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Why *are* gas prices so high? No, really, WHY???

Posted by Prof. Goose on April 11, 2005 - 12:20pm

Sometimes we forget that there are many actors involved in the process of getting gasoline to market, many steps in the process of refining crude. Some of these can create bottlenecks of supply (for instance, American refining capacity...we just can't get anymore gasoline to market right now).

First, here's a link to an article that claims that gas prices are going to go through an average of $3/gal by 2006, if not this summer. Why? Because we are at full refining capacity. If we lose one refinery, if we lose one tanker, if one country in the world slows its production for ANY reason, prices could skyrocket (this is the point of the Goldman Sachs "superspike" scenario, but there are many other reasons gas prices will continue to rise, namely increasing demand and static or falling supply...you know that whole "peak oil" thing?)

I also found an article that does a really nice job of laying out the many actors involved in higher gas prices...here's the link. It's not your local gas station that's ever the cause of higher prices, folks. The price is established well before that in the causal chain. More importantly, it does a nice job of capturing the picture of global interdependency and the many variables involved in the supply and demand equation that we often just gloss over by saying "demand" and "supply."

Some of the money quotes:

"The most obvious villains are the giant oil companies and rich oil countries such as Saudi Arabia. But they're just two pieces of a complicated answer to why the price at the pump is so high.

Other villains include, in no particular order: you, environmentalists, the weak dollar, government regulators, Wall Street investors, China and other developing nations. All played a role in creating today's high gas prices."

edited to add:

Hey, now here's an idea:

"Any non-American is bound to think that there is a much easier way. A tax of $1 per gallon, made in five annual steps and announced in advance, would eliminate the US budget deficit, support the dollar and help to curb oil consumption in a predictable way that allows the motor industry to market new ranges of vehicles using less fuel and maintains consumer confidence. It would also, in future, give the Federal government a weapon to stop future oil spikes hurting the US economy. Sadly, we know that US oil is influential and this will not happen."

sigh, I fear the article is correct...that's a solution that would fly in Europe, but not here. Oil interests are too strong and public opinion isn't riled yet. People are already pissed off about paying $2.25/gal here in the US! This piece of wisdom (and a few others) can be found here at the

Times Online (UK).

Technorati Tags: peak oil, gas prices