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Policy Proposals for Reducing Record-High Gasoline Prices

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KEY TAKEAWAYS

The Biden Administration's policy agenda is irreconcilable with the goal of increased oil production in the United States, as well as with future demand.

Regardless of the Administration's aspirations to overhaul the energy sector, the EIA projects no scenario where global oil demand slows down between now and 2050.

While the U.S. cannot determine the market price of oil, policymakers can influence it by pivoting quickly to allow Americans to access their energy abundance.

Americans are paying record-high gasoline prices. To date, the Biden Administration has unwisely dismissed the option of removing barriers to increased oil supply and the positive impact these policy changes could have for American families and businesses. While President Joe Biden's preferred choices of electric vehicles and renewable energy technologies should compete for customers' business in a free market, the political choice that President Biden is trying to force Americans to make between renewables and conventional energy is a false one. The United States has abundant energy resources.

While the United States cannot command the market price of oil or gasoline, policymakers are not helpless to affect the situation and should pivot quickly to policies that allow Americans to access the energy abundance beneath their feet.

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Gasoline Prices and Biden's Energy Austerity Response

The primary factor in the price of gasoline is the price of crude oil (59 percent), followed by refining (18 percent), federal and state taxes (12 percent), and distribution and marketing (12 percent).[1] Americans see an increase of roughly 2.4 cents per gallon every time the price of a barrel of crude oil increases by $1.00, all else being equal.[2] Americans are now paying record-high prices for gasoline. The U.S. Energy Information Administration (EIA) also projects that average summertime prices for gasoline and diesel this year will be the highest summer average since 2014, and that the average U.S. household will spend about 18 percent ($455) more on gasoline in 2022 than it did in 2021.[3]

Markets incorporate expectations of scarcity and demand into prices, and to that end both restrictive pandemic policies and Russia's invasion of Ukraine have contributed to the high energy prices that Americans are experiencing.[4] While the U.S. imported very little crude oil or petroleum products from Russia, nearly half of Russia's oil exports go to Europe, consequently injecting political risk into global oil markets.[5] However, energy prices were increasing long before the current war in Ukraine and have considerably worsened even as governments loosen pandemic policies.

In response to high energy prices, President Biden has recast his climate policies as an agenda for energy independence.[6] According to the Administration, the U.S. should not use the energy it has but rather force a shift to renewable energy (currently 12 percent of total energy consumption) and electric vehicles (less than 1 percent).[7]

Biden's "green" agenda would force a phasing out of the production and use of conventional energy and mandate the aggressive adoption of wind power, solar energy, electrification, and alternative fuels that the Administration presumes are comparable alternatives and solutions to global warming.[8] Despite its rhetoric demanding that oil companies increase oil production, the Biden Administration has actively discouraged investment in new infrastructure and continued to restrict future supply and demand for oil through expansive regulations on long-term investment, exploration, production, pipeline construction and operation, and consumption of oil.[9] This policy agenda is in direct conflict with a demand to increase oil production in the United States.

Perhaps one of the more egregious examples of the Administration's contradictory messages occurred in March when Secretary of Energy Jennifer Granholm implored "Wall Street" to start investing again in oil companies (an apparent change in the Administration's messaging).[10] Yet at the same time, the Securities and Exchange Commission (SEC) was finalizing an expansive proposed rule mandating additional disclosure of "climate risk" and greenhouse gas emissions from the supply chains of public companies. This rule will undoubtedly increase compliance costs for oil companies and their supply chains and increase the political risk of investing in such companies.[11]

Regardless of the Biden Administration's aspirations to increase renewable energy use, the EIA projects no scenario in which global demand for oil does not increase through at least 2050.[12] U.S. crude oil production has more than doubled since 2008 and, along with longtime allies and trading partners like Canada, the U.S. has abundant oil resources.[13] That production has greatly benefited Americans.

The United States cannot completely insulate itself from changes in global supply and demand because oil is a globally traded commodity. However, increasing supply does moderate prices and contribute downward pressure as has been clearly seen in both the current situation and in the recent past. As noted by the Institute for Energy Research and others, "U.S. oil production has had a significant moderating influence on global oil prices," which has ultimately benefited American consumers.[14]

This pattern has played out in previous major disruptions in global supply, notably disruptions in the Middle East and several Organization of the Petroleum Exporting Countries (OPEC) member nations in 2013 and 2014 which, at the time, were the worst disruptions since the 1990 Iraqi invasion of Kuwait, and, more recently, with Iran's 2019 attack on the world's largest crude oil processing facility in Saudi Arabia.[15] As the EIA noted regarding the former, "Record-setting liquid fuels production growth in the United States has more than offset the rise in unplanned global supply disruptions over the past few years," such that U.S. oil was "the main factor counterbalancing" supply disruptions in the global oil market.[16]

Policy Reforms to Increase Oil Supply and Drive Down Gasoline Prices

While the United States cannot command the market price of oil or gasoline, policymakers are not helpless. To help to decrease gasoline prices and the costs that contribute to them, U.S. policymakers should:

Reduce Barriers to Oil Production. Policymakers should remove barriers to accessing and producing new oil supply on federal lands and waters, as well as inefficient permitting processes that inhibit the construction of energy infrastructure connecting energy producers with customers.

- President Biden and his Administration should immediately withdraw or begin the process of rescinding regulations inhibiting access to and production and use of American oil resources.[17] This includes relevant executive orders, secretarial orders, regulatory guidance, regulatory test procedures, and regulations. Of notable concern are regulations by the Department of the Interior, the Environmental Protection Agency (EPA), the Department of Transportation, the Council on Environmental Quality, the Department of Labor, the SEC, and the Office of the Comptroller of the Currency.

- Congress should require regional offices of the Bureau of Land Management and U.S. Forest Service to submit quarterly reports to Congress with up-to-date information including expressions of interest, permit applications, and lease sales for energy production on federal lands and waters. Additionally, Congress should require that any statutorily required lease sales that agencies fail to hold be made up within a year. Finally, Congress should clearly establish that permit applicants who do not receive a decision from the Department of the Interior in the required time periods may seek relief in federal courts.

- Congress should reform the Outer Continental Shelf Lands Act, replacing the current system of five-year lease plans with rolling lease sales for all energy resources and conservation interests in pre-defined regions.[18] On federal lands, Congress should allow states to substitute their regulatory frameworks for management of oil and other energy resources on federal lands within their borders, similar to the proposals in the Federal Lands Freedom Act.[19]

- Congress should improve the transparency and efficiency of federal permitting processes required for a variety of oil exploration, production, and pipeline activities. Congress should reinstitute and codify the 2020 reforms to the implementing rules of the National Environmental Policy Act (NEPA), which would streamline environmental assessments and timelines for permitting decisions.[20] Additionally, Congress should prohibit agency consideration in NEPA analyses of a project's purported emissions of carbon dioxide, methane, nitrous oxide, and other "greenhouse gases." NEPA is not a tool for climate policy; no amount of emissions from any project (singly or cumulatively) will have measurable effects on global temperatures.[21] Finally, Congress should prohibit agencies from using the "social cost of carbon" in NEPA analyses and permitting decisions. The social cost of carbon and other greenhouse gases is a shadow carbon tax employed in regulatory processes and is a profoundly unreliable metric unfit for regulatory analysis and policymaking.[22]

Relieve Burdens on Refineries. Refineries, which process crude oil into gasoline and other useable petroleum products, represent roughly 18 percent of the price of a gallon of gasoline and are an essential bridge between energy producers and customers.

- Congress should declare the mission of the renewable fuel standard (RFS) program complete and end it after 2022. Congress mandated annual ethanol and biofuel volumes to be mixed into America's gasoline and diesel supply through 2022, after which the program is to be administered at the discretion of the EPA. The mandate has increased the costs of fuel and food,[23] and the costs of compliance for refineries are now at record highs.[24]

- Until Congress ends the RFS, the EPA should issue exemptions for small refineries without passing obligations onto larger refineries[25] and should state now that the volumetric quotas for ethanol and other renewable fuels will be zero beginning in 2023.[26]

Improve the Efficiency of Distribution. Policymakers should reform policies that inhibit infrastructure projects and improvements, and which increase the inefficiency and costs of delivering crude oil to refineries and ultimately to customers.

- Congress should repeal the Jones Act, a law that requires that goods delivered between two U.S. ports be transported by ships that are U.S.-built, U.S.-flagged, and U.S.-crewed. This severely restricts shipping options, driving up prices for all Americans, but particularly for coastal states, Alaska, Hawaii, and U.S. territories, often making it cheaper to import gasoline rather than purchase from domestic refineries.[27] At a minimum, Congress should reform the Jones Act to reduce impacts on American consumers and improve the efficiency of energy production and distribution, for example, by allowing companies from allied nations to provide shipping services.

- President Biden should immediately approve a cross-border permit for the Keystone XL Pipeline. Doing so would allow a project to move forward that both the Obama and Trump Administrations found to be the environmentally superior mode of transporting Canadian oil to refineries in the Gulf Coast. A cross-border permit would also send a strong signal to energy companies and investors that could have an immediate effect on prices[28] and further encourage additional infrastructure projects to improve the connections between energy producers and energy consumers. The EIA identified 18 pipeline projects for oil and petroleum products that are currently announced or on hold.[29]

Remove Constraints on the Demand Side. By attempting to constrain future demand for gasoline through regulations, policymakers also jeopardize the investments that would otherwise be made today to produce the energy to meet future customers' needs.

- The EPA and the Department of Transportation have proposed and finalized stringent fuel economy and greenhouse gas emissions standards for passenger and heavy-duty vehicles.[30] Accompanied with President Biden's aspirational executive order for half of vehicle sales in 2030 to be zero-emission, these regulations make it extremely costly and difficult to manufacture (and therefore buy) a compliant conventional gasoline-powered or diesel-powered vehicle.

Strengthen Partnerships with Allies and Trading Partners. The United States cannot isolate itself from global energy markets, and high demand and turmoil in Europe are contributing to the increased prices that Americans are paying for gasoline. The U.S. must strengthen partnerships with allies and trading partners to increase their own energy production.

- President Biden should reaffirm the long-established and mutually beneficial energy trade relationship with Canada and position it as a partnership that benefits global oil markets. Most of Canada's global crude-oil exports travel through the U.S., making connections between Canada and the United States (such as the Keystone XL pipeline and Enbridge Line 5) all the more important for increasing oil supply, and all the more valuable for improving the efficiency of energy delivery to customers.[31] Expanding pipelines between Canada and the U.S. will help to ensure a steady supply of oil to the American and global market.

- Rather than seeking to increase global oil supplies by reopening relationships with the illegitimate government in Venezuela,[32] President Biden should seek to strengthen strategic and technical partnerships elsewhere in Latin America. Countries like Brazil, Colombia, Guyana, and Mexico are home to burgeoning oil resources and industries and share more values and goals with the United States than does Venezuela.

- President Biden should strongly encourage Europe to become an energy-producing region of the world again. Over the past decade, Europe has curtailed its own oil production[33] and become overly dependent on single suppliers, in particular Russia. The United States should extend technical, regulatory, and legal support for European nations to use hydraulic fracturing and directional drilling technologies, which unlocked vast oil (and natural gas) resources in the U.S. in the late 2000s.

- President Biden should fully support the United States' commitment to the Three Seas Initiative to improve energy interconnections and infrastructure in Eastern Europe.[34] The Three Seas Initiative can strengthen energy security by expanding the diversity of energy supply routes and alternatives to Russian lines. Relatedly, the Biden Administration should make it clear that it will not withhold technical assistance or financing for oil infrastructure through programs like the Development Finance Corporation or through U.S. participation in international bodies like the World Bank.

Send a Clear Political Message. Setting the mere expectation or possibility of increased production has in the past had a nearly immediate influence on prices. The world saw this when President George W. Bush lifted a moratorium on offshore oil production in July 2008, as observed by the Institute for Energy Research.[35] However, it is far from the only example of a case where policy statements mattered.[36] The Biden Administration has done more harm than good by rhetorically demanding increased oil production from private companies while doing nearly everything it can to prevent it from happening.

A Bid for Energy Abundance

The ongoing energy-price crisis has sharply brought to the fore the importance of energy policy. Energy is essential to Americans' economic well-being and ability to live healthier, safer, and more productive lives. Just as increased prices drive up costs throughout the economy, the benefits of more affordable energy are widespread and have profoundly positive impacts for American families and businesses. Policymakers should reject the false choice posed by the Biden Administration to date—renewables or conventional energy—and make policy changes in pursuit of energy abundance. American families and businesses, as well as the rest of the world, stand to benefit greatly as the only way to dilute the power of those who weaponize energy for political ends is to provide the world with affordable, reliable energy of all kinds.

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