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How High Could Gas Prices Go? More Pain at the Pump Likely Coming

Source: Don Lee, *Los Angeles Times*, March 8, 2022

WASHINGTON — Taking a hard stance against Russian President Vladimir Putin's invasion of Ukraine was never going to be cost-free to the United States or its allies.

But many people have been surprised and concerned at how quickly those costs have hit home — especially after gas prices jumped almost overnight to a new all-time high.

President Biden's decision Tuesday to halt U.S. purchases of Russian oil adds new urgency to those fears and broader anxiety about inflation. So what's likely to happen at the gas pump and beyond? Here are the best answers available in a complex and unpredictable crisis:

How high could gas prices go?

Based on wholesale gasoline futures just before Biden's announcement, average gas prices will probably hit $4.50 a gallon nationally in the next couple of days. And if crude oil prices keep rising, analysts say it's not hard to see fuel costs reaching $5 a gallon on average — which means $6 to $7 in California and some parts of the Northeast.

What motorists pay at filling stations is determined mostly by crude prices on the world market. Those prices have jumped about 35% since Russia's invasion of Ukraine on Feb. 24.

Markets have already priced in some of the higher costs, but there's usually a lag of two to three weeks before refineries pass the increase they pay for crude along to consumers.

Pump prices were already soaring just on reports of the possible U.S. ban. On Tuesday the national average for regular gas topped $4.17 a gallon, breaking the previous record of $4.114 set in July 2008, according to the American Automobile Assn. One year ago, regular gas cost a little over $2.77. These figures aren't adjusted for inflation. (At today's prices, the cost in July 2008 would be about $5.30 a gallon.)

Patrick DeHaan, head of petroleum analysis at GasBuddy, said there could be months of high or rising prices ahead — possibly through the summer — "unless there is a drastic improvement in the Russia-Ukraine situation."

Why is the U.S. sanctioning Russian energy exports?

The Biden administration has been applying one sanction after another to hit Russia's economy and isolate it in the hopes of bringing about a change in Putin's behavior — down the road if not immediately. The sanctions have targeted Russia's central bank, some of its biggest banks and companies, as well as a growing number of Russian oligarchs and Putin himself.

Until Tuesday, the U.S. and its allies had deliberately avoided hitting Russia's oil and gas shipments so as not to further disrupt energy markets, especially in Europe, which is highly dependent on Russian oil and natural gas.

But there have been growing calls from Ukrainian leaders and from bipartisan members of Congress for Washington to fully block Russian energy shipments. Russia's oil and gas products account for about half of the country's total export revenues.

The U.S. wants to "keep pressure mounting on Putin and his war machine," Biden said Tuesday.

Why do our prices go up when we don't use much Russian oil?

U.S. purchases of Russian crude oil accounts for 3% of the nation's imports, which come mostly from Canada, Mexico and Saudi Arabia. The U.S. imports less than 300,000 barrels a day from Russia, compared with daily usage of 20 million barrels.

Even though the U.S. has come a long way toward energy independence — it's now the world's No. 1 petroleum producer — the nation still needs foreign oil because it consumes more than it produces and because its refineries need different grades of crude.

Crude prices are set in global markets, and Russia is a leading producer, accounting for more than 10% of the world's supplies. It's the world's No. 2 net exporter of oil, after Saudi Arabia.

Even before Putin's military actions, global oil supplies were tight and prices were rising as the U.S. and other economies were recovering from the pandemic, and producers were trying to catch up to demand.

Will Europe follow the U.S.?

As Biden said in his announcement Tuesday, many countries in Europe may not follow the U.S. in blocking Russian imports because of their greater dependency on Russian oil.

More than half of Russia's crude oil exports go to Europe. And the European Union counts on Russia for more than 25% of its oil imports. Europe depends even more on Russian natural gas, especially countries such as Germany.

Although the United Kingdom said Tuesday that it would phase out imports of Russian oil, the German chancellor said his country can't cut off Russian fossil fuels right now.

That could create the possible appearance of a split in the West, but Biden sought to downplay any such division, saying that the U.S. embargo decision was made in close consultation with American allies to maintain unity.

Could Russian oil be replaced?

In the near term, the world could cover much if not all of what's lost in Russian oil supplies.

The U.S. and other major oil-consuming countries have agreed to release 60 million barrels of strategic reserves of crude oil. Saudi Arabia has spare capacity to produce more oil. A deal with Iran on its nuclear program could release up to 1 million more barrels a day.

And then there's Venezuela, which has suggested that it could fill in some of the crude supplies that are banned by the U.S. Venezuela is a Russian ally, and its oil industry is under U.S. sanctions. But American officials have quietly reached out to Venezuela as they consider the idea of easing those sanctions to unleash more oil to help mitigate the shock to prices.

The U.S. could also increase domestic oil production, but that would take some time as many refineries here are set up to handle heavier grades of crude, often with higher sulfur content, that come from Russia and the Middle East.

"Theoretically, in the very short term there could be enough capacity for the world to deal with a complete loss of Russian oil exports," said Mark Finley, a fellow at Rice University's Baker Institute for Public Policy. But Finley cautioned: "The system has never been tested to that extreme."

Who will feel the greatest pain from the price hikes?

Lower-income households in the U.S. will experience the biggest hit from higher gas prices. The bottom 40% of earners "are going to blow through their excess savings quite quickly," said Joseph Brusuelas, chief economist at the accounting firm RSM.

When crude prices exceed $130 a barrel, as they have in recent days, Brusuelas said, it causes what's called "demand destruction," in which many consumers will forgo discretionary spending and stick with basics such as food and gas.

Workers who drive a lot, and those relying strongly on transportation, will feel a sharp effect. Businesses will also feel the pinch, especially those that use long-haul trucking, shipping companies such as UPS and FedEx, ride-hailing services Uber and Lyft and retail companies that count transportation among their larger costs.

How will cutting off Russian oil affect U.S. inflation and the economy?

The inflation rate was already at a four-decade high of 7.5% in January — and it's heading higher. Spending on energy accounts for more than 7% of what goes into the consumer price index, and more than half is motor fuel costs.

Possible Response Questions

- What are your thoughts about surging gas prices? Explain.
- Did something in the article surprise you? Discuss.
- Pick a word/line/passage from the article and respond to it.
- Discuss a "move" made by the writer in this piece that you think is good/interesting. Explain.