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## TODAY'S ISSUE: GAS PRICES

### Lawmakers should consider outcomes when micromanaging fuel supplies

By BEN LIEBERMAN

Federal regulators held an emergency meeting last week in an effort to find out who is behind the recent surge in gasoline prices, particularly in the Midwest. Somebody should have just handed them a mirror.

In what is fairly obvious to everyone else, the main culprit is the U.S. Environmental Protection Agency's reformulated gasoline program designed to fight smog. Since 1995, the smoggiest areas of the country have been required to use reformulated gas, the cost of which has been several cents per gallon higher than conventional gasoline. But on June 1, tough new reformulated gas

requirements took effect, sending the cost differential to 10 cents per gallon nationwide, according to figures compiled by the U.S. Energy Information Administration.

Ten cents is bad enough, particularly in light of a 1999 National Academy of Sciences study concluding that reformulated gas is only modestly effective in reducing smog. But in the Midwest, where there have been problems in refining and distribution of sufficient amounts of the gas, costs have been higher.

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

and inappropriate."

Perciasepe explained reformulated gas should cost no more than five to eight cents above ordinary gasoline and added the agency sees no reason for the localized shortages in Detroit, 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 20 years, or

why it would engage in price gouging only in the Midwest.

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 afterward.

Too bad the 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's happening in the Midwest 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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