US Ethanol Requirement Cuts Current Crude Price by $10 to $30 per Barrel

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The US renewable fuels program provides a benefit that has gone unnoticed, one that can be measured in the lower price of crude oil on world markets.

We are enjoying this benefit from renewables right now as Libyan oil production is once again being disrupted. Libya produces significant volumes of light sweet crude. The country's production in 2012 averaged 1.4 million barrels per according to the International Energy Agency. Now, as observed by a September 2 *Financial Times* (*FT*) article, it produces just two hundred fifty thousand barrels per day. The *FT* story also notes that refiners in Europe are being squeezed because few replacements exist for Libya's light sweet crude. One commentator quoted by *FT* proclaimed that high premiums for light sweet crude may be here to stay.

With this as background, just think what the world would look like if the US Congress had not passed the Energy Independence and Security Act (EISA) in 2007 and established the ethanol mandate the oil industry hates. The United States will use one million barrels per day of renewable fuels this year. Removing this one million barrels per day from the market would leave the world short one million barrels per day of liquids (roughly one percent). If this were the case, crude prices would be at least $11 per barrel higher (using a price elasticity of 0.1 and total global demand of ninety million barrels per day). The more likely impact, though, would be a $20 to $30 per barrel increase because ethanol is essentially a substitute for light crudes.

Is it any wonder the American Petroleum Institute is so strongly set against EISA and the renewable fuels mandate?