

# WebMemo



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## Three Policy Changes to Help with Gasoline Prices

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Must it always be opposite day in Washington? Petroleum and gasoline prices are surging while the Obama Administration and its allies seem intent on making things worse. Instead of taking actions to increase supplies of petroleum and gasoline, the Administration pursues policies to restrict U.S. access to its own petroleum, ban imports of vast quantities of Canadian oil, and drive up costs of refining.

The fundamental law of supply and demand cannot be overridden by a veto. When supply increases, prices drop. When costs of production rise, supply decreases and prices rise. With these basics in mind, here are three suggestions for constraining gasoline prices and helping our economy.

**1. Increase Drilling.** First and foremost, drill. Yes, the petroleum market is a world market. No, “drill, baby, drill” is not a panacea. And it is true that the U.S. is not likely to eliminate all oil imports with even an aggressive drilling program. But more petroleum on the world market helps to hold prices in check.

Relatively small changes in supply can have large impacts on price, especially when markets are tight. And tight markets are what caused the petroleum price spikes of 2008 and will cause them again if production is shut down while demand from a growing world economy squeezes the spare capacity the world has enjoyed for the past couple of years.

The first and most obvious place to drill is where there are already drilling rigs and proven reserves—such as the Gulf of Mexico. Despite the majority recommendation of its own scientific panel, the Obama Administration stopped virtually all new

drilling in the Gulf of Mexico. There have been recent signs that this policy might change. “Might” needs to be “will,” and soon.

The Chukchi Sea, off the Alaskan coast, is estimated to hold tens of billions of barrels of petroleum.<sup>1</sup> Bending to anti-energy pressure groups, the Obama Administration rescinded drilling permits that had already been issued on leases that had already been purchased—hobbling energy production and killing desperately needed local jobs. Putting Chukchi Sea development back on track would increase the oil supply and rejuvenate the local economy.

The Administration should also move forward with responsible development of the fraction of 1 percent of the millions of acres in the Arctic National Wildlife Reserve. The government estimates that there are billions of barrels of petroleum within easy reach of the ready-to-go Alaska pipeline.<sup>2</sup>

Other offshore reserves are in the eastern Gulf of Mexico and the Atlantic and Pacific Oceans. Exploration and development in these areas can be especially helpful in the long run.

**2. Shelve “Low-Carbon Fuel Standards.”** The concept of “low-carbon fuel standards” is driving opposition to a petroleum pipeline from Canada. With its oil sands, Canada has more proven petro-

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leum reserves than any country other than Saudi Arabia. A consistent ally and long-time friendly neighbor, Canada is exactly the sort of supplier the U.S. should want to fill the gap in the petroleum it cannot produce on its own. But some policymakers want to put these vast reserves off limits to American consumers.

All energy and fuels consume resources in their extraction, generation, and distribution. Some take more capital, some take more labor, and some take more energy to produce. Low-carbon standards focus arbitrarily on the generation costs. Further, “low carbon” is a misleading term. The carbon is the fuel. Low-carbon petroleum would be like decaffeinated No-Doz—it would not work. A barrel of high-carbon petroleum from Canadian oil sands has pretty much the same carbon content as a barrel of low-carbon petroleum from Venezuela, Saudi Arabia—or anywhere else, for that matter.

The Keystone XL pipeline would bring the U.S. over a million barrels of petroleum each day—more than it imports from either Saudi Arabia or Venezuela (the U.S.’s two largest suppliers after Canada and Mexico). Along with the pipeline and petroleum would come increased energy security and a boost to the U.S. economy.

Secretary of State Hillary Clinton should be applauded for her statements in support of the pipeline.<sup>3</sup> However, other components of the Administration, notably the Environmental Protection Agency (EPA), have taken steps to slow or stop the pipeline. Clinton’s statements should be backed by an Administration commitment to overcome anti-energy delaying tactics and special-interest roadblocks.

**3. Stop EPA Abuse of the Clean Air Act.** The EPA’s abuse of the Clean Air Act will drive up refining costs and, therefore, gasoline prices. Though the

use of the act to regulate carbon dioxide (CO<sub>2</sub>) would create large problems in many places, the EPA recently started the process to regulate CO<sub>2</sub> emissions from refineries. This regulation goes beyond the gasoline reformulation mandates that balkanize gasoline markets with higher-cost boutique fuels.

The new CO<sub>2</sub> regulation puts an additional burden on refiners’ costs and subsequently raises prices of gasoline, diesel fuel, and home heating oil. Further, it will increase the amount of refined product the U.S. imports and reduce employment in an industry with wages that are more than 40 percent higher than the national average.

Because virtually every story on CO<sub>2</sub> emissions has a picture of a smokestack emitting dark clouds of who knows what (usually steam with dramatic lighting), it is worth remembering that those dark clouds are not CO<sub>2</sub>. CO<sub>2</sub> is a colorless, odorless, non-toxic gas. The claimed endangerment to human health comes from CO<sub>2</sub>’s potential to warm the Earth. With full-blown cap and trade cutting emissions by more than 70 percent, the difference in world temperatures was projected to be an un-measurable thousandths of a degree by 2050 and no more than a couple of tenths of a degree at the end of the century. The world temperature impact of regulating refinery emissions would be even more trivial.

**A Familiar Pattern.** When petroleum and gasoline prices shot up during the energy crisis of the 1970s, the experts and pundits predicted imminent resource exhaustion, skyrocketing prices, and energy poverty. Instead, markets responded by searching for, discovering, and producing enough oil to provide over two decades of low prices. For instance, in the U.S. alone, the number of drilling rigs more than tripled between September 1973

1. U.S. Minerals Management Service, “Undiscovered Oil and Gas Resources, Alaska Federal Offshore, December 2000 Update,” at <http://alaska.boemre.gov/re/uogr/uogr.pdf> (January 11, 2011).
2. U.S. Energy Information Administration, “Potential Oil Production from the Coastal Plain of the Arctic National Wildlife Refuge: Updated Assessment,” at [http://www.eia.doe.gov/pub/oil\\_gas/petroleum/analysis\\_publications/arctic\\_national\\_wildlife\\_refuge/html/analysisdiscussion.html](http://www.eia.doe.gov/pub/oil_gas/petroleum/analysis_publications/arctic_national_wildlife_refuge/html/analysisdiscussion.html) (January 11, 2011).
3. Warren Goode, “Clinton Seems Poised to Approve TransCanada Pipeline,” *The Hill*, October 20, 2010, at <http://thehill.com/blogs/e2-wire/677-e2-wire/125035-clinton-seems-poised-to-approve-transcanada-pipeline> (January 11, 2011).

(before the Yom Kippur War and the subsequent Arab oil embargo) and December 1981.

Now, imminent oil depletion and the futility of drilling are again supposedly on the horizon. However, increased drilling activity follows increased petroleum prices. Blunting this natural market response will drive up energy prices and reduce

national income. This, plus the Keystone XL pipeline and scaling back EPA expansion of the Clean Air Act, would do much to stabilize gas prices and energy costs in general.

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