Paying for Post-Peak Oil Mitigation

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Apropos of yesterday's gas tax report and discussion, today we bring you Alan Drake's ideas on post-peak mitigation. Alan is an engineer, former accountant, and professional researcher based in New Orleans with best hopes for many. Alan would also like to thank the lovely and talented Wendi Berman for her editing skills and assistance.

Many proponents for public spending on Post-Peak Oil mitigation are attracted to gasoline and diesel taxes or more generic oil and/or carbon taxes. In an era of rapidly increasing oil (and all other energy) prices, passing such taxes will be politically difficult and take precious time.

I would like to propose an alternative tax for Phase I of Peak Oil mitigation that adheres to Sen. Russell Long's famous dictum "Don't tax you, don't tax me, let's tax that fellow behind the tree!"

World Trade Organization (WTO) rules allow for a specific exemption that will allow the United States of America to impose a non-discriminatory tariff (it applies to all goods and taxable services, with a specific exemption for essential goods) if the funds raised are used to reduce our structural trade deficit, i.e. our oil consumption.

Specifically, the WTO allows nations with a structural balance of trade deficit (which the USA certainly has) to apply a non-discriminatory tariff if the funds from that tariff are used to reduce the structural trade deficit (which reducing oil use certainly would do). A separate section of the WTO treaty allows the importing nation to exempt "essential" goods.

In 2006, the USA imported $1.861 trillion in goods (and exported $1.023 trillion). This allows for significant revenues from a small percent tariff.

First, a few relevant points. Any trade practice is allowed until another WTO member nation sues and wins in a WTO tribunal. In my opinion, every nation in the world would welcome a determined effort by the United States to significantly reduce domestic oil consumption and none would sue, even if they had a credible case.

An effort to reduce imports and a determined effort to reduce oil consumption by the United States should have a beneficial effect (partially psychological) on the exchange rate for the US dollar. It is entirely reasonable to suppose that the US dollar would rise by the percent of the tariff, thereby eliminating any inflationary impact of this proposal.

The issue of NAFTA and other nations enjoying free trade treaties with the United States is more complex, and I do not have the background in international law to properly dissect this issue, but there is a possible accommodation.

Goods and services from Mexico, Canada and other affected free trade nations would also be charged the tariff, and the funds from that tariff could be used to reduce US oil consumption. However, the US could appropriate a percentage of tariff (perhaps half) from other funds and taxes back to these nations, with such rebates to be used specifically to reduce oil consumption in Mexico, Canada, etc. It is worth noting that reduced oil use by Mexico and Canada would benefit the USA by freeing up more oil for export.

As noted above, if nations fail to file suit, then the WTO takes no action. Such an arrangement should satisfy all parties in my opinion.

As a hypothetical, let me propose a 3% tariff on all imported goods and taxable services for 14 years, with the option to extend it for another ten years. $55.8 billion would be raised at 2006 import levels. The core proposals to reduce USA oil consumption are at

http://www.lightrailnow.org/features/f_lrt_2006-05a.htm

and

http://www.lightrailnow.org/features/f_lrt_2007-04a.htm

Specifically, I would use the monies for:

1) Incentives to freight railroads to electrify and otherwise expand capacity once electrified (most of the monies would come from the railroads directly).
2) 90% federal funding for new Urban Rail (the same percentage used to build the Interstate Highway system).
3) A variety of incentives for bicycling.
4) A handful of demonstration Electric Trolley Bus systems.
5) Creation of a Strategic Railcar Reserve that can rapidly expand rail capacity (both freight and Urban) in an oil emergency as a supplement to the Strategic Petroleum Reserve.
6) Convert residences and commercial buildings from oil heat to either ground loop heat pumps or solar space & water heating (solar space heating is likely to be supplemental).
7) Insulate, weatherize and convert governmental buildings and low income homes.
8) Additional measures (such as wind turbines and tankless natural gas hot water heaters) to save enough natural gas and electricity to offset the additional demand for these two energy sources from the steps above.

Well over half of the funds from the tariff would be used for new Urban Rail. A variety of conditions would be imposed to be eligible for federal funding, such as local sources of funding for continued operations and zoning that facilitates Transit Orientated Development.

New parking structures for automotive Park & Ride at Urban Rail stations would get only 40% federal funding if I had my way. Bicycle and scooter Park & Ride facilities would get 90% federal funding, as would bus transfer facilities.

This approach would clearly not be enough to fully mitigate the effects of post-Peak Oil, and time will clearly show that more must be done ! However, this tariff is large enough to allow the rapid ramp-up in capabilities and to show the benefits of doing more faster. This tariff could pay for Phase I.

Some Phase II funding options are gasoline taxes, carbon taxes, tolls on Interstate and US Highways, higher license tag fees for gas guzzlers; eliminating ethanol tax breaks for more effective measures; general taxes and reduced spending in other areas. All politically difficult issues, but the positive results from Phase I could provide the political will to do the difficult fund raising for an expanded Phase II.

And Phase II should expand into a much larger push for renewable and nuclear energy, increased conservation and the use of light hydrocarbons (natural gas, propane and butane) for transportation. There is only so much natural gas and propane/butane and that amount may be near Peak. A holistic policy would take natural gas freed from electrical generation by renewables, nuclear power, natural gas and propane/butane freed from home and water heating, ground loop heat pumps and solar hot water heaters--and use these light hydrocarbons for transportation. A mad race to conserve that's significantly faster than depletion.

Phase II would also include a larger push for Urban Rail, electric trolley buses, bicycles, and transferring freight from heavy trucks to electrified rail.

A related matter is filling an expanded Strategic Petroleum Reserve (SPR). With the volatile and ever higher prices for oil post-Peak Oil, it will be impossible to budget, or even afford, the planned doubling of the SPR to one and a half billion barrels. The only viable funding option for this essential project is a percentage tax on oil or oil products. Say, a 5% tariff on all imported oil and oil product imports, or a 3% excise tax on all crude oil produced in or imported into the USA and oil products imported into the USA. Or a 7.5% national sales tax on over-the-road gasoline and diesel sales (no tax on current excise taxes). The tax rate would vary with how comprehensive the tax base would be. And the tax rates proposed above could fill the SPR in about four years. Lower tax rates would, of course, take longer.

Such percentage taxes could be quickly converted to both crude oil for storage on the Gulf Coast and a network of regional product storage SPRs, such as the current heating oil SPR in the northeast. Regardless of oil prices, a steady flow of oil would go into the SPR. And this tax has the beauty of "the user pays."

Caveats – I am not a lawyer with international law experience, although I have communicated with the WTO in Geneva and the central thrust of this proposal seems quite valid. The USA has structural balance of payments and trade deficits and reducing oil consumption will reduce those deficits.

Imported goods are clearly subject to tariffs, but services are questionable depending upon type and other variables. Common sense would say that foreign call centers serving US markets should be taxable, but taxing insurance provided by a Swiss company and exempting a US insurance company is more questionable.

Mexico exports crude oil to the US and imports refined petroleum products. Such trade should not be discouraged and exemptions or rebates need to be made for re-exported goods.

In addition, international trade will likely fall during a recession and the reduced economic activity post-Peak Oil. Thus the exact funding available is unclear.

Politics is the "Art of the Possible"

What truly needs to be done is not, IMHO, politically possible now.

An almost painless Phase I could accomplish a very good percentage of what needs to be done (or can be physically done) in the next few years and make a more painful Phase II politically possible.

Best Hopes for the Best Economic Policy, the Best Environmental Policy, the Best Energy Policy and the Best National Defense Policy (see above for all 4),
Alan Drake