

RFS Kept Gas Prices Down

Philip K. Verleger, Jr.
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Consumers paid \$3.25 to 3.30 per gallon for gasoline over the holidays. This was a large savings compared to the \$4.11 they paid in June 2008 when oil prices peaked. Those days are distant and becoming forgettable to everyone. However, but for action taken in 2007, consumers could easily have paid \$4.25 or even \$5 per gallon for gasoline this Christmas. To be blunt, we got lucky. For once, the U.S. government did something that paid very large dividends.

I realize most Americans doubt that Washington policymakers can accomplish anything. Well, in this case they did. In 2007, Democrats and Republicans worked together to pass the Energy Independence and Security Act (EISA). This law requires U.S. oil refiners to blend increasing amounts of renewable fuels into gasoline and diesel. In 2013, the oil industry had to mix almost one million barrels per day of renewables into America's motor fuels. This volume saved American and world consumers from yet another oil shock.

Now this is not the story one hears today from politicians, oil industry lobbyists, or even some economists. Most commentators today believe the renewable fuels program has *raised* gasoline prices. The American Petroleum Institute, the trade organization for Big Oil, has been particularly aggressive in financing studies that make this assertion. Other organizations such as the American Fuel & Petrochemical Manufacturers have followed suit. Unfortunately, the Obama administration and many in Congress cannot see through the smoke and mirrors. Thus in November, the administration issued draft regulations to reduce the renewable fuels blending requirement for oil refiners, thus allowing the industry to push more oil onto consumers.

In its successful misinformation campaign, the oil industry maintains that consumers paid as much as ten or even twenty cents more per gallon for gasoline in 2013 than they might have had refiners been free of the renewables mandate. What the industry omits is that consumers actually saved \$1 per gallon or more in 2013 because the greater renewable supplies *replaced* crude oil volumes that countries such as Libya, Iraq, Nigeria, Iran, Sudan, and several others failed to produce. Although no one noticed, 2013 saw in aggregate the largest disruption of global oil production since at least 1990, according to a US Energy Information Administration report. The amount of lost output reached more than three million barrels per day at one point, which translates to three percent of global capacity.

Much of the "missing" oil was made up by increased output from Saudi Arabia. But most experts agree that the Saudis produced at or very close to capacity in 2013. The country managed to substitute probably two-thirds or maybe three-quarters of the lost oil. It could not, however, replace all of it.

Some in the oil industry likely wish the volume Saudi Arabia could not match had remained lost. Oil company officials and leaders of oil-exporting nations would have cheered if crude prices averaged \$150 per barrel rather than \$108 in 2013. Make no mistake, prices would have hit such levels had none of the three million barrels per day of lost output been replaced.

Fortunately, that did not happen. The lost oil was supplanted by ethanol and other renewable fuels. EISA did just what its title proclaimed: it assured consumers of energy security (and lower-priced gasoline). The act protected consumers by introducing one million barrels per day of renewables into the nation's energy picture. The extra biofuel arrived just in time to make up for the diminished production from Libya, Nigeria, and Sudan. This marks a very rare triumph for US energy policy. As one who has followed this

issue closely for forty-two years, I am hard pressed to find many such successes, certainly none of this magnitude.

This achievement has gone unnoticed. As noted, the EPA has issued rules that, if enacted, will roll back the renewable fuels program. The agency apparently has failed to notice that consumers are enjoying gasoline prices possibly one-third lower than they would be absent the renewables program. Even worse, the EPA issued these proposed rules under the bogus assertion that refiners could not comply with the standards mandated by Congress. The bureaucrats, who seem to think the renewables program has raised gasoline prices, believe their actions will lower them and thus give consumers a break.

Again, the truth is just the opposite. The EPA's new regulations will likely boost global crude prices and gasoline prices, unless of course political stability somehow returns to the key oil-producing countries where production fell in 2013. In other words, the EPA strategy will work *if* Libya's situation stabilizes so the country can increase output, *if* Iraq can assuage Al-Qaeda and restore a working government in Fallujah, *if* the war between Sudan and South Sudan can be resolved, and *if* the West and Iran can come to some agreement regarding the Iranians' desire to build nuclear weapons.

Frankly, the Obama administration is foolish to think these international problems can be solved. It should return to the path ordered by Congress in 2007 and ignore the bellyaching of oil refiners. The renewable fuels program saved consumers billions in 2013. If allowed to operate as written, it will save them far more in 2014.

Philip K. Verleger, Jr. owns PKVerleger LLC. He is a retired University of Calgary faculty member and has held positions in US government, at Yale, and with other policy organizations. He wrote this opinion piece at the suggestion of Butamax, a renewable fuels producer. However, he received no compensation for it. The ideas expressed here are his and he alone is responsible for them.