Concerns About Fuel Costs Raise Legitimate Issues

Fuel user groups, farmers, businesses and other consumers have been raising the alarm about fuel cost increases associated with California’s cap and trade program. Starting January 1 of next year, all of the gasoline and diesel sold in California will become subject to the cap and trade program for the first time, a step that many experts – including WSPA – believe will almost certainly result in increased fuel costs.

In response to the understandable concerns that are being raised, the California Air Resources Board is offering a curious response. Fuel producers, CARB has been saying, aren’t required to pass on the cost of this new hidden tax on fuel. They can decide to eat the anticipated $2 billion in new costs this regulation will impose on them.

This response is a crystal clear example of what divides government from the private sector – the businessmen and women who create the products, jobs and taxes that fuel our economy and support CARB and other government agencies. All businesses, including oil companies, include the costs of production – whether from raw materials, labor or taxes – in the price of the products or services offered to the marketplace.

Businesses really have but two choices in this regard. They can try to recover the costs of production or they can fail. They can’t, as the State of California can, decide how much money they would like to make and send a bill to taxpayers to generate that income. Businesses must compete for customers and for every penny of sales they can muster in order to survive and thrive. Fuel suppliers are no different. California is a fiercely competitive market for gasoline and diesel fuel. No fuel supplier can absorb the huge costs imposed by the cap and trade program and remain a viable producer of vital fuel supplies.

This chasm between the businesses that generate tax revenues and the government bureaucrats who spend it is undoubtedly one of the reasons we are seeing an increased migration of major businesses out of California. It’s an issue we should be particularly sensitive to as we read stories about major employers like Toyota and Tesla Motors moving their operations and jobs to other states.

CARB’s suggestion is even more curious when you consider the purpose of the cap-and-trade program as it relates to fuel. That purpose is to increase the cost of petroleum-based fuels as a way to encourage or compel consumers to change their behavior. Higher costs for gasoline are supposed to encourage Californians to drive less, drive smaller vehicles, purchase cars that run on alternative fuel, or use mass transit – and thereby reduce their greenhouse gas emissions.

What, then, would be the purpose of oil companies absorbing those costs? CARB has said repeatedly that it is necessary to send consumers “price signals” in order to change behavior. Increasing the cost of the gasoline and diesel is a pretty clear signal.

Writing in a 2013 article in the magazine Science and Technology, CARB Chairwoman Mary Nichols wrote: “Although $70 is likely to motivate large changes in electricity generation, the effect will be far less for transportation, where $70 per ton translates into $0.70 per gallon of gasoline. That is not enough to motivate oil companies to switch to alternative fuels or to induce consumers to significantly reduce their oil consumption, but it is still important to establish the principle of placing a price on carbon.”

Transparency from government is important so the impacts of public policies can be understood and assessed. Unless and until consumers know about and understand the impacts of expanding the cap and trade program to gasoline and diesel next year, the policy should be delayed.