

Commentaries--American Outlook

Gas Price Scapegoating In Washington

by Ben Lieberman

Federal regulators held an emergency meeting Monday, June 12, in an effort to find out who is behind the recent surge in gasoline prices, particularly in Chicago and Milwaukee. Somebody should have just handed them a mirror.

In what is fairly obvious to everyone else, the main culprit is the Environmental Protection Agency's reformulated gasoline (RFG) program, designed to fight smog. Since 1995, the smoggiest areas of the country are required to use RFG, the cost of which has been several cents per gallon higher than conventional gasoline. But on June 1, 2000, tough new RFG requirements took effect, sending the cost differential to ten cents per gallon nationwide, according to the figures compiled by the US Energy Information Administration.

Ten cents is bad enough, particularly in light of a 1999 National Academy of Sciences study concluding that RFG is only modestly effective in reducing smog. But in Chicago and Milwaukee, where there have been problems in refining and distributing sufficient supplies of this newfangled RFG, costs have been considerably higher. Some Chicagoans now trek to the Suburbs, where conventional gasoline is available for 40 cents less than the

\$2.00 per gallon charged for the RFG mandated in the city.

After the meeting, which also involved the Department of Energy and oil refiners, EPA Assistant Administrator Robert Perciasepe shifted the focus to industry, saying that "the prices being charged are unfair and inappropriate."

Perciasepe explained that RFG should cost no more than 5 to 8 cents above ordinary gasoline, and added that the agency sees no reason for the localized shortages in Chicago and Milwaukee. According to him, since the real world is not conforming with EPA forecasts, dark forces must be at work. Indeed, he all but accused big oil of price gouging and collusion. "When there's an adequate supply, we have to assume something else is going on," he concluded. Perciasepe neglected to explain why an industry he thinks can easily manipulate the market would let gas prices remain so low for most of the past twenty years, or why it would engage in price gouging only in Chicago and Milwaukee. Nonetheless, in response to the meeting, White House spokesman Joe Lockhart promised a Federal Trade Commission investigation should evidence of industry wrongdoing emerge.

Of course, the real lesson here is that when the federal government micromanages fuel supplies - or anything else for that matter - costly unforeseen problems will frequently emerge. And the real solution is for

legislators and regulators to consider such possibilities before taking action, not to divert blame by concocting silly conspiracy theories afterwards.

Too bad EPA has not learned this lesson, because the agency is in the process of promulgating a slew of new regulations that will further impact the gasoline market. For example, the agency is creating tough new standards for sulfur content in gasoline and diesel fuel, ignoring warnings from refiners of higher costs and supply problems.

What happened in Chicago and Milwaukee on June 1st may be repeated elsewhere as these and other regulatory deadlines take effect in the years ahead. In the meantime, the EPA officials responsible can start working on their excuses.

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Mr. Lieberman has been an environmental and legal policy analyst with the Competitive Institute for over seven years. He specializes in the area of air pollution, water and energy conservation, and environmental regulatory mandates. His writing has appeared in such publications as The Detroit News, The Chicago Tribune, The Indianapolis Star, The Las Vegas Review-Journal, Consumer's Research, National Review, The American Spectator, and the Washington Monthly. Mr. Lieberman received his JD from George Washington University.