Oil Prices Have No Place To Go, But Up

The United States consumes more oil than any other country in the world. It consumes nearly 19 million barrels of oil per day of which 9 to 12 million barrels are imported. The United States pays its seven major crude oil suppliers more than $140 billion every year.¹

Canada is the major supplier of oil to the United States for more than 1.9 million barrels per day and earns $37 billion per year. Mexico sends nearly 1.1 million barrels of oil per day to the United States and makes more than $22 billion a year. Saudi Arabia’s oil exports to the United States are close to 1.0 million barrels per day; it earns $200 billion annually. Despite ideological difference, Venezuela is the fourth largest supplier of oil to the United States for over 965,000 barrels a day for more than $19 billion per year. The remaining major suppliers are Nigeria (771,000 barrels), Angola (449,000 barrels), and Iraq (448,000 barrels).²

Oil prices have had volatile, rising trends. The landed cost³ of crude oil tripled from $12.28 in 1974 to $36.41 in 1981. It then plunged to $13.79 in 1986. While fluctuating, the oil price remained under $22.00 until 2000, when a sharp rising trend began. The landed cost of imported crude brook the century mark in 2011, reaching $102.90. So far

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² Ibid.
³ The cost of oil off-loaded at a port, including duties fees and taxes.
in the first three months of 2012, the average oil price has climbed to a record high of $104.56 per barrel.\(^4\)

Oil price hikes do not directly relate to a supply-demand imbalance. With the market tight but balanced, Saudi Arabia’s oil minister sees no rational reason that oil prices are continuing to remain at these high levels.\(^5\) Indeed, oil traded in future markets carries a substantial “risk-premium.” This risk premium originates from growing militancy in the Middle East, North African, and West Africa.

In particular, volatile geopolitics contributing to rising oil prices include danger of al-Qaeda terrorism, unwinnable wars in Iraq and Afghanistan, popular uprising in Egypt, revolutionary change in Libya, continued state violence in Syria, oil war in Nigeria, and the threat that Israel and/or the United States could eventually opt for a military strike against Iran’s nuclear plants. Recently, the United States navy has moved three aircraft carriers into the Arabian Sea to secure the strategically important Strait of Hormuz, where 20 percent of world’s oil exports passes through. Rising geopolitical tension in the region and concerns about replacing Iran’s oil supply help keep oil prices at historically high levels.

![Map of Iran and the Strait of Hormuz](image)

Oil is a commodity traded internationally, whose prices set by the global market. By and large, some of the oil price hikes result from a rising demand. Excessive consumption in the United States and Europe and rapid industrialization in China and India help keep oil prices high. The United States accounting for about 20 percent of the global demand and 9 percent of the global supply is a “price-taker” in such a volatile oil market. While drilling for new oil would help increase the supply in the long run, the best way to reduce dependence on imported oil is demand-side conservation and alternative-energy development. Availability of fuel-efficient mass transit systems and investment in the advancement of non-polluting alternative energy help relive the demand-side pressures. Nonetheless, the key to reaching supply-demand based pricing is political stability in oil exporting countries. The end of wars in Iraq and Afghanistan and peaceful resolution of Iran’s nuclear program would help stabilize the market.

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\(^4\) Data source: [www.economagic.com](http://www.economagic.com)

\(^5\) “Top 7 suppliers of Oil to the US”