



United States Senator
Richard Shelby
REPORTS TO ALABAMA



THE RISING COST OF GASOLINE

By: Senator Richard Shelby (R-AL)

As Memorial Day approaches and Americans begin their summer travel, I continue to be concerned by an issue that has plagued the nation for over three years: fuel prices. I last wrote about the price of gasoline in June of 2004, and since that time, the national average has increased to \$2.169 per gallon. While the prices we are paying today are lower than last month's and have not yet eclipsed the prices our country faced during the late 1970's and early 1980's, I am concerned about the disruptive effects that they are having on businesses and individuals in Alabama and across the country.

Higher fuel prices affect nearly every aspect of our daily lives, and they resonate through almost every sector of our economy. As a result, it becomes more expensive for us to commute to work, take our kids to daycare and school, get to important medical appointments, visit friends and loved ones who live far away, and even purchase everyday items that must travel through our economy. The increased costs of goods and services impact every community, and they are especially harmful to rural areas and small businesses. Most importantly, they can be devastating for anyone who struggles just to make ends meet.

I believe we must address the problem of volatile gasoline prices and their related costs before they threaten our economic recovery and our long-term prosperity. Without a comprehensive strategy to ensure steady, reliable supplies of petroleum, our country will always be subject to erratic prices that result from the uncertainty created by the cartel of oil-producing nations. The price of crude oil accounts for half of the price of a gallon of gasoline, and it is a major factor in the rise and fall of gas prices.

In the last month, we have seen the price of crude oil drop by nearly ten dollars a barrel and the Organization of the Petroleum Exporting Countries (OPEC), the cartel that controls a majority of the ready reserves of crude oil in the world, has indicated that it sees no need to reduce supply as long as prices stay above \$40 a barrel. While this is a positive development, it also emphasizes the control that OPEC has over the global oil market. Their decision to cut or increase production has a direct and immediate effect on the price of the gasoline you buy everyday. This factor alone should be enough for the United States to focus on energy independence. While OPEC and its production decisions are critical in the energy market, a number of other factors, such as conflict in the Middle East and increased demand, particularly in developing countries such as India and China, have also had a significant impact on the recent growth in crude prices.

While the price of crude oil is the most influential factor in the price of gasoline, it is also the most difficult for the federal government to change in the short-term. Nevertheless, I firmly believe we must work to reduce our long-term reliance on foreign oil by encouraging exploration and production of oil here at home. The Arctic National Wildlife Refuge (ANWR) has the potential to play a significant role in reducing our dependence on foreign oil. Only with an increased domestic capacity to meet our own oil demands will we be able to establish real energy independence and free ourselves from the whims of the OPEC cartel.

I also believe it is important to increase our domestic oil refining capacity. Presently, the United States has reached its domestic refining capacity. Because this capacity does

not meet the country's needs for refined gasoline, it must be imported at a significant cost to the consumer. Currently, the United States imports around 10% of the gasoline consumed in the country. Further, the construction of a new refinery in the United States has not occurred in more than a quarter century. As our demand continues to increase, so must our capability to provide for that demand. To that end, Congress should take steps to provide incentives for the construction of new refineries or the expansion of existing ones that allow U.S. refiners to increase their capacity. Currently, our nation's refineries are operating at around 97% of capacity, and the inventories in the United States are as high as they have been for the last six years. We must accept that this level of work at our refineries is not sustainable and that without growth in capacity we will continue to rely on foreign sources for either crude oil or finished gasoline.

While increased exploration, production, and refining are a critical part of a comprehensive energy plan, we must as a nation continue to invest in research to improve energy efficiency and create new and improved alternative fuels. Initiatives such as the President's hydrogen fuel initiative have the potential to reduce America's dependence on foreign oil, and we must, where feasible, continue to explore these initiatives further.

I believe these are important issues facing the nation, and I am committed to working with my colleagues in Congress to achieve a solution. In the short term, I believe that we must find a way to achieve lower gas prices, and in the long-term, I believe that we must work towards energy independence so that we can avoid many of the problems we encounter today.



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