

November 2022

**With Gasoline Prices Falling,
Why is Heating Oil Still So High?**

While gasoline and heating oil are both distillates of crude oil, they don't always track price the same way. The better comparison is diesel fuel. Diesel and heating oil are virtually the same product, they are just taxed differently.

You may have noticed that the price at the pump for diesel fuel is still very high. In fact, the price for a gallon of diesel fuel in our area is \$5.799. This is down from a record of \$5.949 in June, but well above the costs in 2021.

According to a recent article by energy correspondent Clifford Krauss in the New York Times, "The surge in diesel costs has not garnered the attention from politicians and the public that the jump in gasoline prices did, because most of the cars in the United States run on gas. But diesel prices are a critical source of pain for the economy because they affect the cost of practically every product.

'The economic impact is insidious because everything moves across the country powered by diesel,' said Tom Kloza, the global head of energy analysis at the Oil Price Information Service. 'It's an inflation accelerant, and the consumer ultimately has to pay for it.'"

While the United States is a net exporter of oil and petroleum products (meaning we export more than we use) diesel prices remain high because the fuel is scarce worldwide. Oil analysts say there are simply not enough refineries to meet worldwide demand, especially since Russia's energy exports fell when the U.S., Britain and other countries stopped buying them.

It is normal to see diesel inventories lower in the fall during agricultural harvesting seasons, but this year supplies are at their lowest level since 1982.

And according to the Times, "The tightest market is in the Northeast, where oil refineries have closed in recent years and where the diesel crunch is complicated by winter demand for heating oil... An especially cold winter could make the situation worse by increasing the demand for heating oil. In Massachusetts, for example, diesel is selling for more than \$5.92 a gallon (about \$2.35 more than it did a year earlier). In Texas, it costs \$4.72 a gallon."

Certainly, Russia's war on Ukraine was responsible for sending diesel prices soaring, but the current situation has been slow-building over events that have spanned several years across the globe. "Over the last several years, 5 percent of U.S. refinery capacity, and 6 percent of European refinery capacity, has been shut down. A few refineries closed or scaled back because of the collapse in energy demand in the early months of the coronavirus pandemic. Some older refineries were shut down because they were inefficient, and their profits weren't large enough for Wall Street investors. Other refineries were closed so that their owners could convert them to produce biofuels, which are made from plants, waste and other organic material" according to the Times.

And as the global economy recovers post-pandemic, the demand for diesel continues to climb. After Russia invaded Ukraine, the Biden administration banned Russian oil and petroleum imports amounting to 700,000 barrels of diesel and other distillates a day, much of it intended for the Northeast.

While American refiners are now making considerable profits, 30% of their production is being exported. A particularly profitable market since the collapse of the Venezuelan oil sector, Latin America is a major purchaser of American-produced diesel. Some analysts have speculated that the Biden administration could eventually restrict exports to boost supply at home, but that may not be effective because it is a globally traded commodity. “We have a symbiotic relationship with Latin America on diesel and crude,” says Sarah Emerson of ESAI Energy. “We can disrupt that, but it doesn’t immediately fix the problem.”

However, some energy experts say prices could soon begin to ease. According to ESAI Energy, “Help may be on the way from an unlikely source: China. In recent months, China has been loosening export controls on diesel. Its exports rose from 200,000 barrels a day in August to 430,000 barrels a day in September, and the country has the capacity to sell even more.”