

## Commentary: Renewable Fuels Legislation Cuts Crude Prices

Philip K. Verleger, Jr.

September 23, 2013

Just as only Richard Nixon could ironically break the US taboo on trading with China, only George W. Bush could have successfully introduced measures to drive down crude prices. These prices today are between \$15 and \$40 per barrel lower than they would be had Congress not endorsed his proposals to boost ethanol production and blending with gasoline. Today, the Bush measures add the equivalent of Ecuador's crude oil output to the world market at a time of extreme tightness.

In 2007, the US Congress passed the Energy Independence and Security Act (EISA), which amended the renewable fuels program to raise the use of ethanol and other renewables as alternatives to petroleum. These fuels have replaced a significant volume of petroleum consumed in the United States. EISA increased the required renewable fuel amount by four hundred thousand barrels per day in 2010 and 2011, five hundred thousand barrels per day in 2012, and nearly seven hundred thousand barrels per day in 2013. The total amount blended into the petroleum mix from 2008 to 2012 was seven hundred million barrels.

Had Congress not raised the renewable fuels requirement, commercial crude oil inventories at the end of August would have dropped to 5.2 million barrels, a level two hundred million barrels lower than at any time since 1990. The lower stocks would almost certainly have pushed prices higher. Crude oil today might easily sell at prices as high as or higher than in 2008. Preliminary econometric tests suggest the price at the end of August would have been \$150 per barrel.

The implication for world consumers is clear. As noted in the [August 2013 Petroleum Economics Monthly](#), the US renewable fuels program has cut annual consumer expenditures in 2013 between \$700 billion and \$2.6 trillion. This translates to consumers paying between \$0.50 and \$1.50 per gallon less for gasoline.