



THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY

GAS FAQ VIDEO BRIEFING TRANSCRIPT:
U.S. GASOLINE MARKETS AND
U.S. OIL DEPENDENCE

BY

KENNETH B. MEDLOCK III, PH.D.
FELLOW IN ENERGY STUDIES
JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY

AND

AMY MYERS JAFFE
WALLACE S. WILSON FELLOW IN ENERGY STUDIES
JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY

AUGUST 10, 2007

Gas FAQ Video Briefing Transcript

THE FOLLOWING OPINION PIECE WAS WRITTEN BY A RESEARCHER, FELLOW OR SCHOLAR. THE RESEARCH AND VIEWS EXPRESSED IN THIS OPINION PIECE ARE THOSE OF THE INDIVIDUAL(S), AND DO NOT NECESSARILY REPRESENT THE VIEWS OF THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY.

© 2007 BY THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY OF RICE UNIVERSITY

THIS MATERIAL MAY BE QUOTED OR REPRODUCED WITHOUT PRIOR PERMISSION,
PROVIDED APPROPRIATE CREDIT IS GIVEN TO THE AUTHOR AND
THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY.

Gas FAQ Video Briefing Transcript

Q: Are Americans “Addicted” to Driving and Gas?

Amy Jaffe: Well, of course our culture is built up around the automobile, the automobile is an important part of the history of the United States and our expansion to be a great economy, but secondarily when you think about the automobile, and gasoline and its role in our day-to-day lives, there really is no substitute. It's not like if we can't have gasoline then we could put something else in our car. But with gasoline, there's no alternative, and so when the price goes up, people really take notice because it's an expense they have to have – there's no way to really avoid that expense.

Q: Why Do Gas Prices Keep Rising?

Kenneth Medlock: The biggest driver behind the increase in price is the price of crude oil. We use crude oil to refine gasoline as well as a number of other petroleum products, and what we've seen over the past, well, 4 to 5 years is an unprecedented increase in the price of crude, and that, in turn, has caused gasoline prices to rise.

Q: Is China a Competitor for Oil?

A.J.: Well, you know, there is no question that Chinese oil demand has been rising, you know, since the mid '90s, and it is starting to get to be quite large, but we have to have some perspective on that. We have 250 million cars on the road in the United States, that's almost a car for every American. In China, their population is four times as large, but there are only 13 million vehicles on the road, and they use about 5 percent of global road fuel supply, versus our 30-something percent. So really, our growth in demand and our tremendous use of gasoline fuel is a much bigger variable on the international market than China's current use.

Q: Why Not Just Make More Gas?

K.M.: There are a number of reasons why we can't just produce more gasoline, to sort of produce our way out of the problem that we're facing today. First, we need more crude supplies, and domestically that's very difficult because the oil that we have been producing to date, primarily comes from mature, well-explored basins, so there's quite frankly not a lot of oil left in those particular regions, and then there are unconventional sources of oil that, to date, have not

been able to be extracted economically because they take different technologies, they're much more expensive to extract from the ground and then move to markets. Now, as far as once we had the crude supplies, we still don't have the refining capabilities to handle those supplies, so we've all heard about the lack of construction of a new refinery in this country over the past 30 years, and while yes, that is very true, there are some important facts that people need to be aware of – first of all, the refining business by itself is not historically a high-profitability business. Now the past few years notwithstanding, that has led to a lack of interest in actually building a new refinery, because it's very capital intensive, it's very expensive to do that, and when you make an investment of that size, you typically want to earn a return on that investment. So we're increasingly competing for a scarce resource. The answer ultimately is that we will have to have, given the pace of demand growth, an expansion of refinery capacity that is appreciable enough to keep up, keep pace.

Q: "Oil Independence" Fact or Fiction?

A.J.: You know, when you look at how much oil we import, which is close to 12 million barrels a day, the possibility of our eliminating that is really pretty impossible. It would take major lifestyle changes in the United States, people would not be able to commute the distances they commute today, and actually, those imports go beyond even the transportation sector, so, it's not really going to be possible just by improving gasoline mileage or [by] having some small percentage of our fuel supply come from ethanol or other biofuels. It's just not going to be possible to eliminate that large a piece of oil demand. I think the other thing when we think about energy independence that people need to understand is they hear these political sound bites: "We can achieve energy independence through ethanol"; or, "If we just all used hybrid electric cars, then we could achieve energy independence"; or, "If we were to drill in Alaska, we could achieve energy independence"; and the reality is that we import so much oil, and that number is increasing by such a great rate, year after year, that it would take really a combination of all the policies that have ever been proposed to really even start to get us on the path of decreasing our oil demand. I mean, some of the policies that have been proposed are really truly just designed to help us stave off the continued increase.

Q: Is Ethanol an Answer?

A.J.: Sometimes the way politicians speak about ethanol, it's like it's replacing gasoline, but actually, since the Clean Air Act required us to have cleaner gasoline, which has helped with air pollution in our cities across America, we had additives added to gasoline to make gasoline cleaner, one of those additives was MTBE, and it was found that MTBE was very dangerous to our water supply, if there was a leak at a gasoline station. So it was mandated that all MTBE needs to be replaced with ethanol. So at this point, really, all the ethanol that's being produced in the United States is doing is replacing other, banned additives to gasoline, so it hasn't really boosted our supply.

Q: Can Hybrid Vehicles Help?

K.M.: Absolutely, I think already you've seen an appreciable penetration of hybrid technologies, especially on the heels of ... the current price environment. And it's an attractive technology because it doesn't require us to change the entire field delivery infrastructure, but it does deliver benefits in terms of increased efficiency, so we can drive the same number of miles and use much less fuel, it's lighter on our pocketbooks, so on and so forth.

Q: What Are Our Policy Options?

A.J.: You know, it's very hard for politicians. Our politicians have been telling the average American that we can do something about energy, and energy security, at no inconvenience to the American motorist, and that's probably not correct. It probably is going to require some kind of combination of policies that are going to affect us in our daily lives. One of the things, I think, that's going to come up in the next year or two that the public is probably not focused on, is that the gasoline taxes that are currently charged in the United States are not going to be enough to continue to meet our needs for repairing roads and other infrastructure for our highway system, and so there's going to be a pressure to come up with a higher gasoline tax anyway, even if we weren't going to use it as a tool to stimulate people to have more efficient cars, or to think more carefully about how they use fuel.

Q: Why this FAQ?

A.J.: When we think about the Baker Institute and our Energy Forum specifically, we really see our role to help the public understand what are the basic facts you need to know in formulating sound and smart policy, and in the area of energy security and gasoline prices, there's a tremendous amount of misinformation. People are spouting off statistics and policy ideas, some of which don't make sense, some of which is inaccurate, and so we really felt that this was an important time to sort of get the facts out there, so that the public can weigh in, the average American motorist can weigh in and say, "No, I am not willing to subsidize this or that program so that it benefits people only from this state or this particular industry, I want the policy that will help all Americans"; and to do that you need to be armed with the basic facts. We have teamed together with the American Automobile Association to try to promote a greater awareness of the basic facts surrounding gasoline use and supply in the United States, because without that basic knowledge, then we really won't be able to have the kind of sound policies it's going to take to get us out of the dilemmas we're in every summer, where we have to worry about supply, we're seeing price spikes, we're not understanding why. So that was really the design behind creating this set of FAQs that we have on our Web site at the Baker Institute.

For more information on this and other programs, please visit www.bakerinstitute.org.