

## A View from the House

By Representative Doug Holt

In short, last week could be summed up as "much ado about gas prices". The reason the General Assembly was back in (special) session was to ratify the Governor's executive orders regarding a September repeal of the state gas tax, and a revision of the rate at which Georgia reimburses her employees for travel. The Governor has the power to halt collection of the fuel taxes, but only the General Assembly can permanently forgive them. This work, along with some other actions the Governor took, was necessary to create certainty in the minds of consumers and station owners, and thus restore some predictability to Georgia's gas market -- putting a damper on price swings, and cutting down the startling sight of gas stations that had run out of fuel to sell. I suspect those with memories of the price surges of the 1970's felt that the few days of chaos we experienced were ample reason for state government to step in and try to calm the waters.

Katrina, of course, added an extra burst to the rapid price increases of the last year. But the hurricane produced only temporary problems with oil production, refining and distribution. A few months should see most of these bruises to fuel availability healed, hopefully followed by at least some further reduction of price. So our important goals were to keep gas available, and not feed a spike in inflation.

Looking at the big picture, we were out to shave down that spike in an overall trend of rising prices. I reviewed oil production and consumption figures over the last 35 years to get a better sense of why this is happening. Oil is the only energy source in which the U.S. is not mostly self-sufficient; but it is our largest single source of energy, and also serves the most critical areas of our economy. Starting in 1973, just before the first OPEC price hike, we produced 66% of our oil needs at home, and that number had fallen to 42% last year (from about 11.4 million barrels a day to 8.7, a 24% decrease). At the same time, our use had gone up from 17.3 million barrels a day, to 20.7, a 20% increase. Plainly, we've become far more dependent on outside sources of oil. Meanwhile, world oil production went up by 40% during the same period, but world consumption was up 55% (consider China, India and other industrializing nations).

Basically, we're in the unhappy position of competing for more of a resource for which demand has been going up more rapidly than supply. Place this fact against the backdrop of world oil reserves (oil that's still in the ground to pump), and you have to face the unpleasant fact that we are using up available oil faster than new sources are found. World reserves in that earlier period were estimated at 2 trillion barrels, and now we're down to roughly 1 trillion. The easy to get at oil has already been pumped, and what remains will be more costly to get at (think of an Easter egg hunt - the first pass lets the little kids find the eggs quickly, the second requires more time and effort for older kids to find eggs).

Throw all these facts together, and you can easily see why prices have been rising as the U.S. and other significant economies have come out of recession. Now, this rather rapid rise in the last year may call for a response like the one that came after the Iranian led increase in 1979. That one was sharp enough that it caused domestic production to go up slightly, while consumption dropped dramatically. We went from producing 57% of our needs at home in 1979, to 71% in 1985. That change gave us dramatically low prices to enjoy for about a decade. I certainly hope this same chain of events happens again, but I doubt that we'll see as much of an improvement as we did in the 80's (remember that "Easter egg" effect I mentioned).

Please don't think that all is gloom and doom, however. Georgia's own Congressman Charlie Norwood has been working on legislation to promote more domestic oil production in the short run, while promoting development of alternative sources in the long run. It's intended to help ease the energy source transitions that must inevitably take place. And higher prices also encourage companies to develop and offer new alternatives on their own. We all know that the first "hybrid" vehicles have made it to market -- I'm sure we'll be seeing this happen at a faster pace in the years ahead.

So if you take anything from the discussion above, consider that we're moving from an era of "much ado about gas prices" to one of "much ado about energy transitions". It will still take many years, but the market (perhaps with some careful, judicious prodding) will eventually bring our children and grandchildren transportation options of comfort and convenience that I think will exceed our own.