 and President Bush did it briefly in 1991. It would have a very slight impact.

But a jawboning in public of the OPEC producers, publicly twisting their arms, is probably counterproductive. More likely behind the scenes efforts, diplomatically, by administration officials both with OPEC and non-OPEC producers may be more useful. But short term there's not much that can be done.



RAY SUAREZ: Well, on the political stump, Vijay, oil prices did become something of an issue this week and last week, when John Kerry, for instance, asks us to take a look at the

Strategic Petroleum Reserve as a way of taking the hills and valleys out of domestic supply. Is there something promising there? Would that change the price horizons very much?

VIJAY VAITHEESWARAN: Not particularly. The Strategic Petroleum Reserve essentially it's an insurance policy. We store oil in salt domes in Louisiana and other parts of the U.S. in case there's a supply disruption. It's meant to be used in case of war or some other kind of emergency rather than to manipulate the prices on the marketplace. And there's not much evidence that it will do much good. As the professor pointed out, it's a relatively small share of the global oil market certainly.

The bigger problem for the administration and for any candidate wanting to take them on is that gasoline becomes a political issue every presidential season. This happened four years ago with Al Gore and George Bush where in some ways the roles were reversed.

RAY SUAREZ: What about the suggestion, Vijay, to take a look at the regional blends that exist and sometimes have created some shortages in particular states in the union and driven prices pretty high --

VIJAY

VAITHEESWARAN: Sure. Now there are some things -- and this is something that Senator Kerry pointed out and interestingly George Bush point out when he was on the stump as well four years ago.



We have a balkanized gasoline market. That is we don't have a uniform gasoline that you can buy in California that's the same as in Massachusetts let's say. There are lots of different kinds of rules. In California for example environmental imperatives are very important.

What this means is the refining industry in the U.S. doesn't have a fungible product that can flow from one place to the other. That creates bottlenecks in the system and ultimately leads to localized high prices. This matters, for example, just today there was a big refinery fire at a refinery run by BP, down South. Now the people who use that particular output from that

refinery may not be able to get a replacement for it very easily. And it does make sense to harmonize the standards as much as possible across the country.

RAY SUAREZ: Professor, you had some suggestions for the longer term to save some of this.



ROBERT LIEBER: The suggestions are important because the issue is not only the short-term economic effects but the security externality that is the danger that unexpected events in the

Middle East where two thirds of the world's reserves of crude oil are located could at some time in the future really put us into a severe crisis. So you want to find ways of using oil and energy as efficiently as possible.

Over the long term, two of the most likely targets are both politically radioactive for Republicans and Democrats. And they are increasing the fuel efficiency of America's passenger cars and light trucks where both parties have ducked that issue over the last decade. And -- or are even worse because SUVs are in effect treated very lightly.

The second measure is taxes, but nobody wants to talk about taxes. But in fact the Europeans, the Japanese and others pay at least twice what we do at the gas pumps because their societies recognize the dangers economically and in security terms of overdependence on imported oil. Tax policy over the long term, gradually phased in, can have an effect there too. So those two things in particular, which means more fuel efficient cars and doing something about SUV gas guzzling, can have a huge impact long term but it takes a while to phase them in.

VIJAY VAITHEESWARAN: I would add to that if I may.

RAY SUAREZ: Quickly, Vijay, please.

VIJAY VAITHEESWARAN: I agree with the professor. Those are very important means to do in the short to medium term. But in long term both candidates like to talk about energy independence, we've seen that as the popular rhetoric from left to right, the only real way to be independent is to be off of oil altogether. That is to find another means to

power our cars and buses and here interestingly both candidates agree. They both talk about hydrogen as a fuel source and fuel cells, a technology for moving our cars and buses that President Bush has talked about and that John Kerry has made part of his campaign as well.

RAY SUAREZ: We're going to end it there.

VIJAY VAITHEESWARAN: A long term goal to get off of oil. They seem to agree. It's the means they disagree on.

RAY SUAREZ: Gentlemen, thank you both.

ROBERT LIEBER: Thank you.



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