

COMBATING INFLATION

What's Behind High Energy Prices and What to Do About It

By Matt Letourneau, Managing Director of Communications and Media;
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As energy prices and the cost of inflation rise, the Biden Administration can help control rising energy prices by expanding U.S. energy production.

Fill me in: In March, year-over-year consumer price increases topped 8.5 percent, causing the highest inflationary rise in 40 years. One of the biggest drivers has been skyrocketing energy costs, which impact virtually every sector of the economy.

While the war in Ukraine and supply chain impacts from Russian sanctions have exacerbated price pressures, energy prices were already escalating well before the conflict did. Gasoline prices have more than doubled since their pandemic lows and now average \$4.21 per gallon nationwide. In the year preceding Russia's invasion of Ukraine, prices had increased by about 40 percent (over one dollar per gallon). Natural gas and electricity prices are important contribu-

tors as well. This can be clearly seen in the Global Energy Institute's 2021 electricity price map, which registered a record 5.6 percent increase in electricity prices last year alone — a number that has only gone up in 2022.

What's behind high energy prices?

Supply and demand. Like other commodities, energy prices are dictated by basic supply and demand. As business and leisure travel have resumed and manufacturing has returned, demand has increased, but energy supplies remain constrained by a variety of factors.

Uncertainty. The current Administration came into office with an agenda that includes phasing out of fossil fuels like oil and natural gas on an aggressive timeline. The exploration and production of oil and natural gas is extremely capital intensive and requires significant upfront investment and planning. Investors pay close attention to these kinds of signals, and fear of regulatory hurdles impacting returns have held investment back.

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Some politicians insist on blaming oil and natural gas companies for the current situation, accusing them of price gouging and putting forward debunked arguments about unused leases. That sends the wrong signal to the market. In part to balance this headwind, companies are now returning a higher percentage of the profits back to investors and investing less into new exploration and production.

Supply chain and labor. Like every other sector, energy companies are still recovering from the pandemic-related lockdowns and are struggling to source the materials and workers necessary to expand production. Global shortages and transportation bottlenecks have pushed inputs like tubular steel and sand to historically high prices, and often aren't available at all. This is limiting new exploration globally and preventing supply from keeping up with demand.

Infrastructure. The United States lacks the necessary infrastructure to support enhanced production. Well-funded, coordinated campaigns have defeated major projects like oil and natural gas pipelines that are necessary to

move products. New York and New England lack the pipeline capacity to take advantage of the nearby Marcellus Shale formation in Pennsylvania, and consequently have some of the highest energy prices in the nation. In fact, they are importing oil and natural gas from overseas — until recently, even from Russia. After years of bipartisan efforts to streamline permitting for badly needed projects culminating in reforms during the previous Administration, the Biden Administration has now moved to aggressively roll them back, sending us back to a 1970s era environmental review process that will slow down projects of all types — especially renewables.

Lack of action. While the Biden Administration has expressed support for increased domestic production, their rhetoric has not been met with action. The Administration is seemingly still pausing some, if not all, new leasing and permitting on federal lands and waters (which made up 22 percent of oil production and 12 percent of natural gas). It has failed to put forward a new five-year plan for offshore oil and gas development even though the current one expires this

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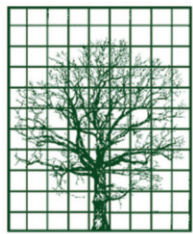


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summer. The lack of a new five-year leasing program will shut down new exploration and eventually hamper production in the resource-rich Gulf of Mexico. The situation onshore is much the same, with the Biden Administration failing to hold new lease sales to increase activity despite federal law clearly requiring them.

Global markets. Oil, in particular, is a global commodity traded in a global market. Different types of oil products are produced in different places, depending on refinery configurations, and shipped across the globe. The price that consumers pay at the pump is reflective of the cost of crude oil, refining, transportation, distribution, and taxes.

The silver lining? When it comes to energy inflation, the United States does have one major advantage: it is the world's largest oil and natural gas producer. This has helped to mute volatility in markets such as natural gas, especially relative to import-dependent Europe and Asia. For example, Europe now spends over 9 percent of its GDP on energy, the highest share since 1981 (the U.S. is at about six percent).

What should we do about it? Higher energy prices act as a tax on the economy and increase inflationary pressures

throughout the supply chain. The Administration should therefore be clear and consistent in its support for expanded U.S. energy production, which will provide important signals to markets and help to limit the impact of energy on inflation. That includes holding comprehensive lease sales on federal lands and waters, moving swiftly to adopt a new National OCS Oil and Gas Leasing Program for offshore oil and gas development, avoiding imposing new regulatory burdens, and supporting the permitting reforms necessary to build energy infrastructure.

Bottom line: Addressing these issues won't instantly increase supplies. Energy production takes a great deal of lead time. However, the current lack of support for energy production policies will ensure that it remains far below where it could be and will keep investment on the sidelines, making us more reliant on foreign sources and ensuring that higher prices are here to stay. That doesn't bode well for economy-wide inflation.

Matt Letourneau is managing director of communications at the U.S. Chamber of Commerce's Global Energy Institute (GEI). He coordinates external communications and strategy and serves as a spokesman to media on energy and environmental issues for the Chamber.



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