



## What fraction of America's \$4+ gallon gasoline is due to the war in Iraq?

Posted by [Prof. Goose](#) on July 11, 2008 - 10:00am

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*This is a guest post by A Siegel, who blogs on a range of energy issues at [Get Energy Smart! NOW!!!](#) and works with TOD European Editor Jerome a Paris on [Energize America](#), a blog-driven effort to develop innovative and holistic energy policy options in the face of peak oil and global warming.*

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**What fraction of America's \$4+ gallon gasoline is due to the war in Iraq?**

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Earlier today, someone asserted that well over half (or more than \$2) of America's \$4.10 gallon of gas is due to the war. Another person asked "Is that right?" And, after pulling out some hair from my head, my response was both short and then long.

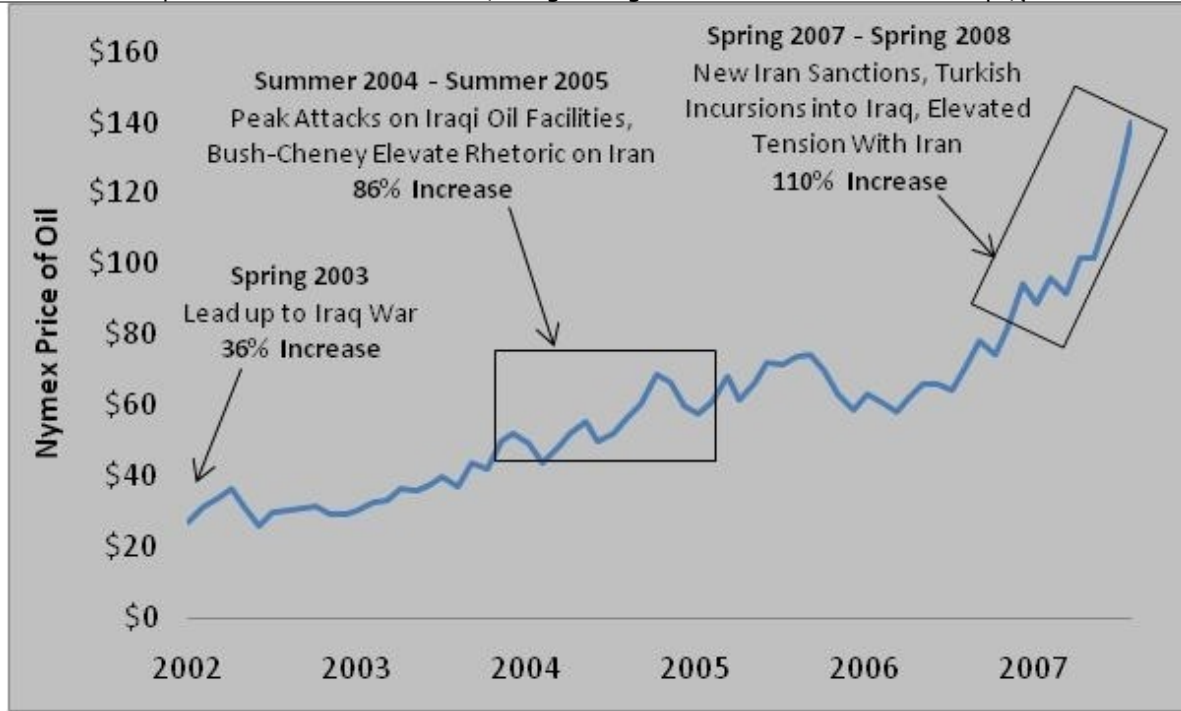
### The short:

Two dollars a gallon is, perhaps, as good a swag as anyone's.

...

I think.

And, **the long?** well, it's under the fold. :)



And, **the long:**

This is really a tough analytical (ANALyst) question, without a pure answer. How much did invading Iraq add to the price of gasoline? It really depends on who the hell you ask, what assumptions are, etc ..

1. For most, the two prime drivers are mounting demand combined with constrained supply (Peak Oil hits).
2. There is, from what I can tell, an over exaggeration of the role of speculation; this is profiting off oil prices not driving them.
3. There is, however, a major risk factor in the market due to tensions in the Persian Gulf/etc. (The war, threats to Iran, etc ...)
4. Without Operation Iraqi Freedom and with better relationships with Iran, would there be global investments in Iraq / Iran such that they would be producing more oil for the world market?
5. To what extent is the Iraq War responsible for the devaluation of the dollar over the past five years and the role this has on oil prices?
6. And, this question doesn't deal with the most interesting question: What is the true total cost of a gallon of gasoline? Because, when we add in security, infrastructure, health, pollution, and other costs, many analysts put the "price" of a gallon of gasoline well above \$10 (and even >\$15) per gallon. But 'the true cost of gasoline' wasn't the question and conversation.

Let's look around at some of the discussion of the issues related to the Iraq War and gasoline prices.

From [EIA's gasoline price primer](#):

Crude oil supply and prices – Crude oil prices are determined by worldwide supply and demand. Events in crude oil markets that caused spikes in crude oil prices were a major factor in all but one of the five major run-ups in gasoline prices between 1992 and 1997, according to the National Petroleum Council's study "U.S. Petroleum Supply - Inventory Dynamics." Rapid gasoline price increases occurred in response to crude oil shortages caused by the Arab oil embargo in 1973, the Iranian revolution in 1978, the Iran/Iraq war in 1980, and the Persian Gulf conflict in 1990. The cost of crude oil has been the main contributor to recent increases in gasoline prices. World crude oil prices reached *record levels in 2007 due mainly to high worldwide oil demand relative to supply. Other factors contributing to higher crude oil prices include political events and conflicts in some major oil producing regions*, as well as other factors such as the declining value of the U.S. dollar (the currency at which crude oil is traded globally).

Okay, for EIA, the prime cause: supply / demand curves, but note "political events and conflicts".

Chris at [Daily Liberty Research](#) did a [nice post on driving factors of oil prices](#) with an interesting collection of articles, including the late June reporting that "OPEC President Chakib Khelil predicted that the price of oil will climb to \$170 a barrel before the end of the year, citing the dollar's decline and political conflicts..." Chris comes to this key conclusion

the main reasons for high gas prices are the weak dollar/inflation (aka the Federal Reserve), the current wars we are in, and the likelihood of the U.S. starting more wars in the near future.

[National Security Network took a look at the issue](#) as well, with a focus on the risk premium. They comment that "some experts estimate" a risk premium of \$30 to \$40 barrel due to tensions with Iran/etc. That is what my 'off the top of the head' figure would have been for risk premium. But, guess what: even the best analysts, when pushed away from reporters, seem call this a guess, a swag or, at best, an "educated" or "informed" estimate. And, of course, the risk premium doesn't address the question of whether there would be more oil produced absent the US invasion and occupation of Iraq and sanctions against Iran. Nor does it address the question of how much of dollar's fall is due to conflict in Iraq and tension with Iran.

### **Back to a swag:**

These, however, don't clearly answer the questions. Is the Iraq war premium \$3? \$2.30? \$2? A buck? Twenty cents? Or, is there no premium at all? I find a \$3 per gallon assertion absurd, just as I would find it absurd to assert that there is no premium at all. But, in terms of defensible analysis, in scratching my head, I return to the short answer:

Two dollars a gallon is, perhaps, as good a swag as anyone's.

...

I think.

But that is why this post is here. To spark a conversation. To be honest, I don't know the answers to these questions. I wonder whether anyone really does. Which is one of the reasons why I'm writing this. I don't know. I am not expert on gasoline prices and all the factors that coalesce to drive prices that are paid at the pump. Many here, however, are ... Are the questions asked above the right ones? Are there major factors missing? And, what might the answers be? What is a 'defensible' statement as to the premium American drivers pay at the pump and



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