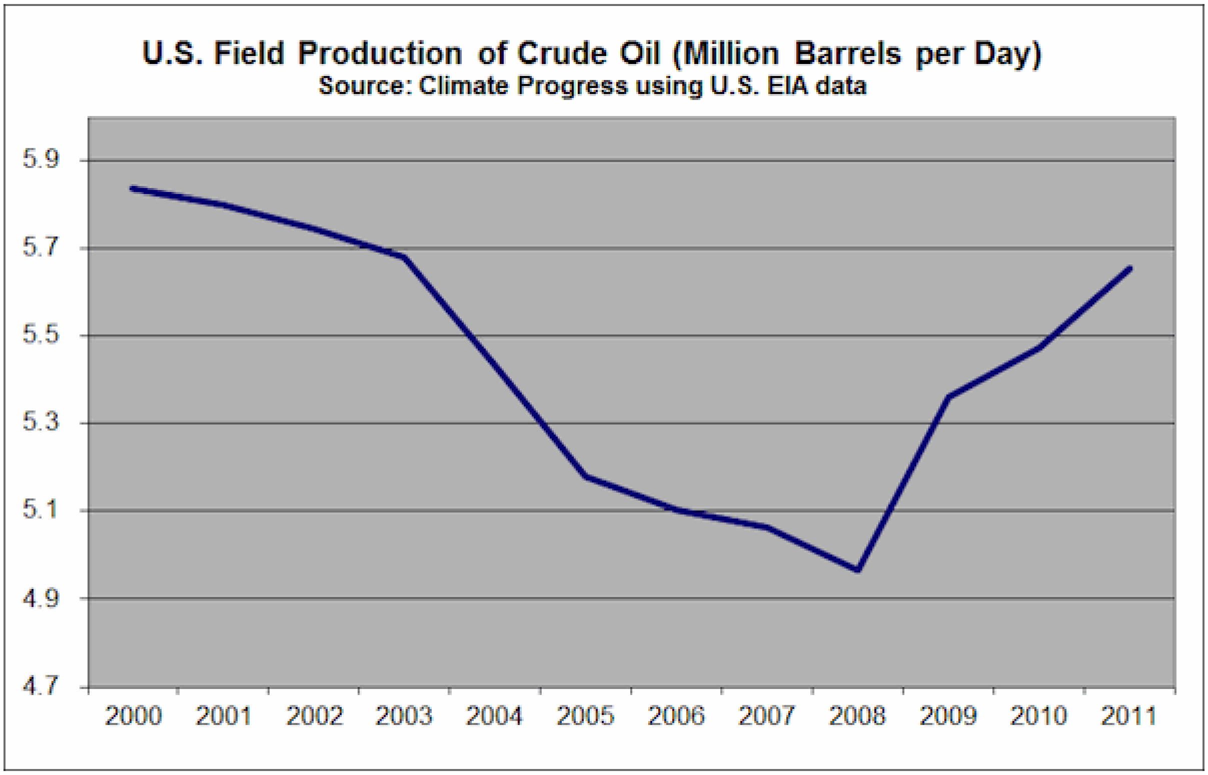
CLIMATE PROGRESS
EDITED BY JOE ROMM

Murdoch's Wall Street Journal and Koch-Fueled Cato Agree: "It's Not Obama's Fault That Crude Oil Prices Have Increased"

By Joe Romm on Mar 12, 2012 at 12:27 pm

Wall Street Journal: "U.S. gasoline prices, like prices throughout the advanced economies, are determined by global market forces. It is hard to see how Mr. Obama's policies can be blamed."

Cato Institute: "Is President Obama responsible for spiraling price of gasoline? Republicans say yes, but the facts say no."



How obvious is it that oil prices, set on a world market, are all but impervious to government policies? So obvious that even Rupert Murdoch's WSJ and the Koch-fueled Cato Institute feel compelled to make the case.

The *WSJ* was responding to Newt Gingrich's claim, "The price of gasoline when Barack Obama became president was $1.89. All of this gigantic increase came from his policies." In its debunking of "Gingrich's Gaseous Argument," The Journal offers an especially telling statistic:

Mr. Gingrich ignores the basic fact about U.S. gas prices: They are largely fixed by the price of crude oil, which is determined by global supply and demand.

When Mr. Obama was inaugurated, demand was weak due to the recession. But now it's stronger, and thus the price is higher.

What's more, **producing a lot of oil doesn't lower the price of gasoline in your country. According to the U.S. Energy Information Administration, Germans over the past three years have paid an average of $2.64 a gallon (excluding taxes), while Americans paid $2.69, even though the U.S. produced 5.4 million barrels of oil per day while Germany produced just 28,000.**

Duh?

In an essay that appeared in *U.S. News & World Report* earlier this month, "It's Not Obama's Fault That Crude Oil Prices Have Increased," Cato scholars lay out their case:

Why have gasoline prices increased since the start of the year? The simplest explanation is that the price of crude oil has increased. Specifically, the spot price for Brent (North Sea) crude has increased $16 a barrel since January. Given that there are 42 gallons to a barrel, that works out to a 38 cent increase in the price of a gallon of oil. Spot prices for gasoline trade in New York have increased about 41 cents per gallon over the same time frame. So there you go.

Why is the price of North Sea oil relevant to the price of gasoline in the United States? Well, we import gasoline refined in Europe from North Sea crude. Even though these imports constitute less than 10 percent of U.S. gasoline consumption, they are necessary to satisfy domestic demand and their price sets the market price for all gasoline regardless of whether other cheaper crude sources are used to refine most of our gasoline.

Why is the price of North Sea crude rising? One possibility is that supply is down. North Sea (British) production has been decreasing for some time. During the first quarter of 2007, it was 1.7 million barrels a day, or mbd. By the end of 2011, it was down to 1.1 mbd. Norwegian crude oil production has likewise decreased from 2.7 mbd in the first quarter of 2007 to 2.1 mbd at the end of 2011. And global demand is bidding up the price of crude oil from the North Sea and elsewhere.

Ironically, during the same time period, U.S. crude oil production has marched upward for the first time since 1971. Since the start of 2007, U.S. production has increased by 2.1 mbd. Sure, more domestic oil creates the possibility of fewer refined imports tied to the price of Brent crude, but given that the price of Brent sets the price for crude generally, **the result would be more profit for domestic crude producers rather than significantly lower gasoline prices for Americans** (not that there's anything wrong with that).

So despite the popular perception of President Obama as anti-oil, domestic oil production is increasing for the first time since the Johnson administration…. Unfortunately, presidents get blamed for world market changes that occur during their time in office … but generally, they do not cause them.

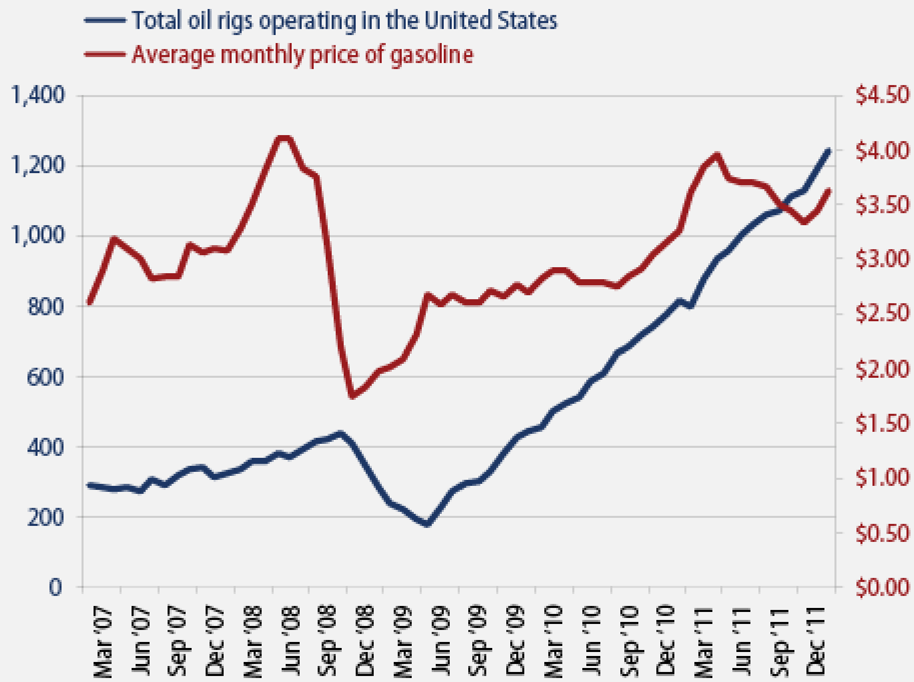
The Cato Institute, originally the Charles Koch Foundation, is in the process of being officially taken back by the Kochs, who I expect may take issue with Cato's rare broken-clock sensibility on issues like this one.

Still, let's enjoy the rare agreement between CATO, the WSJ, and the Center for American Progress:

"More Drilling Won't Lower Gas Prices": Soaring Domestic Production Has Failed to Ease Pain at the Pump

Increased oil production hasn't lowered gas prices

Number of oil rigs compared to the price of gasoline, March 2007 to February 2012



Source: For gas price data, see: "U.S. All Grades All Formulations Retail Gasoline Prices (Dollars per Gallon)," available at http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=emm_epm0_pte_nus_dpg&f=m. For rig data, see: "Baker Hughes Incorporated - Overview & FAQ," available at http://investor.shareholder.com/bhi/rig_counts/rc_index.cfm.