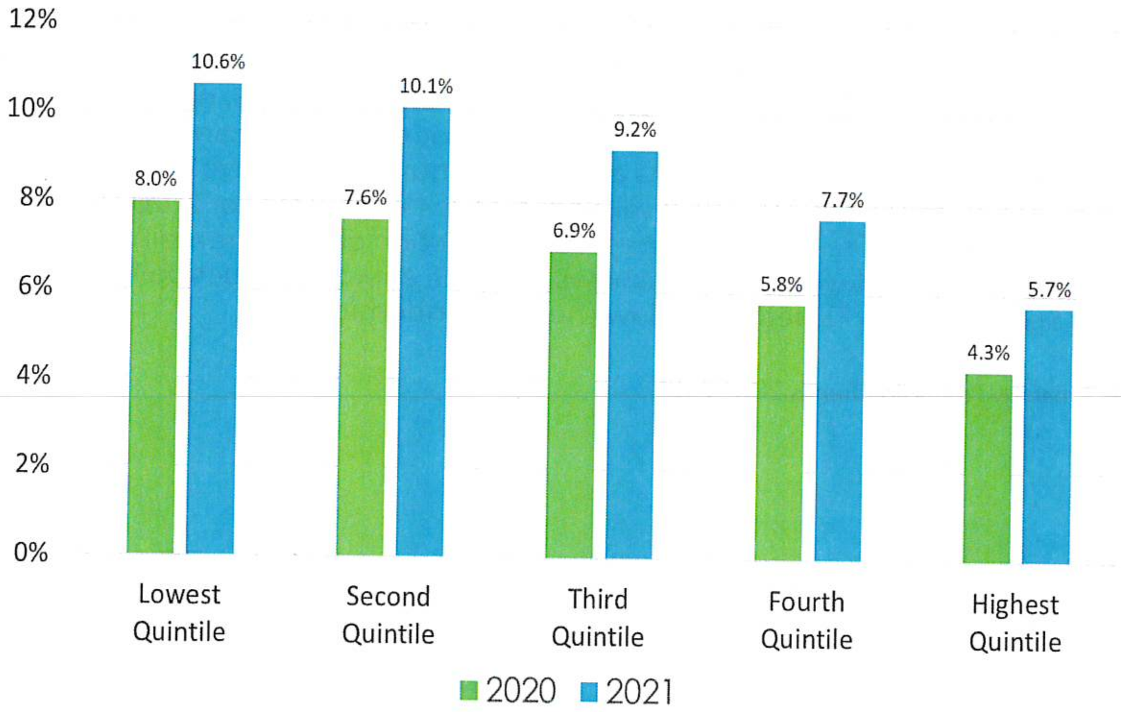
To Combat Rising Energy Prices, Unleash American Production

Ranking Member Mike Lee (R-UT)

Joint Economic Committee Republicans

jec.senate.gov | G-01 Dirksen Senate Office Building Washington, DC 20510 | (202) 224-5171

Figure 1: Expenditures on Energy as Percent of Total Expenditures, 2020-2021



Source: JEC analysis using data from the Consumer Expenditure Survey and Penn-Wharton Budget Model.[4]

These estimates understate the full impact of higher energy prices on consumers. Higher gas and electricity prices also increase the costs of most other goods and services, such as the cost of trucks driving produce to market.

Rising energy prices are a significant burden for all American families and hit the lowest income households the hardest.

WHY ENERGY PRICES ARE RISING

Like price increases in other areas of the economy, the recent rise in energy prices is largely the result of elevated demand and restricted supply. A faster than expected recovery in demand was boosted even higher by heavy government spending and worsened by government-imposed impediments to increased domestic production.[5]

Domestic trends are reflected on the world stage. The gap between global oil consumption and production increased last year, with consumption outpacing oil production by 2.2 million barrels per day in the third quarter of 2021. The widening global gap between consumption and production has reduced world oil reserves by 342 million barrels over the past three quarters.[6]

Complicating matters further, the Organization of the Petroleum Exporting Countries (OPEC)—a cartel of oil-producing countries and its allies that hold approximately 80 percent of the world's known oil reserves—remains reluctant to increase production to pre-pandemic levels following large cuts to production in March 2020. Producers in the U.S. are particularly wary of OPEC's ability to undercut their prices because OPEC producers have some of the lowest marginal production costs in the world.[10] In Saudi Arabia, the average cost to produce and transport a barrel of oil or gas is approximately $9 a barrel, less than half the cost for U.S. producers.[11]

Energy prices are heavily influenced by complicated global dynamics and geopolitics. Producers and investors remain hesitant to quickly expand capacity while uncertainty remains surrounding the course of domestic policy, the possibility of future COVID variants, and the potential for OPEC to unilaterally increase production. Each of the above developments could make domestic investments unprofitable. As a result, energy supply has not kept pace with demand, contributing to rising energy prices.

SUPPLY IS KEY

For energy prices to fall, oil and gas supply must rise to meet global demand. While U.S. oil and gas production are tied to the global market, Congress and the Biden Administration can still take important steps to ease barriers for domestic producers and ensure policy is not adding additional uncertainty and inefficiencies to the energy sector. Some of the Biden Administration's recent actions communicate a desire to increase the supply of oil to meet demand and relieve price pressures. However, a more comprehensive policy agenda by the Biden Administration is simultaneously working to undermine domestic oil and gas production.

The Biden Administration announced in November 2021 that the United States would release 50 million barrels of crude oil from the Strategic Petroleum Reserve (SPR) in coordination with similar actions by other major nations in an attempt to help alleviate supply shortages.[12] The barrels of crude oil released by the U.S. represent only one half of one day's global oil consumption.[13] The move does not address underlying supply issues and was already largely priced in to global markets, with crude oil prices actually rising 3 percent immediately following the announcement.[14]

In addition to the SPR release, the Biden Administration issued an unsuccessful request to OPEC to increase production and submitted a letter to the Federal Trade Commission (FTC) alleging oil and gas companies are purposefully restricting supply to drive up prices.[15] Each of these actions is inadequate. For example, the FTC allegation attempts to blame domestic producers for a price increase driven primarily by global markets.

Investors and business leaders make business decisions based on policy actions as well as the political discussion that often precedes policy. The perceived political climate can directly influence forward-looking investment decisions, especially in heavily regulated industries. The Biden Administration has consistently threatened oil and gas producers with new taxes, regulation, and reporting requirements that raise costs for domestic producers. Similarly, Congressional Democrats have gone so far as to propose legislation that bans banks from financing fossil fuel production, to name just one of many similarly targeted proposals.[23]

Washington is sending conflicting messages. Policymakers seem simultaneously concerned about high prices reflecting the weak supply of oil and gas, while aggressively pursuing an agenda designed to entirely phase-out oil and gas from domestic energy production.[24] High levels of policy uncertainty at home can only lead to producers hedging against both global macro uncertainty and unfavorable policy conditions domestically.

New government-imposed costs combined with pandemic-related uncertainty and the threat of OPEC unilaterally increasing production have fostered hesitancy among oil and gas producers that is stalling production.

TO LOWER PRICES, PRIORITIZE AMERICAN ENERGY PRODUCTION

Global energy markets are complex, and prices reflect a multitude of dynamics that are often outside the control of U.S. policymakers. However, without addressing the current barriers imposed by government policies on oil and gas production and maintaining an all-of-the-above approach to addressing America's energy needs, energy prices will remain higher than they would be otherwise. At least on the margin, domestic policy has contributed to the inflationary pressures that are increasing prices and making life more expensive for all Americans. To address the ongoing energy crisis, policymakers should prioritize restoring American energy production.

Hugo Dante
Economist

Kole Nichols
Data Analyst

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