Joint Letter to the U. S. Senate on S. 1419, the "Making Energy Less Affordable Act"

Washington, D. C.
June 14, 2007

Dear Senator:

The undersigned organizations are writing to share our concerns about S. 1419, the Renewable Fuels, Consumer Protection, and Energy Efficiency Act of 2007, sponsored by Sen. Majority Leader Harry Reid (D-NV). This bill should be titled the Making Energy Less Affordable Act. Various provisions and amendments would increase the cost of fuels, food, autos, appliances, and electricity.

Title I of the Act would increase the current renewable fuel mandate of 7.5 billion gallons to 36 billion gallons by the year 2022, while leaving in place the 51 cents per gallon federal subsidy. Whatever percentage of the fuel mix renewable fuels constitute in 2022 would then become the mandatory minimum in 2023 and beyond, providing bio-fuel producers a permanent guaranteed market share, regardless of changes in technology or consumer demand. This is corporate welfare joined to a Soviet-style production quota system.

Corn ethanol could satisfy the first 15 billion gallons of the mandate, but the remaining 21 billion gallons would have to come from "advanced" bio-fuels (defined as produced from anything other than corn kernels). This could raise gasoline prices dramatically, considering that "advanced" bio-fuels are not commercially viable today even with the 51 cents per gallon subsidy.

Consumers would take a double hit—once at the gas pump and again at the grocery store. The current 7.5 billion gallon ethanol mandate has already inflated food prices. Corn is a feedstock for meat, poultry, and dairy products, and in the form of corn sweeteners and syrups is used extensively in processed foods. Title I would further increase Americans' pain at the pump and the plate. Ironically, Title I could make consumers more petroleum-dependent rather than less, because as food and fuel markets merge, oil price volatility will increasingly affect food prices.

Worse, Title I imperils global food security. The existing 7.5 billion gallon mandate doubled the price of corn tortillas in Mexico, triggering protests and a political crisis because tortillas supply the bulk of calories for most Mexicans. Diverting massive amounts of U.S. grain stock from food to fuel would raise food prices worldwide and threaten millions of hungry people who depend on imports of American grain for their survival. Title I is folly.

Title II of the Act would ratchet up energy efficiency standards for dish washers, light bulbs, and numerous other appliances. Many of these standards have already reached the point where the higher costs of the appliance outweigh the benefits from the electricity saved. Consumer Reports recently studied washing machines that meet current federal efficiency standards and found that unless you can pay over $1,000 for a washing machine you can no longer buy one that will get your clothes clean in just one wash. Title II would impose even more stringent efficiency requirements on washers and other appliances. Title II is folly.

Title V of the Act would mandate tighter Corporate Average Fuel Economy (CAFE) standards for automobiles and trucks. The average passenger car would have to get 35 miles per gallon by 2020, and then become 4 percent more fuel efficient each year from 2021 to 2030. But the current (27.5 mpg) fuel economy standard already contributes to thousands of deaths each year due to vehicle downsizing, according to a 2002 study by the National Research Council. Design and engineering changes to improve fuel economy can also add thousands of dollars to the cost of a new car. Title V is folly.

Title VI would prohibit "price gouging" on gasoline sales during a declared state of emergency. Because firms generally seek to charge whatever price the market will bear, prohibitions against "price gouging" inevitably function as price controls. And mandatory price ceilings always have the same effects: increase consumption and reduce supply. This is exactly the reverse of what consumers and firms should do when a disaster disrupts supplies of fuel and other necessities. "Price gouging" regulations are bound to deepen and prolong temporary gasoline shortages by discouraging conservation and deterring importers, refiners, distributors, and retailers from raising prices enough to attract additional supply into the disaster zone. In the long run, "price gouging" rules will diminish energy production and create chronic shortages, as investors shift capital out of oil and gas into less politically-threatened industries. Title VI is folly.

In addition to these titles, Sen. Jeff Bingaman (D-NM) plans to offer an amendment on the Senate floor to require that utilities produce 15 percent of their electricity from renewable sources. Some States already have so-called renewable portfolio standards. These States, mostly in the Northeast and on the West Coast, on average already have higher electricity prices than the Mid-American and Southern States that rely mostly on coal-fired power plants. This provision would force up electricity rates in America's industrial heartland, pushing manufacturing jobs overseas. This too is folly.

In conclusion, S. 1419 would gouge consumers of motor fuel, food, electricity, appliances, and autos; add to the annual highway death toll; weaken America's ability to recover from Katrina-like supply disruptions; and make it harder for the world's poorest people to feed themselves. As a recent CBO study noted, higher energy prices hurt poor people more than the better off because the poor spend a higher proportion of their incomes on energy. The same is true of food, and this bill would raise food prices, too. We hope you will keep these concerns in mind as you deliberate on this legislation.

Sincerely,

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