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High Gas Prices: Obama's Half-Truths vs. Reality

Nicolas D. Loris

The national average for gas prices is almost $3.60 per gallon, increasing 40 cents from a year ago and jumping 20 cents from just one month ago.[1] Prices are already surpassing $4 per gallon in some states and could threaten the country's economic recovery. Higher gas prices drive up production costs for goods reliant on transportation, and more money spent at the pump means less money spent at restaurants and movie theaters. Buying fewer goods and services tightens the economic vice and holds back job creation.

Almost 70 percent of the price of gasoline comes from the price of crude oil, with excise taxes, refining costs, and retail/distribution making up the other 30 percent.[2] Exporting refined petroleum products comprises a small percentage of total domestic gas production and marginally impacts prices. Despite demand for oil falling in the United States as a result of a weaker economy and a warm winter curbing the use of heating oil, the industrial rise of China and India continue to put upward pressure on the price of oil. The threat of Iran restricting oil exports to Europe is also driving up the global price, impacting gas prices in the U.S.

President Obama addressed these issues Thursday, February 23, in a speech on gas prices[3] in which he continued to take many facts out of context. While the President said that there is no quick fix to high gas prices and the nation cannot drill its way out of the problem, he creates a false dichotomy that suggests that micromanaging the solution from Washington by subsidizing uneconomical technologies and sources of energy would work. This approach would do little to provide America with new, reliable, and economical sources of energy and in fact would cause more harm than good to the consumer and taxpayer. America knows what works to effectively combat high gas prices: allowing the market to work by opening access to the country's own oil and gas reserves, reducing onerous regulations, and allowing producers and consumers to respond to energy prices without Washington's interference. Here are five half-truths that one continually hears about gas prices and five actions that Congress and the Administration can take to effectively combat high gas prices.

Half-truth #1: Oil production is the highest it has been in eight years. Increased oil and gas production in the U.S. is a great development, but this is a result of increased production on private lands in North Dakota, Texas, and Alaska. On federal lands and offshore, the story is much grimmer. Production on federal lands and offshore could have yielded more output, increasing supply and therefore putting downward pressure on oil prices. Poor administrative decisions—such as refusing to open areas to exploration and production, cancelling or delaying lease sales, and the offshore drilling moratorium and subsequent "permitorium"—significantly reduced oil production, destroying jobs and reducing economic activity in the process.

If there is an economic interest to produce this oil, Washington should allow companies to do so. In North Dakota, oil production is booming and unemployment is low. There should be more stories like this.

This paper, in its entirety, can be found at **http://report.heritage.org/ib3514**

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 | heritage.org

Half-truth #2: Increasing oil production takes too long and would not impact the market for at least a decade. This has been the mantra of the anti-drilling crowd for years, and the longer politicians listen to the message, the longer the nation's oil resources will remain undeveloped. If access to areas that are currently off limits is increased, it will take time to explore and extract that oil. But that does not change the fact that the nation needs it today and also in the future. Furthermore, some of this oil can reach the market in much less than a decade if the permitting process is streamlined and the Keystone XL pipeline—which could bring up to 830,000 barrels of oil per day from Canada to the Gulf Coast refineries—is built.

Half-truth #3: Oil is not enough. America has only 2 percent of the world's oil reserves. President Obama frequently uses this number to push federal investments in alternative sources of energy that cannot stand the test of the market. The reality is that he uses this number deceptively. According to the Institute for Energy Research:

> [A]lthough the U.S. is said to have only 20 billion barrels of oil in reserves, the amount of oil that is technically recoverable in the U.S. is more than 1.4 trillion barrels, with the largest deposits located offshore, in portions of Alaska, and in shale in the Rocky Mountain West. When combined with resources from Canada and Mexico, total recoverable oil in North America exceeds 1.7 trillion barrels, or more than the world has used since the first oil well was drilled over 150 years ago in Titusville, Pennsylvania. To put this in context, Saudi Arabia has about 260 billion barrels of oil in proved reserves.
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> One reason to view "reserves" estimates with caution is the fact that they are constantly in flux. In 1980, the U.S. had oil reserves of roughly 30 billion barrels. Yet from 1980 through 2010, it produced over 77 billion barrels of oil. In other words, over the last 30 years, the U.S. produced over 150 percent of the proved reserves that it had in 1980. If the massive quantities of U.S. oil are made available to explore and produce, the current estimated reserves of 20 billion barrels would certainly increase, providing much more production over decades to come. In other words, reserves are not a stagnant number.[4]

Half-truth #4: Oil is not enough. The country needs an "all-of-the-above" approach to reduce its dependence on oil. President Obama mentioned this approach in his 2012 State of the Union address, saying, "This country needs an all-out, all-of-the-above strategy that develops every available source of American energy."[5] But a market-based strategy is the only all-of-the-above approach. It allows all energy sources to compete, drives innovation, and results in the best possible supply and pricing. Sadly, all-of-the-above is often just an excuse to subsidize uneconomical and politically preferred technologies and energy sources, which leads to a "pigs-at-the-trough" strategy.

Whether they are for biofuels, electric vehicles, or natural gas vehicles, subsidies for alternative fuel and vehicle technologies waste taxpayer dollars, misallocate labor and capital, and create a dependence on government that promotes crony capitalism. The world petroleum market is a multi-trillion-dollar one; whatever technology can capture a portion of that market will not need help from taxpayers.

Half-truth #5: Speculators are driving up the price of gas, and they need to be reined in. Finger-pointing at speculators and investigating prices at the pump ignore the real cause of rising gas prices: supply and demand. Oil futures markets can affect prices at the pump by changing the amount of gasoline delivered to gas stations. If producers anticipate higher prices in the

1. AAA, Daily Fuel Gauge Report, at *http://fuelgaugereport.aaa.com/?redirectto=http://fuelgaugereport.opisnet.com/index.asp* (February 22, 2012).
2. American Petroleum Institute, "What's Up with Fuel Prices?," October 2011, at *http://www.scribd.com/doc/29800927/Gasoline-Prices-Primer* (February 22, 2012).
3. Jamie Dupree, "Obama on Gas Prices," *Atlanta Journal Constitution*, February 23, 2012, at *http://blogs.ajc.com/jamie-dupree-washington-insider/2012/02/23/obama-on-gas-prices/* (February 23, 2012).
4. Institute for Energy Research, "North American Energy Inventory Report," December 2011, at *http://energyforamerica.org/wp-content/uploads/2012/01/Energy-InventoryFINAL.pdf* (February 22, 2012).
5. The White House, Office of the Press Secretary, "Remarks by the President in State of the Union Address," January 24, 2012, at *http://www.whitehouse.gov/the-press-office/2012/01/24/remarks-president-state-union-address* (February 22, 2012).

future, they might take some oil off the market today and wait to sell it later. This may be happening to some degree (although there has been little historical evidence of this[6]), especially given Iranian threats to cut off supply to European markets, but it would cause only a marginal short-run increase in prices, because at some point businesses have to unload the inventories they accumulate.

Five Actions for Congress and the Administration. Congress and the Administration should:

1. **Get moving on permits.** As the only country in the world that places a majority of its territorial waters off-limits to oil and gas exploration, the U.S. should at the very least be drilling in the areas where access is permitted. Removing the de facto moratorium on drilling would immediately increase supply, create jobs, and bring in royalty revenue to federal and state governments.

2. **Require lease sales when ready.** Congress should open areas that are off-limits: the eastern Gulf of Mexico, the Atlantic and Pacific coasts, Alaska's offshore, the Alaska National Wildlife Refuge, and lands out West. Congress should require the Secretary of the Interior to conduct lease sales if a commercial interest exists to explore and drill. Congress should also provide the funding necessary to lease new onshore and offshore areas to oil and gas companies. Although it would take time for the federal government to lease these areas and for the energy companies to develop them, at least the process could begin.

3. **Create a sensible review processes.** Placing a 270-day time limit on environmental reviews would ensure a quick review process for energy projects on federal lands. Construction projects on federal lands take an average of 4.4 years. The 270 days would allow for a thorough environmental review process but would not prevent investments from moving forward.[7]

4. **Remove regulatory delays and limit litigation.** Environmental activists delay new energy projects by filing endless administrative appeals and lawsuits. Creating a manageable time frame for permitting and for groups or individuals to contest energy plans would keep potentially cost-effective ventures from being tied up for years in litigation while allowing the public and interested parties to voice opposition or support for these projects.

5. **Approve the Keystone XL Pipeline.** Congress should use its authority to regulate commerce with foreign nations to accept the State Department's conclusion that construction of the pipeline would pose minimal environmental risk.[8] Approving the pipeline would create jobs and increase energy production—both of which the nation desperately needs—from a friendly supplier and ally.

Let the Market Work. The market would respond if Congress and the Obama Administration allowed it to work. Oil companies would respond by increasing their production, and consumers would switch to more fuel-efficient cars without any need to mandate more fuel-efficient trucks and cars. If the price of gasoline continues to rise, it will make alternative technologies all the more economically competitive. But policies that restrict oil exploration, refining, and production should not artificially drive that price higher.

*—**Nicolas D. Loris** is a Policy Analyst in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*

6. See Jerry Taylor and Peter Van Doren, "Are Speculators Gouging Us at the Pump?," *Forbes*, April 19, 2011, at *http://www.forbes.com/2011/04/19/oil-futures-prices.html* (February 22, 2012).
7. U.S. Department of Transportation, "Evaluating the Performance of Environmental Streamlining: Development of a NEPA Baseline for Measuring Continuous Performance," at *http://www.environment.fhwa.dot.gov/strmlng/baseline/section2.asp* (February 22, 2012).
8. U.S. Department of State, "Final Environmental Impact Statement for the Proposed Keystone XL Project," Executive Summary, August 26, 2011, at *http://www.keystonepipeline-xl.state.gov/clientsite/keystonexl.nsf/03_KXL_FEIS_Executive_Summary.pdf?OpenFileResource* (February 23, 2012).