Study finds continuing upward pressure on retail gasoline prices

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With the price of a barrel of oil hovering around $120, U.S. drivers can expect to pay more at the pump in the near future, according to a new study by Rice University's Baker Institute for Public Policy.

"There is room for retail gasoline prices to move up," said Kenneth Medlock III, a Baker Institute fellow in energy studies and one of the study's authors. While Medlock cautioned that seasonal variability and other factors could affect prices in the near term, he said gasoline could easily reach $4.20/gallon around the Memorial Day holiday, especially if demand spikes as it normally does.

The study, titled "U.S. Energy Policy and Transportation," is part of a series of working papers on "The Global Energy Market: Comprehensive Strategies to Meet Geopolitical and Financial Risks." It was co-authored by Medlock and Amy Myers Jaffe, the Wallace S. Wilson Fellow in Energy Studies at the Baker Institute. The study may be viewed at www.rice.edu/nationalmedia/multimedia/gasprice-transportation.pdf.

"In the short term," the study found, "temporary demand and supply factors can cause gasoline prices to rise substantially. Given the shortage in refinery capacity in the United States, these short-run departures have been growing larger and more frequent. Demand has grown steadily, but U.S. refinery capacity has not kept pace. Thus, the U.S. market has become increasingly dependent on foreign gasoline imports. At the same time, growing demand elsewhere in the world means increased competition for gasoline, which, in turn, drives up the price to attract imports during high U.S. demand periods."

However, the study also warned against blaming the growing demand in other countries for the high fuel prices in the United States. "Many have pointed to growing demand in Asia as the culprit for higher prices," according to the study, "but the United States consumes 33 percent of the world's road transportation fuel and demand continues to grow. Thus, as American demand goes, so goes the world price of oil."

The only way to address high energy prices over the long term, the study's authors argued, is to curb U.S. demand growth. They call for "a combination of conservation, higher fuel efficiency, alternative fuels and greater domestic production capacity" to achieve "manageable and acceptable" gasoline prices in the future.

Source: Rice University

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