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Keeping the barricades away from your refinery gate

What I like about reading Isaac Asimov (I'm on the last book of his classic sci-fi series) is the way it gets me to see the history in current events. This month, I've had a think about how history might unfold for the European industry this fall and have included some advice about how to keep your refinery running should things come to the worst.

As I write, West Texas Intermediate just hit $49.40 on the September contract. That's the most a barrel of oil has ever cost. I need only say the words Iraq, Venezuela and Yukos for you to agree that geopolitics is on a short fuse. Issac Asimov's so-called "psychohistorians" learn to predict the future based on analyzing historical events and the reactions of humankind. So what about $49.40? Where does it lead us? How do we react? How do we not over-react?

Historical perspective. For one thing, I could do with one of Asimov's psychohistorians to explain to me why feed prices like that won't mean riots in the streets. I'm not alone.

At the weekend, there was scarcely a single UK newspaper that wasn't predicting a public outrage over anticipated fuel prices. This summer the UK has had the second-most expensive gasoline in Europe (£0.79 or €1.17/liter; US$5.35/US gal) and the most expensive diesel (£0.80 or €1.19/liter; US$5.49/gal). But that was before the recent hike in crude.

This time four years ago, Brent crude had reached a 10-yr record high of $33/bbl. Seven out of nine UK refineries were being blockaded by truckers and drivers. Crucially, perhaps, gasoline was commanding up to £0.90 (above its current pump price). But in many countries you couldn't buy any—90% of Total's 6,000 service stations had shut up shop as distribution systems were overwhelmed by the protests.

There are, of course, some important differences between now and 2000. For one thing, the dollar ain't what it used to be. It's lost about 20% of its value since then. Perhaps, too, consumers have been immunized to an extent by past events.

But the industry is saying that pump prices will rise soon and, simultaneously, we can expect oil sector results to show massive profits. Meanwhile, in the intervening four years, the 340% tax on retail gasoline (UK, but not exceptional for Europe) has been increased. If you're on the fuels side of processing hydrocarbons, then there's every expectation that the end customer could be very, very upset with you indeed.

Managing the outrage. So how do you stop them pitching a tent outside the refinery gate, lighting a brazier, stopping traffic and shutting down (by preventing distribution) your site? I spoke to an expert on public outrage whom I haven't spoken to since a time when it seemed that every other month a leaky, old oil products tanker would sink somewhere in Europe's waterways, causing general opprobrium. He made his mark working on the *Exxon Valdez* crisis. Since then, he's been learning more and advising more about managing an outraged public by communicating with them.

Peter M. Sandman would charge your refinery manager or corporate PR a *lot* of money for this advice, so you might like to slip them this copy of *HP* instead. I explained the bind refiners are in, since they're usually part of an integrated oil company that is laughing all the way to the bank in the current market. Refiners, I told him, have themselves been making great margins on refining crude in weak dollar conditions and selling at high wholesale prices. But if crude or products traders were to try to diminish those windfalls by selling product to their own refiners or gas stations at below the market price, they'd instantly breach competition law, and independent refiners and marketers would scream to the regulators.

Here, for the rest of this column, is what Mr. Sandman (www.psandman.com), a risk communication consultant based in Princeton, NJ, told me:

"I suspect the most important thing for the oil companies to do about the rising price is to acknowledge three things:

1. The price increases are devastating to many people and businesses
2. The price increases are hugely profitable to the oil industry
3. Given the first two, it is close to inevitable that people are angry at the oil industry and disposed to believe the industry is engaged in a price-hike conspiracy.

"On those occasions when the audience is attentive, involved and informed [note: not the general state of affairs], acknowledging the unappetizing truths they already know or will soon discover does you much more good than harm. That sort of candor builds credibility and reduces outrage."

He suggests that oil companies acknowledge, even explain, that while other people suffer, they're indeed piling up huge profits. The industry might like to tell them something like the following:

"The truth is, we have a lot less control over oil prices than people think we have—and, frankly, a lot less than we wish we had. There are laws forbidding us from manipulating the price of oil, and for the most part they work. In fact, an oil company that decided today to *reduce* the price it charged its affiliated refineries or its customers would be in serious legal trouble for anticompetitive practices. We're no more allowed to conspire to lower the price than to raise it. So envy us, if you wish; and mistrust us. But please don't hold us responsible."

For a full copy of Mr. Sandman's comments, send me an e-mail. **HP**

The author has edited refining publications, chaired international downstream meetings and reported for UK newspapers and BBC radio. Mr. Wright runs a motivation and lifestyle business in Sweden that has developed The Downstream Health and Fitness Challenge for individuals and companies within the hydrocarbon processing industries (see www.DownstreamChallenge.com).