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Bill O'Reilly is Misinforming Americans About Oil Supplies

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Last week I was interviewed by Alan Colmes from Fox News Radio on the topic of gas prices. During the interview, he mentioned an idea that Bill O'Reilly has proposed, and that is to address gasoline prices by discouraging U.S. oil companies from exporting their products. The critics of Bill's proposal have generally focused on the notion that "We can't tell the oil companies where to sell their product."

However, there is a far more fundamental issue, and that is that the basic facts of his proposal are based on an erroneous assumption. Let's first have a look at the proposal, in his own words:

> O'Reilly: We began covering the skyrocketing oil prices last Friday with Lou Dobbs. He was candid, saying because of the mild winter, there is plenty of oil and gas in the U.S.A. So supply and demand here should dictate lower prices.

With all due respect, Bill O'Reilly has a fundamental misunderstanding about oil supplies. There is not "plenty of oil and gas in the U.S.A." He has mistakenly translated net exports of finished products like gasoline and diesel into "plenty of oil and gas in the U.S.A.", as I explain below.

> O'Reilly: But of course, they are not lower. They are much higher because the oil companies are shipping their products overseas. Measured in dollars, so oil products are now America's largest export worth $88 billion a year to the oil companies. A decade ago, oil exports were not even among the top 25 exports. Most of the oil stayed here. And with working Americans getting hammered by stagnant wages and huge unemployment, this is yet another punishing situation for the folks.

Most of the oil still stays here. O'Reilly is casually conflating exports of oil products and "oil exports." According to the Energy Information Administration, the U.S. currently produces 5.7 million barrels of crude oil per day, imports 9 million barrels of crude oil per day, and exports 50,000 barrels per day (less than 1% of our crude oil production). The fact that we import 9 million barrels of oil per day demonstrates that we do not have "plenty of oil and gas in the U.S.A." Where does the less than 1% of crude that is exported go? To Canada. And by the way, we import 2.3 million barrels of oil per day from Canada. But why do we export any oil at all? Oil that is exported to Canada is most likely produced in fields that have easier access to Canadian refineries than to U.S. refineries. Clearly, since we import over 50 times as much oil from Canada as we export to them, we aren't doing it because they need the oil worse than the U.S. does.

Now that we have cleared that up, let's examine O'Reilly's proposal:

> O'Reilly: However, if the Obama administration wanted to, it could ask Congress to raise export taxes on the oil companies to encourage them to sell their products here. Think about it. The oil companies are regulated by the federal government. They can't drill on land nor in American waters without permission from the feds. Many Republicans want to drill baby drill but what's the point if all the oil goes to China? Increased production obviously doesn't mean lower prices for us.

Here is the reason his proposal would have zero impact on gas prices, and would in fact accelerate the closure of U.S. refineries. O'Reilly believes that U.S. oil companies are drilling for oil, producing gasoline, and shipping that overseas (or simply shipping the crude overseas). As shown above, net imports of crude oil are still 9 million barrels per day -- a number that has not changed much in the past few years. It is the finished products that are being exported -- not crude oil -- and these finished products are being made from imported oil. We have oil refiners like Valero -- who don't actually produce oil at all, but import oil from countries like Mexico and Brazil, refine it, and ship gasoline back to them. Between just Mexico and Brazil (and there are others), we are importing 1.5 million barrels of oil per day, and sending them back about a million barrels a day of finished products. (Some of the oil we get from them does stay in the U.S. as finished products). If you subtract our finished product exports from our oil imports, you still end up with net imports of crude oil and crude products of 8 million barrels per day. Hence, the U.S. still operates at a significant import deficit, which contradicts claims that we have plenty of oil and gas in the U.S.

So how might O'Reilly's proposal play out? It is easy enough to see what would happen. If you put a high export tariff on fuel and made it unattractive for U.S. oil companies to export their products, they simply would not import as much oil. So as gasoline demand continues to fall in the U.S., instead of continuing to import 9 million barrels per day and export 1 million barrels of finished products, we might only import 8 million barrels of oil per day and then export zero. It would not impact the balance of fuel supplies at all within the U.S., but it would lead to faster closures of U.S. refineries as their export markets dried up. So you would see the export problem "solved", and the consequences would be no change in U.S. gasoline prices (Brazil and Mexico would then source their gasoline from someone else who benefitted from the refining jobs) and there would be further loss of refining jobs in the U.S.

Bill O'Reilly is promoting a false belief: that the U.S. is awash in oil and that gasoline prices are high because we are shipping gasoline overseas instead of selling it domestically. The truth is that the U.S. does not produce nearly enough oil to meet our fuel demands, but we import about a million barrels a day more than we need and export some of the excess as finished products, creating jobs and helping the balance of trade in the process. The reason we are doing this is that domestic demand for gasoline has fallen in recent years, and refiners can therefore either close more refineries or they can find other markets for their products. Thus the main reason to reject O'Reilly's idea is simply because it is based on a false notion. He would do a great service to his viewers if he clarified the situation.