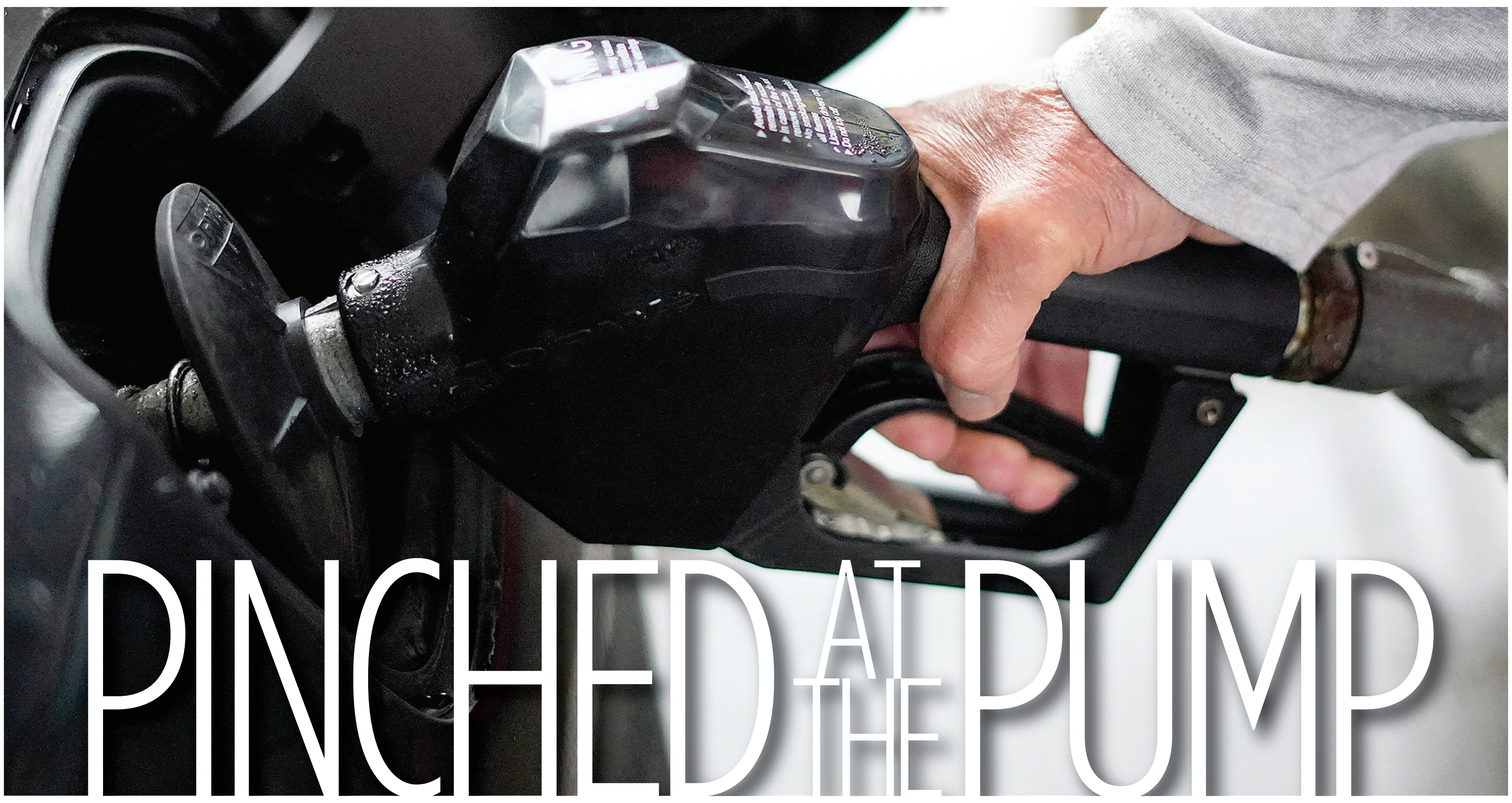


PINCHED AT THE PUMP

By Charles Apple | THE SPOKESMAN-REVIEW

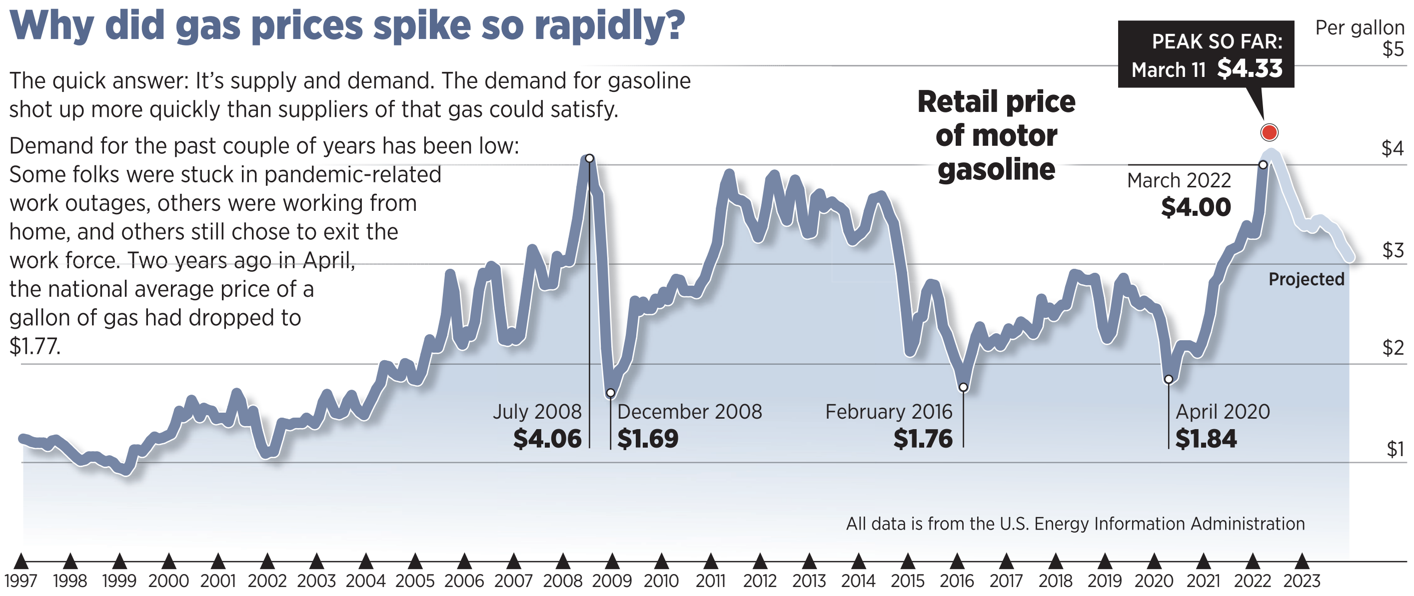
That enormous bite out of your wallet fuel prices have been taking lately most likely isn't growing quite as quickly as it had been. But that respite might not last for long — not with warmer weather and increased demand from summer vacation season right around the corner.

There's an awful lot of partisan bluster about who or what might be at fault for the recent spike in gas prices. What's the *real* story?

Why did gas prices spike so rapidly?

The quick answer: It's supply and demand. The demand for gasoline shot up more quickly than suppliers of that gas could satisfy.

Demand for the past couple of years has been low: Some folks were stuck in pandemic-related work outages, others were working from home, and others still chose to exit the work force. Two years ago in April, the national average price of a gallon of gas had dropped to $1.77.



Now, with more people headed back to work, demand is going back up. And that's pushed up the price of the source material for all that gasoline: Crude oil.

Every $10 increase in the price of a barrel of crude oil adds 24 cents to the price you pay for each gallon at the pump, says the Washington Post.

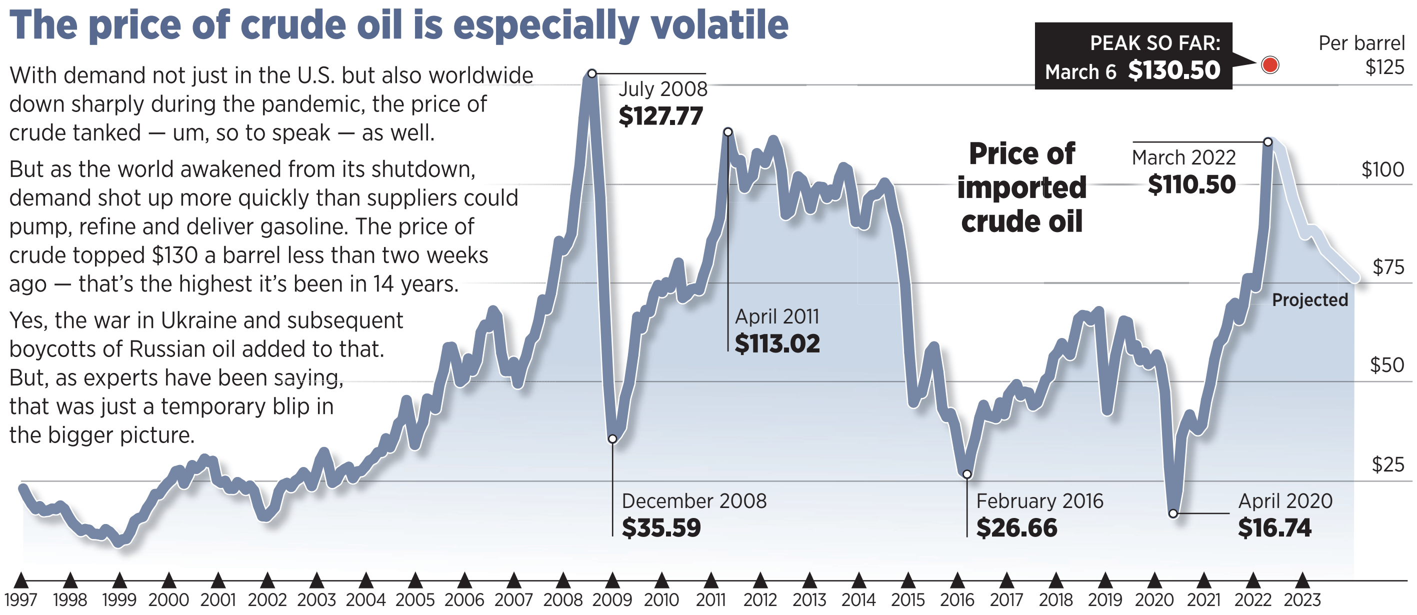
And that price can change overnight: Most gas stations have enough storage capacity for only two or three days' worth of gas. The price they pay can change a lot over those two or three days.

The price of crude oil is especially volatile

With demand not just in the U.S. but also worldwide down sharply during the pandemic, the price of crude tanked — um, so to speak — as well.

But as the world awakened from its shutdown, demand shot up more quickly than suppliers could pump, refine and deliver gasoline. The price of crude topped $130 a barrel less than two weeks ago — that's the highest it's been in 14 years.

Yes, the war in Ukraine and subsequent boycotts of Russian oil added to that. But, as experts have been saying, that was just a temporary blip in the bigger picture.



That blip became more apparent Monday when worldwide prices of crude oil dropped 8%, to $99.76 a barrel.

Experts said the selloff was due to several reasons:

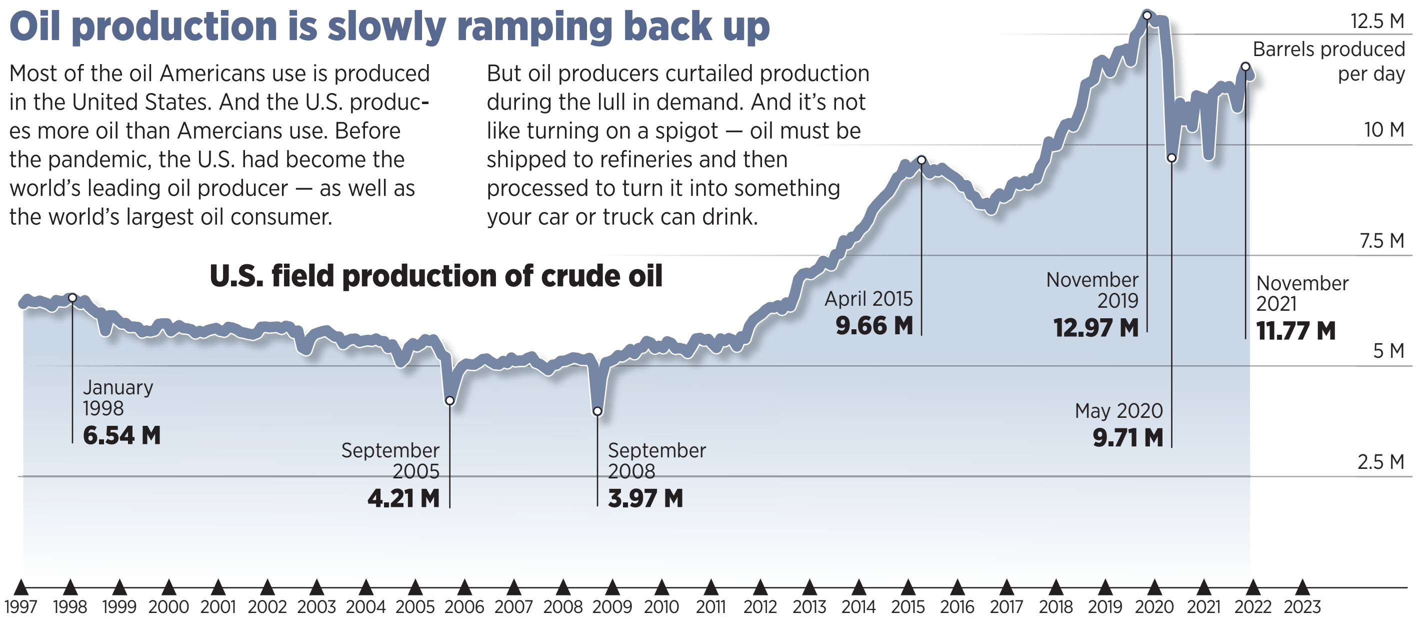
- An increase in Iranian oil exports.
- Another COVID-related lockdown — and, therefore a reduction of demand — in China.
- It's become apparent European customers are going to continue buying Russian oil.

Experts still expect demand to increase as the weather improves. CNN reports we can expect to see gas at around $4.50 a gallon this summer.

Oil production is slowly ramping back up

Most of the oil Americans use is produced in the United States. And the U.S. produces more oil than Amercians use. Before the pandemic, the U.S. had become the world's leading oil producer — as well as the world's largest oil consumer.

But oil producers curtailed production during the lull in demand. And it's not like turning on a spigot — oil must be shipped to refineries and then processed to turn it into something your car or truck can drink.



In the meantime, the Biden administration is taking steps to try to speed up the recovery process: It is asking oil suppliers in the Middle East and Venezuela to increase production, in hopes of bringing down prices worldwide — which would ease pump prices in the U.S.

It's doing the same here as well: At an energy conference last week, Energy Secretary Jennifer Granholm pleaded with domestic oil companies to increase production.

Oil companies, of course, are working on it: They'd like to sell as much gas as they can, while the price is still high.

Would the Keystone XL pipeline have helped?

That's nothing but political blather.

- Keystone XL was an expansion of an existing pipeline from Alberta, Canada, to the Houston region. So oil already moves in Keystone proper, if not Keystone XL.
- Less than 8% of the expansion had been built. If Biden hadn't terminated the project, it still wouldn't be finished yet.
- Even when complete, the expansion would have increased the worldwide supply of oil less than 1%.
- The type of oil that was to move in the project isn't used to make gas anyway.

Are U.S. oil companies being too greedy?

The thing to remember: Private-sector corporations answer to their shareholders and investors first. By definition, their mission is to maximize profits and maximize return on investments by those shareholders and investors.

So yes: Oil companies are seeing some amazing profits in the slow bounceback from pandemic shutdowns. And they're using those profits to pay dividends to stockholders and to prop up stock prices with stock buybacks.

But is this "greedy"? Or is it simply capitalism in action?

Can oil companies produce more gas?

The Biden administration is encouraging oil producers to increase production again, but oil companies may be reluctant to do that. After all, what Biden wants — lower gas prices — is the opposite of what oil companies want.

The oil industry ramped up production a decade ago only to see the price of domestic crude fall from $93 in 2014 to $39 a barrel by 2020.

Baker Hughes reports 663 U.S. oil and gas rigs operating as of last week. That's up from just 402 last year but far below the 2008 peak of 2,031 rigs.

So what can be done to ease our pain?

Several states are considering rolling back their local gas taxes — that might drop gas prices a few cents.

But most of us will simply have to sweat this out. Some of you will remember the angst brought upon us by the oil crisis in the early 1970s. Or the spike in oil prices during the great recession in 2008.

Those crises eventually passed. This one will too, to some degree.

But the clock is running. One day, we will indeed exhaust the planet's supply of oil.

Sources: U.S. Energy Information Administration, Washington Post, CNN, CBS News, Marketwatch, Yahoo!Finance, TradingEconomics.com, American Automobile Association, Snopes.com

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