# VIDEO: Big Oil Is Gaming the System to Keep Domestic U.S. Prices High

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Leah McGrath Goodman – who has written for the Financial Times, Barron's, The Wall Street Journal, Forbes and Fortune – notes that the U.S. is now an exporter of refined petroleum products, but that Americans aren't getting reduced prices because the oil companies are now pricing the fuel according toEuropean metrics:

> The U.S. is now selling more petroleum products than it is buying for the first time in more than six decades. Yet Americans are paying around $4 or more for a gallon of gas, even as demand slumps to historic lows. What gives?
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> Americans have been told for years that if only we drilled more oil, we would see a drop in gasoline prices.
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> But more drilling is happening now, and prices are still going up. That's because Wall Street has changed the formula for pricing gasoline.
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> Until this time last year, gas prices hinged on the price of U.S. crude oil, set daily in a small town in Cushing, Oklahoma – the largest oil-storage hub in the country. Today, gasoline prices instead track the price of a type of oil found in the North Sea called Brent crude. And Brent crude, it so happens, trades at a premium to U.S. oil by around $20 a barrel.
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> So, even as we drill for more oil in the U.S., the price benchmark has dodged the markdown bullet by taking cues from the more expensive oil. As always, we must compete with the rest of the world for petroleum – including our own.
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> This is an unprecedented shift. Since the dawn of the modern-day oil markets in downtown Manhattan in the 1980s, U.S. gasoline prices have followed the domestic oil price ….
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> In the past year, U.S. oil prices have repeatedly traded in the double-digits below the Brent price. That is money Wall Street cannot afford to walk away from.
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> To put it more literally, if a Wall Street trader or a major oil company can get a higher price for oil from an overseas buyer, rather than an American one, the overseas buyer wins. Just because an oil company drills inside U.S. borders doesn't mean it has to sell to a U.S. buyer. There is patriotism and then there is profit motive. This is why Americans should carefully consider the sacrifice of

wildlife preservation areas before designating them for oil drilling. The harsh reality is that we may never see a drop of oil that comes from some of our most precious lands.

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With the planned construction of more pipelines from Canada to the Gulf of Mexico, oil will be able to leave the U.S. in greater volumes.

The Wall Street Journal noted last November (subscription required) :

> "The sale of an oil pipeline running from Oklahoma to Texas upended U.S. energy markets Wednesday, sending the price of crude surging above $100 a barrel …Enbridge Inc.—which bought a 50% stake in the Seaway Pipeline—announced it would reverse the direction of the flow, allowing more crude to move south from oil storage in Cushing, Okla., into the world's largest refinery complex along the Gulf Coast. Over the past two years, the U.S. has started producing so much oil that existing pipelines have been unable to move it to refineries. That has led to a glut of oil in the center of the country, keeping the price of American crude far below that of petroleum traded overseas…With a new supply of oil headed to Gulf Coast refineries, exports of gasoline are expected to rise … For decades, oil has been imported from overseas to the Gulf Coast, then either refined there or moved elsewhere in the U.S. for processing.
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> "The pipeline system was set up to move crude from south to north…U.S. oil production, which had been declining since the 1970s, is climbing again. After bottoming out at five million barrels a day in 2008, domestic production has jumped by 10% in the past couple of years. It is expected to grow even more amid a drilling boom, as companies use hydraulic fracturing to free oil from shale rocks … More crude flowing to the Gulf Coast will feed a growing energy-export business to Latin America's rapidly growing economies. U.S. exports of petroleum products have reached 2.6 million barrels a day, double the level of three years ago. Roughly 15% of the gasoline and diesel refined in the U.S. is now exported, according to U.S. Energy Department data. "The middle of the U.S. should start considering applying for membership in OPEC," said Phil Verleger, an oil economist who runs PK Verleger LLC. Industry analysts don't expect rising U.S. crude-oil production to translate into lower gasoline or diesel prices anytime soon. So much gasoline and diesel is exported from the Gulf Coast that U.S. customers compete with customers in Mexico and the rest of Latin America—and have to pay as much as these foreign users ….
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> Because of the glut in Cushing, the price paid for crude in the Midwest U.S. has beensubstantially less than European benchmark prices, such as Brent crude. This is expected to largely disappear by the middle of next year, as the Seaway pipeline change gets underway."

CNN Money reported in March that the Keystone Pipeline might also raise fuel prices within the U.S:

> Gas prices might go up, not down: Right now, a lot of oil being produced in Canada and North Dakota has trouble reaching the refineries and terminals on the Gulf. Since that supply can't be sold abroad, it reduces the competition for it to Midwest refineries that can pay lower prices to get it.
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> Giving the Canadian oil access to the Gulf means the glut in the Midwest goes

away, making it more expensive for the region.

Tyson Slocum – Director of Public Citizens' Energy Program – explained in November:

> How does bringing in more oil supply result in higher gas prices, you ask? Let me walk you through the facts. A combination of record domestic oil production and anemic domestic demand has resulted in large stockpiles of crude oil in the U.S. In particular, supplies of crude in the critical area of Cushing, OK increased more than 150% from 2004 to early 2011 (compared to a 40% rise for the country as a whole). Segments of the oil industry want to import additional supplies of crude from Canada, bypass the surplus crude stockpiles in Oklahoma in an effort to refine this Canadian imported oil into gasoline in the Gulf Coast with the goal of increasing gasoline exports to Latin America and other foreign markets.
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> Cushing typically is a busy place – I noted in my recent Senate testimony how Wall Street speculators were snapping up oil storage capacity at Cushing. And all of that surplus capacity is pushing WTI prices down – and for many in the oil business, downward pressure on prices is a terrible thing. As MarketWatch reports, "[B]y running south across six U.S. states from Alberta to the Gulf of Mexico, [the Keystone pipeline] would skirt the pipeline hub at landlocked Cushing, Okla., a bottleneck that has forced Canadian producers to sell their oil at a steep discount to other crude grades facing fewer obstacles to the market.
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> There are several global crude oil benchmarks, and the price differential between Brent and WTI now is around $10/barrel, which is a fairly significant spread, historically speaking. Moving more Canadian crude to bypass the WTI-benchmarked Cushing stocks, the industry hopes, will align WTI's current price discount to be higher, and more in line with Brent.
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> The Keystone pipeline isn't just about expanding the unsustainable mining of … Canadian crude, but also to raise gasoline prices for American consumers whose gasoline is currently priced under WTI crude benchmark prices.

In an interview in January, Slocum noted that oil is America's number 1 import at time same that fuel is America's number 1 export.

Specifically, more oil is being produced now under Obama than under Bush. But gas consumption is flat.

So producers are exporting refined products. By exporting, producers keep refined products off the U.S. market, creating artificial scarcity and keeping U.S. fuel prices high.

Slocum said that the main goal of the Keystone Pipeline is to import Canadian crude so the big American oil companies can export more refined fuel, driving up prices for U.S. consumers.

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