Jack Anderson WXPost

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Probing the Price of Petroleum

Behind the relentless rise in fuel oil prices, federal investigators are uncovering a gigantic conspiracy that one prosecutor has called "the ripoff of the century."

Evidence is being laid before criminal grand juries that major oil companies, distributors and shippers have fraudulently jacked up fuel oil prices.

"The deeper we get into it," a prosecutor told us, "the more we find."

The long-suffering consumers, of course, are stuck with the higher utility bills. Already, the rising costs of fuel oil have added $2 billion to utility rates.

This produces a snowball effect as manufacturers, wholesalers and retailers down the line add their extra fuel costs to the price of their products. At the end of the line are the consumers who pay more not only for their home heating but for the manufactured goods they buy.

The amount that the conspiracy is costing the public probably can never be calculated. But both federal and state prosecutors are beginning to crack down. Indictments are likely in Boston, Houston, Jacksonville, Los Angeles, New York City and Philadelphia.

At first, the Federal Energy Administration tried to confine the federal investigation to civil action. Complained one frustrated federal enforcer tersely: "They didn't want to rock the oil industry."

The showdown came a few weeks ago behind closed doors at the Justice Department. Participating in the dispute were officials from the FEA, the Treasury's Customs Service and the Justice Department's civil and criminal divisions.

The FEA representatives favored civil sanctions to deal with the price gougers. But Customs officials contended that the best way to end the utility spiral would be to jail a few oil industry figures.

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The officials also criticized the FEA for protecting the oil interests. As one official put it: "Customs got tough on FEA."

Following this crucial meeting, the Justice Department authorized Custom's 600 agents to prepare cases for criminal indictments. The FEA agreed to cooperate.

Customs has now laid out its prosecution plan in a detailed memo and has dispatched it under tight classification to its key regional offices. The case is summarized in an internal document, which we have obtained.

"The price of residual fuel oil," states the summary, "rose from about $2.50 per barrel in early 1973 to over $11 per barrel by the end of 1973. At the height of the oil crisis, some companies were paying in excess of $20 per barrel."

The dramatic rise allegedly was spurred by a number of fraudulent practices. "It is suspected," for example, that the source of the fuel oil may have been "falsified in some instances to enable importers to add on various overcharges to the base price of oil."

Of course, the public utilities passed on the overcharges, states the summary, "directly to the consumer of electric power by adding fuel adjustment charges to electric bills." The Customs agents, according to the memo, are also investigating "sales through affiliates, addition of nonexistent host government taxes and royalties, manipulations of freight rates and other similar devices to raise the price of oil."

The data prepared for grand jury presentation show that, in many cases, six or more dummy corporations were set up for major fuel oil transactions. Each dummy jacked up the price a little more until oil costing $5.50 a barrel was sold to public utilities for as high as $25 a barrel.

In one case, a single company set up multiple firms in such a way that it wound up selling the oil to itself at an inflated price. The huge increase was passed on to the utility company and thence to the consumers.

In another case, the utility purchasing agent allegedly got kickbacks for buying overpriced oil.

There is considerable evidence, too, of mixing cheap and expensive, high and low sulphur oil. This mixed or mislabeled oil has come from such a variety of countries as Algeria, Angola, Dutch Antilles, Jamaica, Libya, Nigeria, Trinidad and Venezuela.

The mixing took place, according to the evidence, sometimes at refineries in these countries and sometimes at sea. The purpose usually was to jack up prices but also to get low sulphur content into high-sulphur oil so it would meet U.S. environmental restrictions.

Within the last few days, Customs agents have made some astonishing break-throughs. What at first looked like a probe of 30 small companies in 40 ports of entry is now focusing on several major oil companies. An indictment of one giant firm or its officers is now considered likely by federal prosecutors.

"We're subpoenaing papers faster than they can burn them," said one enthusiastic prosecutor. Other prosecutors called this a figure of speech. There was no reason to believe, they said, that evidence was being burned.

Some evidence has come from shipboard and port informers who tell of wholesale forging of vouchers at sea to convince the utilities that the oil cost more than it did. Other vital evidence has come from federal inspectors who have been sampling the oil at ports of entry.

As the Treasury memo explains it: "Customs laboratories will be analyzing those samples and comparing them with so-called (oil) fingerprints to determine if the sources of oil are properly declared."

Meanwhile, several major cases are in the making.

Footnote: The FEA denied to us that it has dragged its feet on the residual oil crisis. A spokesman said the agency has 30 men working on "Project Escalator," a study of price gouging in sales to utilities. Formal action is expected in March, he said.