

The Energy Shock of Putin's War

Note: The opinions expressed are those of the author alone and do not reflect an institutional position of the Gardner Institute. We hope the opinions shared contribute to the marketplace of ideas and help people as they formulate their own INFORMED DECISIONS™.

Motor gasoline prices have been top of mind for Utah motorists since Putin's war in Ukraine began in late February. The war is the primary factor boosting Utah's regular unleaded prices from \$3.80 per gallon in September 2021 to \$5.25 per gallon in July 2022.

Despite increased motor gasoline demand created by the 2022 summer driving season, Utah prices fell by \$1.00 per gallon during July and August.¹ Why did gasoline prices drop and who gets the credit for this price drop?

Retail gasoline prices can be decomposed into various components, whose shares can change over time. As of July 2022, crude oil prices account for 54 percent of motor gasoline's pump price (see Figure 1).

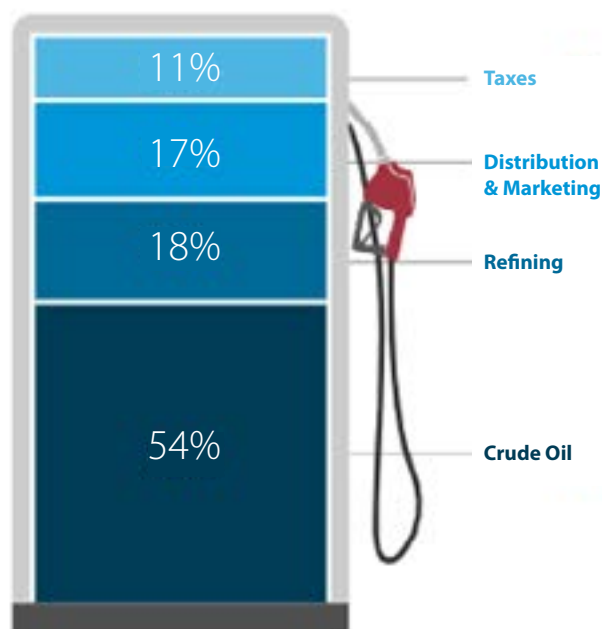
After Russia invaded Ukraine, crude oil prices spiked up when the United States and European Union sanctioned Russian crude oil exports. However, crude oil prices have subsequently decreased because of global supply and demand factors.

Crude oil supply. The United States began selling crude oil from its Gulf Coast Strategic Petroleum Reserve (SPR) in May, placing roughly 1 MM barrels per day for six months into the global market.² These released volumes place downward pressure on global crude oil prices. The United States sells more SPR crude oil barrels than is produced by medium-sized OPEC countries such as Algeria or Angola.

Crude oil demand. China now imports less crude oil because its zero-COVID policy restricts movements of both people and manufactured goods. China's crude oil imports decreased by 4.7% in the first eight months of 2022, the first drop since 2004.³

Who deserves credit? The U.S. government gets kudos. The Strategic Petroleum Reserve (SPR), implemented in 1975 after the Saudi Oil Embargo, is a buffer for natural disasters such as Hurricane Katrina and emergency supply disruptions created by wars. SPR's total storage capacity is 714 MM barrels, so the current crude oil inventory drawdown will not empty SPR tanks. Most importantly, the recent decline in gasoline prices had benefits of reduced motor gasoline prices for Utah drivers.

Figure 1: Price Components of Motor Gasoline



Source: U.S. Energy Information Administration, Gasoline and Diesel Fuel Update, July 2022

Endnotes

- 1 Based on the AAA Gas Prices website that provides average national, state and local prices for motor gasoline. AAA. <https://gasprices.aaa.com/>
- 2 President Biden's announcement on March 31, 2022 authorized the sale of crude oil (180 million barrels) from the Strategic Petroleum Reserve to help address the significant market supply disruption caused by Putin's war. United States Department of Energy. <https://www.energy.gov/articles/doe-announces-notice-sale-additional-crude-oil-strategic-petroleum-reserve>
- 3 The decline between January and August 2022 is the first contraction for this eight-month period since 2004. Reuters Asia. <https://www.reuters.com/markets/commodities/china-oil-demand-may-shrink-first-time-since-2002-covid-curbs-bite-2022-09-09/>

Authored by: Tom Holst, Senior Energy Analyst

INFORMED DECISIONS™