



# Is Big Oil Rigging Gasoline Prices?

## Companies' Actions Increase Their Bottom Lines Even If It Raises Prices

Daniel J. Weiss and Jackie Weidman      April 12, 2012

Cable news may be distracted by the latest presidential candidate gaffe or celebrity gossip, but gasoline prices are at the top of many Americans' minds. To better understand their concerns, the Center for American Progress Action Fund commissioned a poll by Hart Research Associates in March 2012. It found that 59 percent of Americans experience financial hardship because of high gas prices, with large majorities of the public assigning a significant share of the blame to the major oil companies and Wall Street speculators.

Gasoline prices have increased by 63 cents per gallon—or 19 percent—since the beginning of the year, hitting the highest price ever recorded in any March. The factors driving prices, however, are much less clear. The fact is that domestic production is at an eight-year high, domestic demand for oil and oil products is down, and yet gas prices continue to rise.

Worldwide trends don't offer much of a clue, either. The Energy Information Administration reports that worldwide consumption in the first quarter of 2012 is essentially unchanged from the fourth quarter of 2011, though it is about 1 percent higher than a year ago. Yet the April 10 price of West Texas Intermediate, or WTI, crude oil—sold in the United States—was \$101 per barrel. Brent oil on the European market is \$120 per barrel—or 5 percent higher than last year.

There have been some relatively minor supply disruptions in Syria, South Sudan, and Yemen according to a February 2012 report by the EIA.<sup>1</sup> On the other hand, Libyan production is at 81 percent of its pre-civil war capacity. And Saudi Arabia—the world's largest oil producer—has raised its output by about 600,000 barrels per day more than in 2011. Despite great tensions with Iran over its nuclear weapons program, there has not yet been a supply disruption in the Persian Gulf.

Canada is seeing unexplained high gasoline prices, too. *The Edmonton Journal*, on March 30, reported that:

*Canadians are paying some of the highest prices they ever have for gasoline, even though the amount that fuel makers pay for the crude oil that goes into making it has been in decline for months.*

*Data from Statistics Canada on Thursday showed the price processors pay for crude oil fell 2.4 per cent in February from January, but the cost of gasoline from refiners rose 3.9 per cent. It was third straight month crude oil prices have declined and second straight month gasoline prices have increased.*

What is going on? We know that oil markets don't follow normal supply-and-demand rules partly because there are few substitutes for it, and the Organization of Petroleum Exporting Countries cartel can set prices. We also know that there are other factors that contribute to oil prices in a world market such as concerns about potential supply disruptions due to natural disasters or political turmoil in the Persian Gulf. But even when we take all the normal factors into account, it doesn't add up.

Some leading oil experts even express bewilderment about high oil prices. *Reuters* just reported that oil specialists found that high oil prices are inconsistent with current levels of supply and demand:

*"The reality today is that the market is well oversupplied. OPEC production has been rising consistently since September and will probably continue rising further," said Colin Smith, energy strategist at VTB Capital.*

Similarly, on April 2, *The Wall Street Journal*\* determined that:

*There is no shortage of crude oil in the global markets and current prices aren't justified by demand-supply fundamentals, Qatar's energy and industry minister said Monday, easing concerns over supply constraints.*

*"Oil producers are committed to supplying. When you look at demand-supply, there is no evidence of a shortage of oil anywhere in the world," Mohammed Bin Saleh Al Sada told reporters.*

*"When it comes to price ... there are so many elements--not necessarily part of fundamentals of supply and demand--but other factors."*

Many Americans believe Big Oil companies are responsible for these "other factors" and suspect these giant corporations have rigged gasoline prices in their favor. Could they be on to something?

Tony Kost of Leesburg, Florida, commutes 80 miles round trip a day for work. He paid \$3.91 the last time he filled up and blames the seasonal price spikes on “oil industry price fixing.” Says Kost, “The oil industry has inflated the price of gasoline.”

Certainly oil companies have an incentive to support high gasoline prices. A March 1, 2012, report by the Congressional Research Service determined that higher gasoline costs:

*... yield a windfall for crude oil producers because the rise in gasoline prices is driven primarily by higher crude oil prices.*

Further, a Center for American Progress analysis compared five years of gasoline price data with quarterly Big Oil profits and found that a 1 cent increase in gasoline prices led to \$200 million in profits for the largest oil companies (on a quarterly basis).

To be sure, there is no smoking barrel that demonstrates Big Oil is rigging the game to raise gasoline prices. But many of the actions they’ve taken suspiciously have the effect of boosting prices. The following factors suggest that Big Oil companies, with help from Wall Street speculators, are taking steps that tilt the gasoline-price playing field in their favor, which in turn increases costs for middle-class families:

- The five biggest oil companies made record profits in 2011 as average annual nationwide gasoline prices hit a 36-year high. Yet these companies also produced *less* oil.
- Every 1 cent increase in gasoline price yields \$200 million in profit (on a quarterly basis) for the largest oil companies.
- U.S. exports of refined petroleum products doubled in the last five years.
- Oil companies are holding thousands of unexplored or undeveloped leases in federal lands and waters.
- Oil companies are also closing refineries, threatening to slash fuel supplies.
- Big Oil companies will receive \$40 billion in unnecessary tax breaks over the next decade.
- Wall Street speculators are trading twice as many oil futures as commercial end users.

In this brief we will look at each of these to see their impact on high gasoline prices. We will also offer recommendations for reducing our dependence on oil and making us less vulnerable to gas price spikes.

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## Repealing the law of supply and demand?

The economic theory behind supply and price is simple according to Investopedia:

*The higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at a higher price increases revenue.*

So when oil prices increase, oil companies should be producing more oil. But that's not what the big five oil companies—BP, Chevron, ConocoPhillips, ExxonMobil, and Shell—did over the past six years even though we experienced high prices in 2008, 2010, and 2011. The question is: Why would their production remain low with prices rising?

Figure 1 shows that in 2011 these companies produced a combined 8.8 million barrels per day of “liquids production,” which includes all petroleum products.<sup>2</sup> This is down from 9.3 million barrels per day in 2010, and is a production decline of 6 percent. And over the past six years, the big five cut production by 12 percent, or 1.2 million barrels of oil per day. This is like emptying one of every eight oil barrels. Chevron was the only company that increased its production over these years, with a 6 percent increase.

**FIGURE 1**  
**Big Oil pumps out fewer barrels despite higher profits**  
 Annual worldwide liquid fuels production by the big five companies, 2006–2011, millions of barrels per day

Year	BP	Chevron	ConocoPhillips	ExxonMobil	Shell	Total
2006	2.48	1.73	1.11	2.68	2.03	<b>10.03</b>
2007	2.41	1.76	0.98	2.62	1.82	<b>9.59</b>
2008	2.40	1.65	0.92	2.41	1.69	<b>9.07</b>
2009	2.54	1.85	0.97	2.39	1.68	<b>9.41</b>
2010	2.37	1.92	0.91	2.42	1.71	<b>9.34</b>
2011	2.16	1.85	0.80	2.31	1.67	<b>8.78</b>

Percent change in production between 2006 and 2011						
2010-2011	-9%	-4%	-12%	-5%	-3%	<b>-6%</b>
2006 - 2011	-13%	7%	-28%	-14%	-18%	<b>-12%</b>

Source: BP, Chevron, ConocoPhillips, ExxonMobil, and Shell Annual Profit Reports, 2006–2011

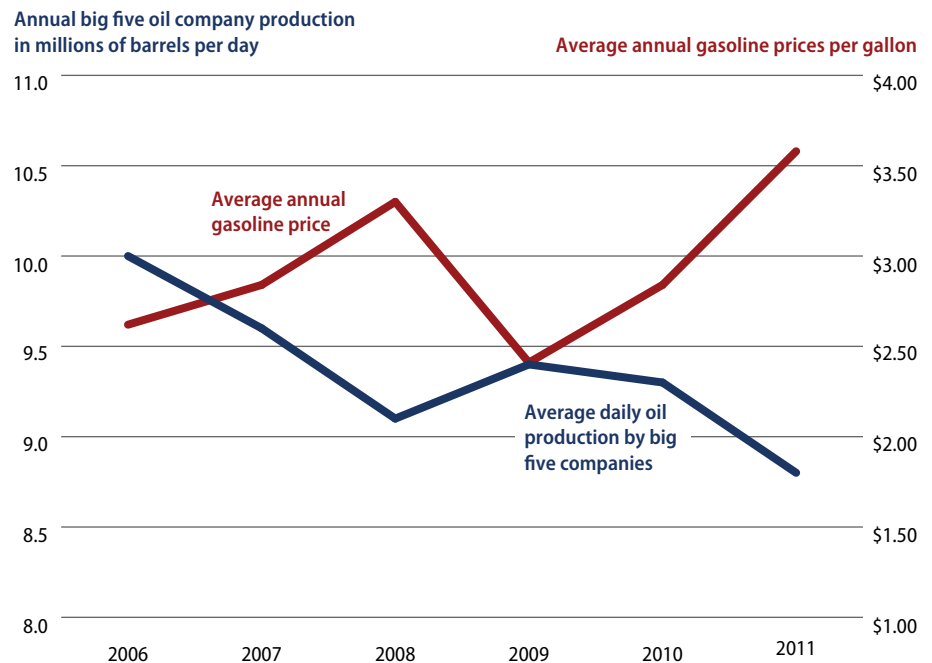
## Big Oil profits up: 1 cent higher gas price yields \$200 million in profits

Perhaps the big five companies are content to produce less oil when prices are high because higher gasoline prices enable them to profit from our pain at the pump without having to produce more oil. The March Congressional Research Service analysis concluded that “high gasoline prices drive up the profitability of the oil industry.” And “Pumped and Quartered,” a Center for American Progress regression analysis of gasoline prices and Big Oil company profits, projected the amount of profit from an increase in gasoline prices. It found that every 1 cent increase in gasoline prices generated \$200 million in profits for the big five companies (on a quarterly basis).

So rising gasoline prices led to higher profits even with *lower* oil production. This means that if gasoline prices sustain the 60 cent increase since the beginning of the year, the big five companies will make \$48 billion more in 2012 than they would have had prices remained the same as in the first week of the year.

**FIGURE 2**  
**Gasoline prices go up while big five oil production drops**

Gasoline prices vs. big five oil production, 2006–2011



Source: [Energy Information Administration](#); big five companies' annual reports.

## The United States is a net exporter of gasoline and diesel

U. S. oil imports are significantly lower under President Obama. The United States imported only 45 percent of our oil in 2011. Imports were 57 percent in 2008.

But while imports are down, exports are up. Last year the United States exported an average of 2.9 million barrels per day of refined petroleum products, and was a net exporter for the first time since 1949. The Energy Information Administration reports that gasoline exports were more than 62 percent higher in 2011 compared to 2010, and the Congressional Research Service recently determined that gasoline exports continue to grow in 2012:

Preliminary data suggest that finished motor gasoline exports have averaged about 600,000 b/d [barrels per day] in the first seven weeks of 2012. For context, U.S. gasoline consumption is about 8.7 million b/d.

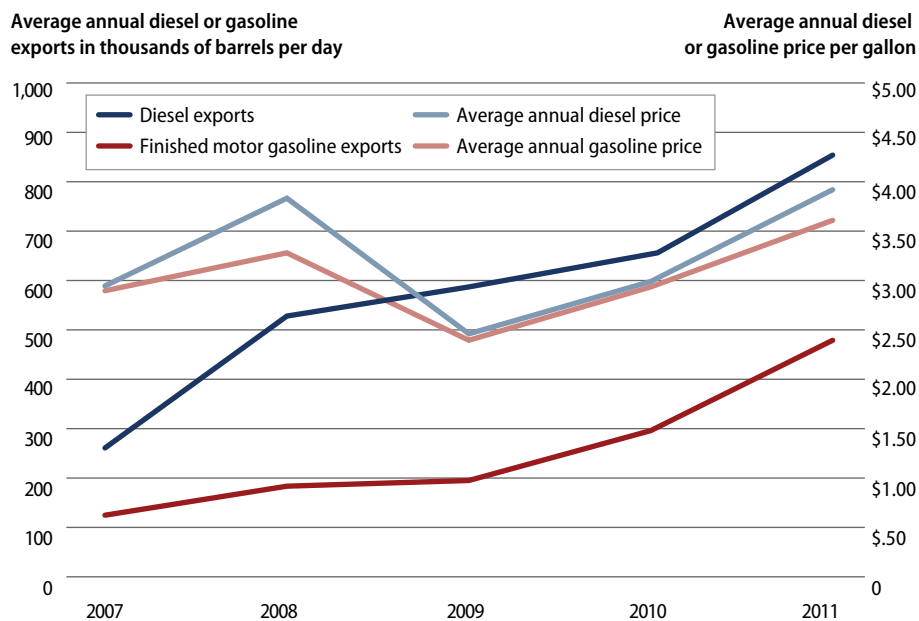
This means that gasoline exports are 7 percent of gasoline production in 2012, up from 5 percent in 2010. As of March 30, 2012, the United States exports 956,000 barrels of diesel per day. This is a 46 percent increase from the annual average for 2010 when we were exporting 656,000 barrels a day.

The [Energy Information Administration](#) reports that:

*Driven by changes in world markets and global refining economics, U.S. gasoline exports began rising in 2010, and by December of that year, were two-thirds higher than those just one year earlier, an upward trend that continued into 2011.*

**FIGURE 3**  
**U.S. exports of gasoline and diesel fuel rise with prices**

Average annual gasoline and diesel exports, 2007–2011



Source: Energy Information Administration

Big Oil companies are largely behind this export boost, selling significantly more gasoline and diesel fuels to other nations. On March 27 *The Wall Street Journal*\* reported two of the big five oil companies—ConocoPhillips and Shell—are “more focused on exporting U.S.-produced fuel to markets where there is greater demand.”

The Energy Information Administration notes that “record gasoline exports do not appear to be driving gasoline prices.” But it also points out that

*Gulf Coast refineries export product rather than send more to the East Coast, especially the Northeast... [they] have a competitive advantage in some world markets.*

They make more money exporting refined products to Europe and South America compared to selling them to American citizens because they have many export advantages, including easier access to water for shipping fuel, and a location allowing for short-haul voyages to growing Latin American markets.

These refiners also refine West Texas Intermediate crude oil, which is now typically \$18 to \$22 per barrel cheaper than the Brent crude used by European refiners. This makes U.S. refined diesel cheaper compared to European product.

For these reasons, Gulf refineries choose to export a growing amount of product rather than selling it in the United States. Although EIA did not find a direct link between exports and higher gasoline prices, exporting fuel rather than selling it here could deprive our market of inventory that could help ease price pressure.

The export of raw petroleum is already effectively banned in the United States.<sup>3</sup> Limiting exports of refined products from petroleum produced from public lands or waters—as some members of Congress are trying to do—could increase the supply of gasoline and diesel fuel here and potentially reduce prices.

Sen. Robert Menendez (D-NJ), for example, introduced the American Oil for American Families Act, S. 2211, on March 9, 2012. It mandates that:

*Petroleum extracted from public land in the United States (including land located on the outer Continental Shelf), or a petroleum product produced from the petroleum, may not be exported from the United States.*

And Rep. Ed Markey (D-MA) just introduced a similar bill in the House—the “Keep America’s Oil Here Act,” H.R. 4325. Upon introduction, Rep. Markey said:

*The oil below taxpayer-owned lands belongs to the American people, and should stay here in America to help American consumers and strengthen our national security.*

The bill states that:

*The Secretary of the Interior may accept bids on any new oil and gas leases of Federal lands (including submerged lands) only from bidders certifying that all oil produced ... and all refined petroleum products produced from such oil, shall be offered for sale only in the United States.*

The United States had a ban on the export of crude oil produced in the north slope of Alaska from 1973 to 1995. Instead, this oil was sent to California, increasing supplies there. In 2005 the Congressional Research Service found some indication that West Coast gasoline prices were lower during the export ban:

*Alaska oil production peaked at 2.0 mbd [million barrels per day] in 1988, creating a crude surplus on the West Coast. By 1995, when export legislation was enacted, output had declined ... [and] whatever surplus had existed diminished.*

*In 1995, Energy Information Administration (EIA) data showed West Coast pump prices to be only 5 cents per gallon above the national average. But by 1999 West Coast gasoline was 15 cents per gallon higher.*

***When Alaskan oil exports ceased, the gasoline price differential between the West Coast and the national average did decline, at least for a few years. [emphasis added]***

It is unclear whether a new ban on exports of products refined from oil from public lands and waters would make a significant difference in gasoline prices, as the Alaska ban seemed to do for at least some time. The two aforementioned bills were not introduced in March 2012 when the Congressional Research Service wrote:

*To what degree prohibiting gasoline exports would reduce prices is unclear. Some contend that there may be a decline in gasoline prices if gasoline exports were restricted. Others [American Petroleum Institute] suggest there will be no decline in gasoline prices if such measures were adopted.*

But certainly an additional domestic supply of gasoline and diesel produced from American oil would not raise prices, and it might lower them. The bottom line is that it makes little sense to send to other countries refined fuels made from oil produced from lands and waters owned by all Americans at a time of rising gasoline prices.

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## Big Oil companies sitting on thousands of leases

The big five oil companies' smaller output also may be due to the thousands of unexplored or undeveloped leases they hold on federal lands and waters. All told, Big Oil companies have 7,000 approved but idle drilling permits for federal lands. A Department of Interior analysis concluded that:

*More than 70 percent of the tens of millions of offshore acres under lease are inactive, neither producing nor currently subject to approved or pending exploration or development plans. This includes almost 24 million inactive leased acres in the Gulf of Mexico, which potentially could hold more than 11 billion barrels of oil.*

*Out of a total of over 38 million leased onshore acres, almost 22 million leased onshore acres that are not being used.*

Holding undeveloped leases and unused permits still benefits oil companies because it can increase the size of their potential oil reserves. These leases also keep their competitors from producing oil from these places. Ignoring these undeveloped areas, the American Petroleum Institute falsely claims that the Obama administration is blocking



the production of oil from federal lands and waters. Instead, companies should explore and develop the leases they already have before we open protected federal lands and waters to oil production.

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## Refinery capacity, which affects prices, grew until recently

An important factor that can affect gasoline supplies and prices is petroleum refineries' capacity to process crude oil into gasoline, diesel, or other fuels. The less capacity refineries have, the less crude they are able to process into fuels for use in the economy. And that equals less supply and therefore higher prices.

Limited refining capacity has been a big concern. The “[National Energy Policy](#)” produced in May 2001 by Vice President Dick Cheney warned that:

*Not a single major oil refinery has been built in the United States in nearly a generation, causing the kind of bottlenecks that lead to sudden spikes in the price of gasoline.*

This remained true throughout the eight years of the Bush administration. This concern, however, ignored the expansion of existing refineries that began in the mid-1990s. The Energy Information Administration measures the “[U.S. Percent Utilization of Refinery Operable Capacity](#),” or the proportion of refinery capacity that is operating and able to convert crude oil into fuels. EIA reports that [refining capacity steadily increased](#) beginning in 1997 and peaked at 17.1 million barrels per day in 2008. This was a 12 percent increase, or slightly more than a 1 percent increase per year. Refinery capacity fell in 2009 and 2010 and slightly increased in 2011, though it was still 1 percent lower than in 2008.

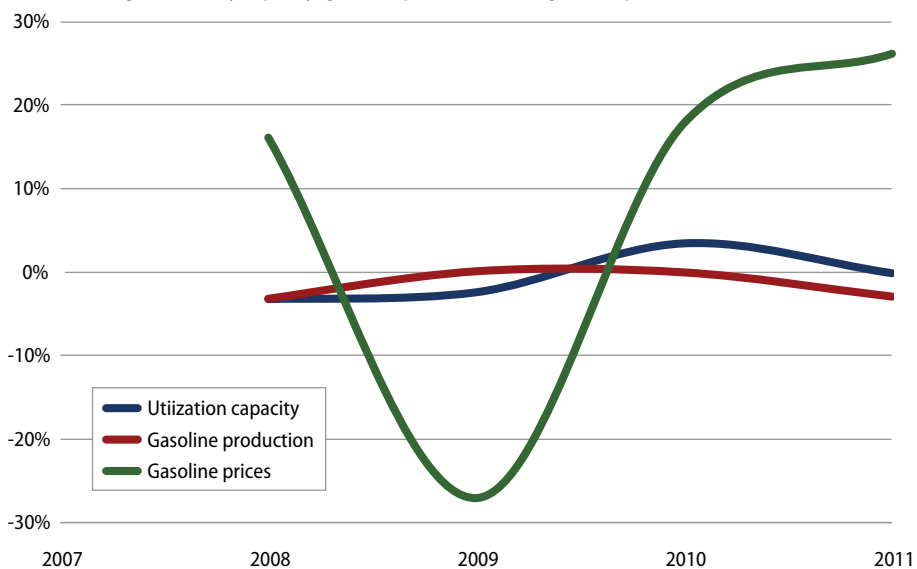
In theory, capacity and production should both increase at the same time that prices rise due to supply and demand. Figure 4 shows that from 2009 to 2010 the capacity to produce more gasoline rose by 3.4 percent, while actual gasoline production was flat.

FIGURE 4

### Higher gasoline prices don't increase refining capacity or gasoline production

Changes in refinery capacity, gasoline production, and prices, 2007–2011

Percent change in refinery capacity, gasoline production, and gasoline prices



Source: Energy Information Administration data; CAP Analysis

Capacity and gasoline production both dropped in 2011 when gasoline averaged \$3.53 per gallon—a price increase of 27 percent from 2010.

Interestingly, gasoline production fell by nearly 3 percent between 2010 and 2011, even though capacity grew in 2010, and dropped only a tiny bit in 2011.

Rising prices should lead to more—not less—gasoline production, particularly when there is more refining capacity.

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## Closing refineries means higher gasoline prices

Higher oil prices can make some refineries uneconomical to operate. The Energy Information Administration just reported that higher oil prices on the East Coast:

*... can result in lower refinery utilization rates and can affect decisions by refiners to idle capacity.*

*Two East Coast refineries idled capacity due to unfavorable refining economics, while another refiner may sell or shut down its facility.*

But the temporary closure of petroleum refineries can also reduce gasoline supplies while boosting prices. The Congressional Research Service said in March that “recent refinery closures in the United States, Europe, and elsewhere may also contribute to higher gasoline prices.” Closures can occur due to repairs, expansion, or to retool them to produce a different gasoline mix or other petroleum products. Sometimes older, inefficient refineries permanently cease production.

Industry closings of refineries—including several the big five oil companies own—that produce gasoline and diesel from crude oil are contributing to high gasoline prices now. On January 28 USA Today reported that:

*Over the last several years, the refining industry has shut down about 1 million barrels per day of refining capacity aimed at the East Coast.*

The Associated Press noted on April 7 that recent refinery closings have boosted gasoline prices more than in recent years:

*This year’s spring surge is more extreme than usual because three refineries that serve the East Coast were shut down last fall and another one may be closed in July. That’s threatening supplies in one of the country’s most densely populated regions, and pushing prices higher everywhere.*

EIA reported in February 2012 that “two East Coast refineries idled capacity due to poor economics.” ConocoPhillips and Sunoco own these refineries, and they represent nearly one-quarter of the “operating crude unit capacity” on the East Coast.

More ominously, a Sunoco refinery in Philadelphia—which makes up another quarter of East Coast capacity—will close in July “if [Sunoco] can’t sell it and exit the business,” reported The Wall Street Journal\* on March 27. The Energy Information Administration warns that:

*If the Sunoco Philadelphia refinery closes, price impacts are highly uncertain. If areas cannot be adequately supplied in the short term, prices can spike.*

These aren’t the only refineries whose closure may spark higher gasoline prices, though. The West Coast also had refineries close. EIA reports that:

*... refinery closures, outages, and a lack of access to less expensive crude oil reduced inputs in 2011 to refineries in PADDs 4 and 5 [Rocky Mountain and West Coast areas, respectively] and helped drive down utilization rates.<sup>4</sup>*

The BP-owned Cherry Point refinery in Blaine, Washington, suffered a huge fire on February 17, 2012. It processes as much as 230,000 barrels of crude oil daily, which is made into 3.5 million gallons of gasoline, 2.2 million gallons of diesel, and 3 million gallons of jet fuel and other products. Cherry Point supplies one-fifth of Washington state’s gasoline.

BP will keep the refinery closed until April for post-fire repairs and “spring maintenance.”

Other West Coast refineries could close as well. Andrew Lipow, president of Lipow Oil Associates, warned that:

*The refining capacity was oversupplied so product prices have to rise to give the refiners better profit margins or otherwise you’ll see more of them going out of business. Probably the next expectation is to see refiners going out of business on the west coast.*

But, contrary to Lipow’s expectation, product prices are rising, and refineries are still closing.

Refinery closures outside the United States can also increase gasoline prices. Hovensa’s U.S. Virgin Islands facility that refined 350,000 barrels per day closed in February. It shipped more than half of its product to the East Coast.

Valero Corp., the world’s largest independent refiner, idled its plant in Aruba on March 27 citing “unfavorable refinery economics and the outlook for continued unfavorable refinery economics.” The refinery has a capacity of 235,000 barrels per day. It supplied products to New Jersey and elsewhere on the East, Gulf, and West Coasts.

Valero is closing a refinery even with rising gasoline prices. Valero had a profit of \$2.1 billion in 2011. It was so flush with cash that it donated \$5.1 million in a failed effort to pass Proposition 23 in California in 2010, which would have effectively blocked the state's reduction in carbon dioxide pollution.

Finally, the bankruptcy of the Petroplus refinery in the United Kingdom could raise gasoline prices in the United States since we import 100,000 barrels of gasoline from it daily. On February 21 McClatchy Newspapers cited Petroplus's bankruptcy and BP's refinery fire in Washington state as driving forces behind "temporarily crimped gasoline supply along the West Coast." The Congressional Research Service also noted in their March report that "as a result of these [refinery] closures, Europe may also seek to draw greater supplies of diesel fuel from U.S. refineries."

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## Big Oil gets \$40 billion in tax breaks despite its megaprofits from high prices

President George W. Bush, a former oil man, supported the elimination of Big Oil tax provisions in 2005. He said:

*I will tell you with \$55 oil, we don't need incentives to the oil and gas companies to explore. There are plenty of incentives. What we need is to put a strategy in place that will help this country over time become less dependent.*

The high gasoline prices in the first quarter of 2012 suggest that the big five companies will reap even larger profits this year compared to their record-setting haul last year. At the same time, these companies will receive a major portion of the coming decade's \$40 billion in tax breaks for Big Oil. Congress should eliminate these tax breaks and instead invest these scarce dollars in the development and commercialization of technologies that will reduce oil and gasoline use, including electric vehicles and public transportation.

A May 2011 Congressional Research Service assessment of removing these tax provisions found that they would have little effect on oil supply and gas prices:

*A small increase in taxes would be less likely to reduce oil output, and hence increase petroleum product (gasoline) prices.*

*Even if the changes in taxes did impact domestic, or overseas exploration and development activity, that does not necessarily imply that less oil would be available in the U.S. market. More might be imported, with little or no effect on gasoline prices.*

Yet these tax breaks remain in place. On March 29, 2012, the Senate voted 51-47 for the Repeal Big Oil Subsidies Act, S. 2204, sponsored by Sen. Robert Menendez (D-NJ), which would have eliminated \$24 billion in tax breaks for the big five oil companies.

Unfortunately, it failed because a super majority of 60 votes was necessary to pass it.

The [47 senators who voted against the bill](#) received \$23.5 million in campaign cash from oil companies, four times more money than senators who voted for the bill.

A [New York Times](#) editorial on March 30 concluded that Big Oil rigged the vote by using its enormous profits to shower campaign contributions on senators and undertake a high-pressure advertising campaign:

*President Obama and the Senate Democrats have again fallen short in their quest to eliminate billions of dollars in unnecessary tax breaks for an oil industry that is rolling in enormous profits. A big reason for that failure is that some of those profits are being continuously recycled to win the support of pliable legislators, underwrite misleading advertising campaigns and advance an energy policy defined solely by more oil and gas production.*

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## Wall Street speculators are driving up prices

Tension in the Persian Gulf and minor supply disruptions are not the sole cause of high oil prices. Wall Street speculators are taking advantage of fears about future supply disruptions to drive up prices for their own profit. On February 14 [Bloomberg Businessweek](#) cited Tom Kloza, chief oil analyst for the Oil Price Information Service, who says that speculators are helping to increase oil prices, and, in turn, gas prices:

*Much of the increase [in oil prices] is due to speculative money that's flowed into gasoline futures contracts since the beginning of the year, mostly from hedge funds and large money managers. "We've seen about \$11 billion of speculative money come in on the long side of gas futures," [Kloza] says. "Each of the last three weeks we've seen a record net-long position being taken."*

Further, a February 21 analysis of oil trades by [McClatchy Newspapers](#) concluded that Wall Street speculators are "behind sharply rising oil and gas prices." It determined that:

*While tension over Iran has ratcheted up over the last few months, the price of oil and gasoline has leaped far beyond conventional supply and demand variables. Financial speculators are piling into the market, torquing the Iranian fear factor into ever-higher prices.*

*Historically, financial speculators accounted for about 30 percent of oil trading in commodity markets, while producers and end users made up about 70 percent. Today it's almost the reverse.*

*A McClatchy review of the latest Commitment of Traders report from the Commodity Futures Trading Commission, which regulates oil trading, shows that producers and mer-*

*chants made up just 36 percent of all contracts traded in the week ending Feb. 14. That same week, open interest, or the total outstanding oil contracts for next-month delivery of 1,000 barrels of oil (about 42,000 gallons), stood near an all-time high above 1.486 million. Speculators who'll never take delivery of oil made up 64 percent of the market.*

Wall Street speculators' role in driving up prices in 2012 is consistent with evaluations of previous price spikes. [Commodity Futures Trading Commissioner Bart Chilton](#) recently cited numerous independent studies that indicate excessive Wall Street speculations played a significant role in earlier events.

On March 5, [The Washington Post](#) reached a similar conclusion about speculation in current and previous oil price shocks:

*Many analysts agree that trading activity is pushing up oil prices over and above what supply and demand would normally dictate — and much of this has been driven by fear over a possible conflict with Iran. “Speculation has inflated oil prices by more than 30%,” says Fadel Gheit, an oil analyst at Oppenheimer & Co. That’s in line with other estimates: [A recent paper \(pdf\)](#) by the Federal Reserve Bank of St. Louis found that “financial speculative demand shocks” were responsible for at least 15 percent of the huge run-up in oil prices between 2004 and 2008.*

Even oil executives understand that Wall Street speculation drives up oil prices. At a hearing before the [Senate Finance Committee](#) on May 12, 2011, Sen. Maria Cantwell (D-WA) asked ExxonMobil CEO Rex Tillerson, “What do you think the price would be today, if it was based on fundamentals of just supply and demand?” He responded: “It’s going to be somewhere in the \$60 to \$70 range.”

In fact, at the time of the hearing, [WTI crude oil](#) was selling for \$98 a barrel—40 percent to 63 percent more than Tillerson’s predicted range.

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## Solutions for high gas prices

The Congressional Research Service in March concluded that long-term investments in reducing oil use can shield Americans from high gasoline prices in the future:

*Many of the policies that can address the impact of rising gasoline prices on consumers are long-term in nature due to the long-term nature of investments which produce energy or consume energy.*

Congress must promptly adopt solutions that will reduce our dependence on oil, stop giving taxpayer money to a highly profitable industry, and make us less vulnerable to price spikes. These include:

- Eliminating \$40 billion in Big Oil tax breaks and investing these funds in electric vehicles, public transportation, and clean energy
- Limiting the export of gasoline and diesel fuel from oil produced from federal lands and waters until high gasoline prices subside, as proposed in the “American Oil for American Families Act,” S. 2211, sponsored by Sen. Robert Menendez (D-NJ)
- Cracking down on excessive Wall Street speculators and ensuring that the Commodity Futures Trading Commission has the money to put enough cops on the beat to police oil markets
- Congressional support for President Obama’s proposal to double vehicle fuel economy by 2025
- Requiring oil companies to develop oil from the leases they hold on federal lands and waters or return them back to the federal government, as proposed in the “Use It or Lose It Act,” S. 600, sponsored by Sen. Menendez

The Center for American Progress Action Fund commissioned a March 2012 poll by Hart Research that showed the first four of these solutions had high public support. A just-released poll by Pew Research Center found similar results. The two most popular government policies for addressing the nation’s energy supply “[are] better fuel efficiency for vehicles ... and more funding for research on wind, solar.”

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## Conclusion

Americans have a right to be suspicious that the gasoline game is fixed. Right now we have more domestic production, less demand, and no major supply disruptions, which should ease gasoline price pressure. Yet Big Oil companies are making higher profits, lowering production, sitting on thousands of unused leases, exporting more refined products, and shuttering refineries, which, combined with excessive Wall Street speculation, are all energy industry actions that tend to *boost* gasoline prices. Clearly the \$40 billion of Big Oil tax breaks are wasted revenues that could be invested in technologies that reduce oil use, which would lower families’ spending on gasoline.

Americans are tired of the stranglehold oil companies have over our national energy policy. They are looking for an honest conversation and realistic long-term plan to lessen our oil dependence, not quick fixes or more empty political promises like claims of bringing gas prices back down to \$2.50 per gallon by opening up more areas for oil production. By large margins they support more progressive positions than those of the “drill here, drill now” advocates.

We must continue to expose oil companies' measures that favor their own profits over the interests of American consumers, and reveal their deep political and financial ties to their allies in Congress that continue to defend their billions of dollars in tax breaks while opposing measures to reduce oil dependence and gasoline costs.

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## Endnotes

- 1 According to EIA data, Syria's liquid fuels supply estimates remained stable while Sudan and Yemen's supply dropped 200,000 and 100,000 barrels per day, respectively.
  - 2 The [Energy Information Administration](#) classifies "liquid fuels" as "all petroleum products, natural gas liquids, biofuels, and liquids derived from other hydrocarbon sources (coal to liquids and gas to liquids). Not included are compressed natural gas (CNG), liquefied natural gas (LNG), and hydrogen."
  - 3 The Congressional Research Service notes that "Domestically produced crude oil cannot be exported as per provisions of the Energy Policy and Conservation Act as well as several other statutes. There are a few exceptions including for crude of foreign origin, crude exports to Canada, or where the President determines it is in the national interest to allow exports (15 CFR 754.2)." See: Congressional Research Service, "Rising Gasoline Prices 2012" (2012), available at <http://fulltextreports.com/2012/03/09/crs-rising-gasoline-prices-2012/>.
  - 4 According to the Energy Information Administration, the "utilization rates" are the same as "refinery utilization capacity," which is the "ratio of the total amount of crude oil, unfinished oils, and natural gas plant liquids run through crude oil distillation units to the operable capacity of these units." See: "Glossary - U.S. Energy Information Administration (EIA)," available at <http://www.eia.gov/tools/glossary/index.cfm?id=Refinery%20capacity%20utilization>.
- \* Full article only available with *Wall Street Journal* subscription.