

A Sustainable Environment: Our Obligation to Protect God’s Gift

by
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Is the Price of Gas Too High?

About four years ago, I wrote an article titled, “Some Thoughts on Current Topics: Off-Shore Drilling and Excessive Oil Company Profits.” The article was written a few months before the 2008 presidential election. At that time, the price of gas in Chicago was \$4.35 per gallon while the national average was \$4.12 per gallon – around July 2008. Everyone was complaining about how expensive it was to drive a car. But by the end of the year, the price dropped to \$1.62 per gallon. The new president became a “hero”.

It is now four years later, the Republican party is trying to select a candidate to run against President Obama in November, and one of the issues is the high price of gas. The national average price is currently at \$3.90 per gallon while in Chicago it is \$4.52 – a larger spread than four years ago when there was only a \$0.23 difference between the Chicago and the national average. Now it is \$0.62. Why such a difference and how are these gas prices impacted by the price of oil?

I decided to do some research to see how the price of gas reacts to the price of oil.

Date	U.S. Average Gas Price (\$/gallon)	Oil Price (\$/barrel)
April 1, 2011	3.66	108
May 1, 2011	3.92	112
June 1, 2011	3.78	100
July 1, 2011	3.57	95
August 1, 2011	3.70	92
September 1, 2011	3.61	86
October 1, 2011	3.46	79
November 1, 2011	3.46	94
December 1, 2011	3.33	100
January 1, 2012	3.25	99
February 1, 2012	3.37	98
March 1, 2012	3.69	107
April 1, 2012	3.90	103

In a 2008 article by John David Powell, he discussed the composition of the price of gasoline. When gas is at \$3.25, the price of crude oil represents 68% of the price while oil refining, marketing, distribution, taxes and profit represent the remaining 32% which in this case is \$1.04. Of this amount refining and profits is \$0.23. If we assume that during the next four

years, all the fixed costs increased by 10%, then the price of gas should be \$1.14 plus the contribution from crude oil. In just the past 12 months, the variation in the price of gas due to crude oil is 38%. In October 2011, gas was \$3.46 and oil was \$79, while in January 2012 gas was \$0.21 per gallon less but oil was \$20 more. If you go back to the summer of 2008, gas was \$3.06 while oil was at \$145 per barrel. This just doesn't make sense. If all the other costs are fixed, the only variable has to be profit.

The other campaign issue that is discussed often is the increase in oil production since President Obama took office. This increase should help stabilize the price of gas. You may have heard the president state that U.S. oil production today is the highest it has been over the past eight years. This is true despite the current anti-oil administration. Overall, oil and gas production on federally controlled land is down 40% since Obama took office. The net increase is due to investment and leasing decisions on private and state lands made before, sometimes long before, this administration came into office.

The term you often hear is that we should become energy independent, and this is something no one can disagree. But how do we do it? Let me repeat something from my earlier article. Since the C.A.F.E. (Corporate Average Fuel Economy) has been 27.5 miles per gallon for the past 30 years, let's assume all the cars on the road in the U.S. today average this fuel economy. If we increased the fuel economy to 30.5 mpg, we would not need to import any oil from the Persian Gulf. And if we don't want to import any oil from Venezuela either, then the average fuel consumption must go to 32.5 mpg. We need more fuel-efficient automobiles. I was driving a 40 mile-per-gallon automobile over 50 years ago, so we should be able to build them today with that same fuel economy.