

Energy Insider by William Engdahl

How to decree a gas shortage

A new set of federal regulations have a very simple purpose, discourage refining of oil into gasoline.

After several hours plowing through a maze of the latest regulations issued by the Department of Energy, I thought it worth your time to review the trend line of some of these remarkable rulings coming out of the Administration, particularly in the wake of the disastrous so-called Windfall Profits Tax legislation. That tax is designed to lower domestic oil production. The new regulations are designed to ensure that less oil is refined into gasoline. If we find ourselves this summer in long gasoline lines, the new regulations explain why.

Currently, the United States and the world has a relative glut of crude oil. World oil production, exclusive of the Soviet and Chinese production, for the first two months of this year is fully 3 percent greater than a year ago. Rotterdam spot prices are soft and actually declining for gasoline and fuel oil. Stocks are at record highs, with gasoline in the U.S. a whopping 13.4 percent about last March 14.

Official Presidential doublespeak on the subject these days goes something like this: This country has a dangerous dependence on OPEC oil. We must reduce this. We must impose a \$4.60 surtax on every barrel of imported barrel, which is now approximately 1 of every two we consume.

Let's look a little more closely at this latest presidential move. Carter administration economists, in their finite wisdom, have decreed that the price of gasoline must rise dramatically, to force oil-hungry consumers to use less gasoline. In his recent "anti-inflation" address, Carter announced the immediate \$4.60 import fee. Now, recall that last summer, when the name of the game was ostensibly increased domestic oil production, Carter announced phased price decontrol.

Part of the rationale for decontrol was to end the cumbersome government "entitlements" program. Under that policy, set up around the time of the OPEC 1974 oil embargo, the cost for refiners of more costly imported oil vs. cheaper cost domestic crude was offset by an "entitlement" paid by refiners of the cheaper crude to refiners of the more costly imported variety. This amounted to a subsidy by domestic producers to major oil companies which import from the Middle East (and do so in order to receive such government incentives). Why do you think OPEC imports rose so dramatically after 1974, while domestic production stagnated?

The impact of the oil import fee will be on gasoline consumption, by far the largest refinery product. But, there is a problem

our White House planners encountered. The fee reimposes a 2-tier pricing structure. So, in a stroke of genius, the White House and DOE have proposed a new entitlements program!

This where the next gas shortage may well come from.

Under the new program, refiners would have to obtain entitlements to refine gasoline. The proceeds would go to reimburse importers of oil for the \$4.62 Treasury fee. Thus, we won't discourage imports of oil. Instead, with the tax falling on refiners of gasoline, refiners will have a "disincentive," discouraging production of gasoline. Refiners will merely be forced to shift as much as possible over to diesel and other products. The less competitive will go under. What a beautiful strategy for forcing an artificial gasoline shortage, regardless of the supply of crude oil.

Meanwhile, the London Petroleum Group—Royal Dutch Shell, British Petroleum and their American-based policy-followers at Exxon, Texaco, et al.—will come out unscathed, much as they did under the windfall tax. Domestic-based producers and refiners will be forced out of the picture, and the political "embarrassment" of a group of producers who actually try to produce oil will be eliminated.

Of course, all of Carter's economic planners have convinced him that higher prices of gasoline have no economic impact. In fact, one school even lauds the energy reduction in the economy, claiming it increases employment—less energy means more jobs—if you don't mind stoop labor.