TLDR

The closure of the Strait of Hormuz has shocked the entire global crude oil and fuels system and pushed up prices everywhere, including in the United States. The United States is better positioned than most because we produce and refine a large share of our own energy, but prices are set in a global market, so U.S. consumers still feel the impact.

There is no quick fix to resettle the global energy market, as frustrating as that may be. Policymakers should focus on actions that will keep supply moving and cut unnecessary regulatory expenses in the meantime. Policies that inadvertently restrict supply or add costs, regardless of how well intentioned, will only push prices higher.

What happens when a fifth of the world's crude oil stops moving

About 20 million barrels of crude oil move through the Strait of Hormuz on a typical day. That's roughly one out of every five barrels consumed globally.

With that flow largely halted, the market is short a major source of supply. The International Energy Agency calls this the largest supply disruption the global oil market has ever seen.

When that much supply disappears, buyers turn to other sources. Europe and Asia, who rely heavily on energy coming through the Strait, are now looking for alternative sources, pulling crude oil and fuel from wherever they can find it.

This means that trade routes stretch, shipping costs rise and delivery times increase. Prices adjust quickly across all markets.

The U.S. has advantages but is not immune to price spikes

Most of the crude oil processed in U.S. refineries comes from North America, and U.S. refineries produce most of the fuel Americans use every day.

The United States is also a major exporter of crude oil and refined products. That supply is helping offset shortages in other regions, keeping costs down.

Even though the U.S. produces a lot of crude oil and fuels, prices are still tied to the global market. When global supply tightens, fuel prices in the United States rise too.

Certain areas of the country feel it more than others

The Gulf Coast and Midwest have dense refining capacity and strong pipeline networks. They can move crude oil and fuel efficiently and respond quicker to shifts in demand.

California, for example, operates differently. Due largely to bad public policies, California has lost significant refining capacity over time and has fewer connections to other U.S. regions. California has to import from the global market, including from Asia and the Middle East. When those supplies tighten, cost pressure shows up quickly.

That dynamic drives higher prices compared with other parts of the country.

What policy can and cannot do to help

A disruption of this scale does not have a quick fix. The most effective policy steps are those that would lower the cost of producing and/or supplying the market and make it easier to move energy and fuel where it is needed.

For example, waiving Jones Act shipping restrictions — the law that requires using only American ships, which are limited and costly, to move goods by water between two U.S. ports — is already helping to increase the flow of fuel between U.S. ports, bringing supply from the Gulf to the East and West Coasts.

But outside of re-opening the Strait, the most impactful thing the Administration and Congress can do would be to revisit the biofuel mandates under the Renewable Fuel Standard. That law, alone, is adding more than 30-cents per gallon to the cost of supplying the domestic market with gasoline and diesel.

Other ideas that often come up can make things worse. Limiting exports or imposing taxes can restrict supply and distort markets, which can deepen shortages and put even more upward pressure on prices.

Bottom line: In a tight market, keeping costs down and supply moving is what helps most.

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