Our View: The US Should Stop Subsidizing Foreign Gasoline and Diesel Consumers

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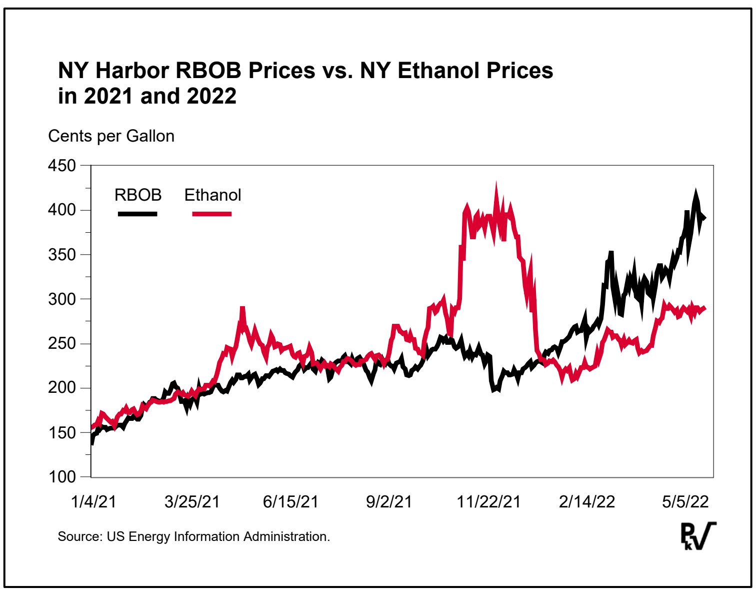
A friend of forty years called over the weekend to ask why the United States was subsidizing the gasoline and diesel fuel consumption of foreigners, particularly Mexicans. While this friend has no connection with the energy or agricultural (ethanol) industries, he is an excellent economist.

His question stopped me. "How," I asked, "is the US subsidizing foreign fuel consumption?"

His response was simple. US refiners must purchase renewable identification numbers (RINs) if they sell petroleum products to US buyers. They do not have this obligation if they export their products. Today, the RIN cost gets passed through to US buyers to the tune of almost $0.20 per gallon or around $8 per barrel. My friend noted that if the obligation were lifted, US consumers might see retail gasoline prices decline by that amount.

Such savings could be larger, perhaps as much as $0.40 per gallon, if some of the fuel currently being exported were redirected, once the RIN requirement was eliminated, to the domestic market. US gasoline exports now average almost eight hundred thousand barrels per day. A fifty-percent reduction in outsourced shipments would boost domestic supplies by five percent, which could lead to a significant price decrease.



My friend reminded me that I had written about the renewable fuels program years ago. In that analysis, I explained that the Environmental Protection Agency had introduced RINs to give those blending ethanol into gasoline the option of buying credits if ethanol were more expensive than gasoline.

This has not been a problem, though, recently. As the figure here shows, ethanol is now more than $1 per gallon cheaper than gasoline blendstocks. Under these circumstances, the participating firms have every incentive to blend as much ethanol into gasoline as they can. RINs are not required to encourage ethanol use, but refiners still must purchase them.

So what is the RIN requirement accomplishing today? The simple answer is this: the renewable fuels program is subsidizing, at least in part, gasoline and diesel consumption in other countries by incenting

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US refiners to export petroleum products or sell them to domestic buyers at a higher price. Economic theory says refiners will export more and sell less at home. The export prices are lower because they do not include the RIN costs.

Economic theory also implies the US will consume less at a higher price, while exports will increase. The greatest beneficiary of this setup is Mexico, which imports more than two hundred fifty thousand barrels per day of diesel and four hundred fifty thousand barrels per day of gasoline from the United States. In short, the burden of purchasing RINs for products sold domestically raises gasoline and diesel prices in the United States, while the lack of the burden lowers prices for importing countries like Mexico.

The solution to this subsidization problem is simple. The EPA should suspend the RINs requirement for refiners whenever ethanol is cheaper than gasoline blendstock. Data published daily by Argus Media, S&P Global Platts, and other organizations provide the information necessary for officials to monitor markets continuously. The RINs obligation could be re-established whenever ethanol becomes more expensive than the blendstock.

As things stand, American consumers pay at least $0.20 per gallon more than required for gasoline and diesel fuel while Mexican and other foreign consumers receive a subsidy in the form of less-expensive fuel. Ending this subsidy would reduce the incentive for refiners to export and increase domestic supply. Prices could fall by at least $0.20 per gallon and perhaps as much as $0.50 or more if the EPA lifted the RIN penalty. At a time of record domestic fuel prices, it is time to stop subsidizing foreign consumers.

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