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RAHN: Reducing the risk of oil price spikes

Better fuel production and transport could enhance U.S. security

By Richard Rahn

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You may have noticed gasoline prices are rising. If the Middle East situation gets much worse, gasoline prices will rise even more. The good news is that we are likely to avoid long gas lines as we had in the late 1970s under President Carter, because fracking and other new technologies have lessened our dependence on foreign oil and gas. The bad news is that a major rise in oil prices could easily tilt Europe and other places back into a recession, which could kill the little growth the United States is now experiencing.

The tragedy is all of this was unnecessary, but brought about by the Obama administration, letting short-term political considerations and ideology override good economics and global security.

A few basics: As a result of the revolution in oil- and gas-production technology, the United States is just about self-sufficient in natural-gas production and is in a position to be a net exporter of liquefied natural gas (LNG) by 2016, provided the administration gives the necessary permits. The nation has more than sufficient oil and gas reserves to be the world's largest producer and even a net exporter of crude oil. Oil production has grown very rapidly but not nearly as rapidly as it could because the administration has put so many restrictions on oil production on federal lands and made the permitting process so slow. The United States is already a net exporter of petroleum products.

Oil and gas production in the United States is increasing more rapidly than the existing infrastructure can handle it, leading to transportation bottlenecks and, hence, higher prices. There is a shortage of pipeline capacity and new-generation rail cars. The administration has been very slow to provide the necessary permits for new pipeline construction of which the Keystone XL pipeline is the best known.

Why has the administration slowed or in some cases stopped the permitting processes? There is a combination of reasons. One is that it has an ideological prejudice against fossil fuels, even though so-called renewables make no economic sense in many cases and are not sufficient to provide more than a very small portion of our energy needs. Another reason is the Democrats prefer to cater to some of the big donors who are either environmental extremists or have a vested interest in the status quo. Warren Buffett controls major railroads and hence, benefits from shipping crude oil by railroad rather than by pipeline even though rail is more expensive, dangerous and environmentally damaging than pipelines. Regulators influenced by members of Congress can slow the permit process as a way of increasing campaign contributions.

It is in our national interest to export liquefied natural gas. It would bring income into the United States, create jobs and lead to a more economically and politically stable world. It would help the Europeans and others lessen their dependence on Russia for natural gas, and is likely to lead to less-aggressive behavior on the part of the Russians. Margo Thorning, chief economist of the American Council for Capital Formation, in a statement to Congress stated: “American natural-gas production has already created 1.7 million new jobs, and experts estimate that LNG exports will stimulate as much as $73 billion in additional GDP annually.”

For a company to export liquefied natural gas, it needs to obtain licenses from both the Department of Energy (DOE) and from the Federal Energy Regulatory Commission (FERC). As of April, 43 applications to construct new liquefaction facilities or construct new export facilities had been submitted to the Energy Department. Only seven companies have received conditional licensing from the department, and only one has been approved by both DOE and FERC. Many of these applications have been waiting many months, and some even years, for the regulators to make a decision.

The next time you fill your car up at the pump, please realize that you are paying a few extra cents per gallon because of bad decisions made in Washington. The price of oil is set by global supply and demand, and the United States cannot fully insulate itself from the effects of global oil-price spikes. However, what the nation can do is allow much greater production and efficient transportation (which is equally important) of oil and gas to reduce regional price variations. Increased production by the United States, coupled with an end of the restrictions on exports, would both stabilize global prices by adding a major new supplier, and allow America to directly benefit, rather than be just a victim, when oil prices spike for geopolitical reasons.

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