

## Cooling oil consumption to ease price pressures

### Summary

- The Russian invasion of Ukraine has led to reduced global oil supply and increased global oil prices, which feed directly into **higher gasoline prices for US consumers**. It is unlikely that oil supply will be able to increase enough in the near term to match domestic demand.
- Many proposals from **local, state and federal leaders have focused on subsidizing oil consumption** with gas cards, gas rebates, or tax credits for vehicle owners. While these proposals may appear beneficial for politicians in the near term, they do not address the underlying issues.
- Instead, local, state and federal leaders should implement a set of programs, policies and incentives that **cool domestic oil consumption by shifting demand to alternatives and using resources more efficiently**.

### Background

The Russian invasion of Ukraine has created a situation where it may be difficult in the near term for domestic supply of petroleum products to match domestic demand. This has led to record high gasoline prices. The use of strategic petroleum reserves has proven insufficient to bring supply up to the level of demand. But the other side, the demand for petroleum products, has not been directly addressed.

The vast majority of petroleum products consumed in the United States are used for transportation. Even a modest reduction in vehicle miles traveled over the near term could have a significant stabilizing effect. While robust programs would be difficult to implement quickly, **simple incentive structures could curb domestic petroleum demand in the near term**.

To reduce vehicle miles traveled:



1. **Fare holiday** to get people on buses, trains and micro-mobility as quickly as possible
2. **Compress timelines for transit infrastructure** investments to grow ridership base
3. Incentives for firms to allow and encourage employees to **work from home**
4. Encourage **carpooling** with incentives and a bully pulpit campaign
5. Consider a national **speed limit reduction**

With effective design and implementation, such policies could curb vehicle miles traveled for some commuters, reducing aggregate oil demand and supplementing the stabilizing impact of the release of SPR on oil markets and living standards for consumers. For the same reason that it is useful to release additional petroleum supply into the market, it is also useful to shift domestic demand for petroleum products to more resource efficient alternatives.

According to the [Energy Information Administration](#), **12 of the 18 million gallons of petroleum consumed every day in the US in 2020 were used for transportation.** Petroleum consumption in 2020, however, saw a 15% reduction from 2019 levels at an average of over 13 million barrels per day. Of the petroleum consumption in the transportation sector, almost 90% comes in the form of motor gasoline or diesel fuel, with the remainder coming in the form of jet fuel.

Needless to say, **personal automobile travel constitutes a significant portion of total daily petroleum consumption**, and even **modest reductions in vehicle miles traveled would be felt in petroleum markets**, as was the case in the spring of 2020.

Programs to mitigate demand for oil

### **1. National fare holiday to get people on buses, trains and micro-mobility**

The federal government should pay public transit agencies to reduce or eliminate fares in the immediate term without sacrificing operational capacity. The elimination of fares on bus, rail and shared micro-mobility transportation, along with a strong national messaging campaign to fight the oil shortage by getting out of cars and onto public transportation, could serve as a positive incentive for transit ridership and a negative shock to vehicle miles traveled and thus oil demand.

Fare reduction or elimination policies [have been effective](#) at increasing transit ridership. In Salt Lake City in February, a fare holiday increased ridership by 20% overall, and



importantly, increased off-peak weekend ridership by around 30%. An increase in off-peak ridership is significant because it shows that transit can replace not just commuter trips but also recreational trips.

The results in Utah are particularly promising because the fare holiday took place just before the Russian invasion. As gas prices remain high for consumers this month, the added incentive of reduced or eliminated fares for transit could make fare holidays increasingly effective at increasing ridership very quickly. Fare holiday programs could easily be replicated by transit agencies across the country, especially with financial support from the federal government.

Federal payments for transit agencies who implement fare holidays could come in the form of forgivable loans from the Treasury, or reimbursement grants from the Department of Transportation. Congressional action would likely be required, but positive signaling from the administration could push transit agencies to implement fare holidays before aid is approved.

However, fare holidays alone are not sufficient to build a large enough sustained ridership base to permanently shift transportation patterns. Fare holidays have the benefit of being practicable in the immediate term, whereas other investments that incentivize transit ridership require months or years of implementation.

## **2. Significantly compress timelines for transit infrastructure investments to solidify and grow ridership base**

Transit agencies and transportation departments across the country have multi-year capital plans that include projects ranging from dedicated busways (or bus lanes), to bus fleet expansions, to bike lane installations. In particular, dedicated busways and bike lane installations are relatively low-cost and high-payoff in terms of their ability to generate and retain new ridership. The federal government should support transportation departments and transit agencies in efforts to rapidly compress the timelines of low-cost projects like these.

Encouraging compressed timelines for transit infrastructure investments could take the form of a special streamlining effort at the Department of Transportation to rapidly approve projects for funding and support. Legal barriers, such as environmental impact assessments and lawsuits have slowed the average timeline for such infrastructure



investments over the past several decades. The DOT should use the emergency nature of the supply chain issues to help local transit agencies clear such hurdles as quickly as possible.

In addition, governments should consider bicycle-purchasing incentives, such as ebikes. The supply chain crisis is tricky, but locking in additional purchases going forward will also push the industry to respond more quickly, even if orders are slow to deliver.

### **3. Emergency policy to encourage businesses to extend work from home policies in cases where VMT can be reduced**

Businesses and governments have been rushing to bring information sector workers back to the office after two years of work from home (WFH) policies. The motivation for these policies is to restore the economies of downtowns. However, there are some downsides to these policies. The evidence for work from home policies reducing vehicle miles traveled (VMT) is ambiguous.

Pre-2020 studies have found that WFH may not reduce VMT. However, the reasons for these results are because of the small population sizes of WFH workers prior to 2020 and several confounding factors. First, WFH workers take more discretionary trips. Second, WFH workers have higher non-gasoline energy expenditures.

These may be offset with higher portions of WFH policies. By definition, a reduction in discretionary trips need not reduce the potential traveler's access to goods and services or their overall quality of life. Households can limit unnecessary travel to lower their fuel costs without sacrificing the dignity of their living standards. Second, large-scale work from home policies have been found to reduce congestion by spacing out car trips over the course of the day. This reduces individual vehicle fuel consumption by reducing idle time.

In particular, municipalities with sufficient density to reduce the need for discretionary trips can be offered support to encourage businesses that have hybrid or work from home policies for employees that live within the dense core.

### **4. National bully pulpit campaign to encourage transportation alternatives**



The federal government, and the President, should use the bully pulpit to encourage all Americans to reduce oil demand by shifting consumption to more resource efficient alternatives, including public transit, bicycling, and carpooling. The federal government has significant communications power to spread a coordinated message quickly across the country.

In addition, the federal government should encourage state and local leaders with bully pulpits of their own to help propagate the message.

## **5. National speed limit reduction**

In 1975, Congress responded to the oil price shock from the OPEC embargo by passing the Energy Policy and Conservation Act, which required states to allow right turns on red to receive certain federal funds. While this provided a marginal benefit in fuel economy by reducing idling time for motorists, speed limit reductions would be a more effective policy response today.

Speed limit reductions can kick off a virtuous feedback loop whereby improved traffic safety begets lower gasoline demand and vice versa. First and foremost, fuel economy falls steeply above 50 mph—the US Department of Energy reports that aggressive driving at highway speeds reduces gas mileage by 10-30%, and observing speed limits at 55 mph or below improves fuel economy by 7-14%.

California Governor Gavin Newsom signed Assembly Bill 43 in 2021, enabling local jurisdictions to bypass the notorious “85th percentile rule” for setting speed limits, promulgated to state transportation agencies via the MUTCD. This rule encourages transportation officials to adjust the speed limit, at most, to the speed of 85% of vehicles observed in a traffic survey. In other words, regardless of well-documented safety risks, the MUTCD advises traffic engineers to defer to the habits of the fastest 15% of drivers in a given area. In March 2022, Los Angeles became the first major city in California to exercise its powers under AB-43 when Mayor Eric Garcetti signed an ordinance enacting a 5mph speed limit reduction on 177 miles of the city’s roadways.

As legal scholars Gregory Shill and Sarah Bronin recently observed in the *Harvard Law Review*, Section III.A of the FHWA’s 2020 proposed draft update to the Manual still promulgates this rule, but the USDOT could use emergency powers to remove this section. Rather than maintaining arbitrary standards for speed limits that state and local



governments are already circumventing, the USDOT should strike the 85th Percentile rule from the MUTCD and go even further by mandating speed limit reductions nationwide. Lowering speed limits on urban and suburban roadways by even 5 mph could save thousands of lives while significantly reducing household demand for gasoline.