

SJR

8

SENATE COMMITTEE REPORT

FURTHER:

FINANCE

DATE TURNED INTO OFFICE _____

3/11/87

Mr. President:

RESOURCES _____ Committee considered _____ SJR 8

federal tax on imported oil.

and recommended:

[] replace with CS FOR _____) [] same title
[] or adopt _____ CS FOR _____) [] new title

[] attached amendment(s) and

[✓] do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to _____

[] letter of intent adopted _____

Committee [] attached or [] adopted fiscal note(s)

[] new [] updated or [✓] previous
[] zero [] fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Tom Durkin
...
...
...

J. A. ...
Chairman signature and recommendation

[] Committee Backup Attached

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 2-25-87 5-DAY NOTICE
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER: RESOURCES
FINANCE

**FISCAL NOTE(S) ATTACHED **
IN ACCORDANCE WITH AS 24.08.035
(see below)

DATE TURNED INTO OFFICE 3-11-87

Mr. President:

OIL & GAS

Committee considered SJR 8

federal tax on imported oil.

and recommended:

[] replace with CS _____ [] same title
[] attached amendment(s) and [] new title

do pass

[] do not pass

[] no recommendation

[] individual recommendations

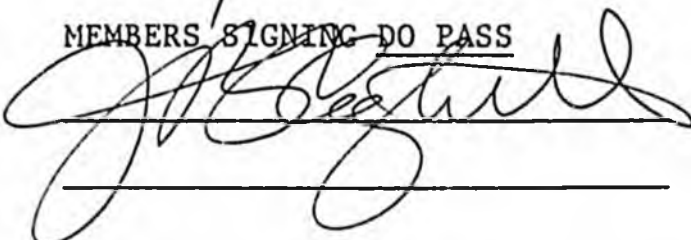
[] further referral to _____

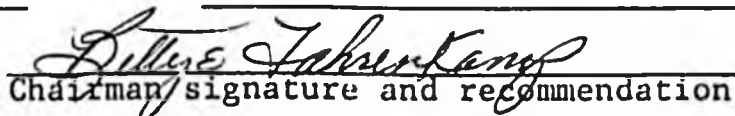
[] letter of intent adopted and attached

** Committee attached or [] adopted fiscal note(s)
 zero [] fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS




Chairman signature and recommendation

[] Committee Backup Attached

Alaska State Legislature

Senate Resources Committee



Sen. John B. (Jack) Coghill, Chairman
Sen. Paul Fischer, Vice-Chairman
Sen. Lloyd Jones
Sen. Athiss Sturgulewski
Sen. Jim Duncan
Sen. Fred Zharoff
Sen. Dick Etason

Box V
Juneau, Alaska 99811
(907) 465-4907

TO: SENATE RESOURCES COMMITTEE
FROM: COMMITTEE STAFF
RE: SJR 8 "Relating to a federal tax on imported oil"
DATE: APRIL 1, 1987

SJR 8 urges the U.S. Congress to impose a federal tax on imported oil. There are at present at least two oil import fee proposals before the U.S. Congress, S 302 and S 460.

Proponents of such an import fee believe that the tariff would reduce the national deficit, protect our national security and maintain the viability of our domestic oil industry.

Economists from the Division of Oil and Gas predict that an import tariff would greatly increase state revenues. For example, a \$10 per barrel fee would increase state revenues by as much as \$1.5 billion a year.

Such a fee would also greatly increase the cost of oil products to consumers as well, and is therefore opposed by representatives from the major oil consuming states.

SJR 8 does not recommend the amount that such a tax should be.

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No. 115

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

SENATE
BILL VERSION: SJR 8
PUBLISH DATE: 3/11/87

REQUEST: _____

Revision Date: February 24, 1987

Title: Federal tax on imported oil

Agency Affected: Natural Resources

BRU: Petroleum Management

Sponsor: Josephson, Kelly, Halford, Sturges, Lewis Components: Petroleum Management

Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE		*	*	*	*	*
---------	--	---	---	---	---	---

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS :

* SEE ATTACHED

Prepared by: James E. Eason

Division: Oil and Gas

Phone: 762-4241

Date: February 24, 1987

Approved by Commissioner: William J. Arnold, Deputy

Agency: Natural Resources

Date: 2/25/86

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

It is not anticipated that a federal import tax on imported oil would generate increased expenditures from either the operating or capital budgets. The tax would increase income to the state treasury by increasing the wellhead price of Alaska oil. Actual monetary benefits will depend upon the actual amount of the proposed tariff and the projected wellhead price. At this time it is not known if the wellhead price of Alaskan crude could adjust to match the tariff increase. Thus, all that can be said is that for every one dollar increase in wellhead price, between \$135 million and \$150 million would annually accrue to the state treasury as a result of increased royalties and severance taxes. Assuming a ten dollar per barrel tariff and a full corresponding adjustment to wellhead prices, at current production levels, the state would receive about \$1.35 to \$1.50 billion dollars annually.

By raising the wellhead price of domestic oil, and in effect, creating a floor price for domestic oil, the federal tariff would also encourage (1) more intensive drilling and production in existing reservoirs; (2) development of marginal fields near Prudhoe Bay, such as offshore Lisburne, Pt. Thompson, and Gwyder Bay; and (3) exploration in more remote, wildcat areas.

Oil import fee gains state leaders' support

By CHUCK KLEESCHULTE

THE JUNEAU EMPIRE

The nation's oil industry seems to be preaching to a choir urging Alaska to support an effort to get Congress to impose an oil import fee that would raise prices for crude oil — including Alaska's share for its North Slope royalty oil.

Members of the Senate Special Committee on Oil and Gas last week received uniform encouragement to pass a resolution asking Congress to pass a variable tariff on foreign oil imports. The import fee would raise consumer costs for gasoline and petroleum products, but would hike state revenues from its oil and likely encourage additional recovery from existing oil fields.

Experts also testified that an import fee at a high enough level likely would encourage new exploration in Alaska — some speakers noting that for the Arctic National Wildlife Refuge to be produced, if opened to oil exploration and production, oil prices will have to rise above current world prices of \$16 to \$18 a barrel. Prices for Alaska oil traditionally are several dollars a barrel below that of the world price.

Sen. Joe Josephson, D-Anchorage, appeared to express the Senate's likely support for an import fee.

"In 14 years in this legislature I have never supported a proposal, and I have never voted for a proposal, whose benefits to Alaska were more clearly self-evident than the benefits contemplated by this resolution," he said.

"For the nation to continue to have an energy producing industry

beyond the short term we have to have an import fee. Without that our energy independence is questionable and our security in jeopardy," said Sen. David Boren, R-Okla., in a statement read by an aide.

Boren and Tim Dowd, chairman of the Interstate Oil Compact Committee testifying from Oklahoma, argued that without an import fee America's reliance on foreign imported oil will continue to grow. Currently about 40 percent of the nation's daily consumption comes from exports, up from 24 percent in July 1985 — American production falling by 700,000 barrels a day over the past year, while exports from Saudi Arabia have risen by 685,000 barrels.

Experts predicted that by 1990 America, if prices remain at around \$18 a barrel, will likely be importing more than 50 percent of its oil with the industry being severely hurt as far as being able to ever replace lost domestic production. America currently produces about 8.3 million barrels a day.

Bob Anderson, Alaska district manager for Union Oil of California, said ideally an import fee would be placed so that oil would cost \$24 to \$25 a barrel — the minimum needed to encourage new exploration in frontier areas like Alaska.

While it appeared highly likely that lawmakers will vote for the resolution, pushed by Alaska Sen. Frank Murkowski, Borden's aide said approval in Congress is unlikely barring another major dip in oil prices since the Reagan administration continues to oppose any change in a "free-market" pricing structure.

Federal study indicates energy crisis likely

Journal Empire 2/25/87

By LEE A. DANIELS

THE NEW YORK TIMES

NEW YORK - Declining domestic crude oil production and the growing dependence of the United States on petroleum imports could lead to an energy crisis in the 1990s far worse than those experienced in the 1970s, according to the draft report of a federal advisory committee.

The study, conducted by the National Petroleum Council at the request of Energy Secretary John S. Herrington, warns that current conditions pose a serious threat to the viability of the American oil and gas industry - and to national security and economic stability.

The council, made up of experts from outside the government, is an official advisory body to the energy secretary. The draft report reaches conclusions similar to those of several other recent studies that warn that a severe oil shock could be just a few years away.

The final version of the council report is to be delivered to Herrington on Tuesday after a meeting of the council in Washington. A copy of the draft report was obtained by The New York Times. Several members of the council said that the final report was not likely to substantially differ from the draft report.

The council study, begun last spring when crude oil prices had plummeted \$19 in six months and were still falling, found that by 1995 as much as 60 percent of the nation's oil needs would have to be supplied from foreign sources, up from 27 percent in 1985.

The study states that even under a "best case" outlook, the level of imports was likely to reach 48 percent by 1995, about 10 percentage points higher than during the 1979 oil shock. Using the "best case" scenario, the import level in 1990 was predicted to be the same as it was just before the 1979 oil shortage.

The study contends that by the early 1990s the members of the Organization of Petroleum Exporting Countries, particularly those in the Persian Gulf, will probably be exerting greater control over the world oil market than they did in the 1970s.

"It makes it very clear that we've entered into that cycle that led to the oil shocks of 1973 and 1979," said George P. Mitchell, a member of the committee that prepared the report.

"The country could have very serious problems within a short period of time," said Mitchell, who is chairman, chief executive and president of the Mitchell Energy and Development Corporation of Houston.

John H. Lichtblau, president of the Petroleum Industry Research Foundation and a member of the committee, said that the report's message is that "the period of declining oil prices and declining U.S. dependence on foreign oil has come to an end."

He continued: "We are going to be much more dependent on foreign oil, and our national energy policy has to take that into account."

The study found that each of the 1970s oil shocks pushed the economy into a recession, causing the value of goods and services produced to fall

as much as 3.5 percent, unemployment to rise by up to 2 percentage points and inflation to rise by 3 percentage points. It said that the potential of an equal or greater impact increases in tandem with the country's dependence on imports.

Committee members said the study is the most comprehensive to date on the domestic ramifications of the crash in world crude oil prices that began in November 1985. At that time, West Texas Intermediate, the major American crude oil, was priced near \$32 a barrel. In late summer of 1986, the price bottomed out at \$9.75 and has since risen to around \$17 or \$18.

The council's report lists 13 general options that it says the government and the public should consider. The options include opening more federal lands to exploration for oil and natural gas; revising tax policies to encourage exploration and production; imposing a tariff on imported oil; de-controlling natural gas prices, and adding crude oil to the

nation's strategic petroleum reserves as a supply buffer.

The report also lists methods of encouraging energy conservation, including increased taxes on fuels, particularly gasoline and heating oil, and greater use of alternative fuels.

"The Congress, the administration, and the public must realize something has to be done," said Michel T. Halbouty, another committee member, and the chairman and chief executive of the Michel T. Halbouty Energy Co.

"Sure, some of these options are controversial," Halbouty said.

The draft report was called disappointing by one outside expert, Christopher Flavin, senior researcher of Worldwatch Institute, an environmental research organization.

After the report's list of options was read to him, Flavin said: "It sounds like a fairly tired old laundry list of options. Among all those things, I don't see a single one that strikes me as being new and innovative."

OIL IMPORT TARIFF

The case for a tax on imported oil

WASHINGTON — A new federal tax on all imported crude oil and petroleum products — a concept often debated but never adopted by Congress in recent years — may be an idea whose time has come.

Within the petroleum industry, support for an import tax generally has been limited to independent producers in the Southwest. They would reap a financial bonanza from such a levy because they could increase the price of their domestic oil to match the post-tax price of imports.

When the American Petroleum Institute recently held its annual meeting in Houston, however, API Chairman George M. Keller called for an oil import fee or a similar mechanism to establish a "minimum floor price" that would provide "disaster insurance."

In addition to heading the industry's main trade association, Keller is chairman of Chevron, the nation's third largest oil company.

Like other integrated, multinational firms with domestic and offshore crude oil reserves, Chevron long has adamantly opposed any government intervention in petroleum pricing.

Keller, speaking for his company but not API, suggested that an oil import tax of \$2 to \$4 per barrel could revive the financially devastated domestic oil industry.

In Washington



by
Robert
Walters

Sen. Gary Hart, D-Colo., has proposed an import tax of \$10 per barrel. He would also provide rebates to the low-income consumers who would be most adversely affected by price increases.

(Each \$1 increase in the price of a 42-gallon barrel of crude oil is equivalent to 2.3 cents in the cost of a gallon of gasoline.)

After global oil prices collapsed late last year, a barrel of crude oil plunged from \$32 to less than \$10 before recovering to the current price of about \$15.

That has led to what George P. Mitchell, one of the country's leading independent producers, has described as "a severely reduced U.S. production capacity and greater dependence upon foreign producers."

Indeed, petroleum imports during the first nine months of this year averaged 5.94 million barrels per day compared with 4.65 million barrels daily during the same period last year — an increase of 22.5 percent.

Hart is among those who argue convincingly that the higher post-tax price would encourage conservation. Mitchell, head of the Mitchell Energy & Development Corp., notes that the proposed levy would provide a needed stimulant to "our country's faltering energy productivity."

President Reagan is firmly opposed to the tax because of his antipathy to both increased taxes and government intervention in the free market.

But when the Senate convenes next year under Democratic leadership, two key committees will be chaired by legislators from leading oil-producing states who enthusiastically support an oil import tax.

Sen. Lloyd Bentsen of Texas will head the Finance Committee, while Sen. J. Bennett Johnston Jr. of Louisiana will lead the Energy and Natural Resources Committee.

Thus, industry and political pressure could surmount White House opposition to an idea that is eminently sensible, especially if domestic producers are willing to make a sacrifice in return for the financial windfall they will receive.

Specifically, they should relinquish unjustified tax benefits from accelerated depreciation allowances and immediate write-offs of intangible drilling costs.

BUSINESS

Economists See Faults in Oil Import Fee

By John M. Berry and Anne Swanson
Washington Post Staff Writers

Imposition of an oil import fee—which is actively under consideration by some Reagan administration officials and members of the Senate Finance Committee—would reverse some or all of the economic growth and lower inflation and interest rates generated by the current decline in oil prices, many economists say.

These economists, who range from conservative to liberal, question whether it would be worth paying that price to boost federal revenue—particularly if the purpose of the fee is to replace the revenue lost from lowering personal income tax rates by a greater amount and increasing corporate taxes by a smaller amount than proposed in the House passed tax revision bill pending before the committee.

Moreover, such a fee does not seem to be

the first choice of many economists because it would raise business costs and make American products less competitive on world markets.

Many economists also see falling oil prices as a special boon this year when the inflationary impact of the declining value of the U.S. dollar on foreign exchange markets is expected to be felt. Some analysts fear that the Federal Reserve Board could decide to tighten credit conditions and slow economic growth if inflation begins to accelerate. The oil price decline is seen as reducing that possibility.

Perhaps surprisingly, most segments of the oil industry oppose such a fee. Not only are major companies such as Exxon Corp., Mobil Corp. and Chevron Corp. against it, but so is the Independent Petroleum Association of America, whose members are small drilling and producing companies. "... Taxes, tariffs, fees or quotas on im-

ported crude oil or petroleum products would be counterproductive to the national interest at this time," a recent IPAA policy statement said.

A \$5-a-barrel fee, the most commonly mentioned figure, would be equal to about 12 cents a gallon and raise about \$8 billion a year if imports of crude oil and refined products remained at last year's levels.

Imports account for less than 30 percent of U.S. petroleum use. If their cost were raised by a fee, the price of domestically produced crude oil and natural gas liquids also would go up, and the U.S. oil industry's revenue would increase by about \$20 billion.

A portion of that increase would be taxed away through the federal crude oil windfall profits tax as the price of oil rose, and through the corporate and personal income taxes as well. How much additional federal revenue those taxes might yield would depend on a number of things, including how

higher oil prices affected the overall economy, economists say.

There also could be some increase in natural gas and coal prices—or at least less of a decline than otherwise would occur—if oil prices are propped up by an import fee.

Altogether, the direct increase in the cost of petroleum products, if passed through entirely to users, would approach \$30 billion and be equal to about 0.7 percent of this year's gross national product, which is expected to be about \$4.2 trillion.

It probably would take about two years for the higher prices to work their way through the economy, according to economists who have studied the situation.

At the moment, oil prices are falling while the import fee is still only a proposal, albeit apparently a serious possibility, according to Senate Finance Committee Chairman Bob Packwood (R-Ore.). That timing difference led economist Alan

Greenspan of Townsend-Greenspan & Co. to caution the committee last week. "There is somehow an assumption it is politically easy to impose a fee, Greenspan said. "There is almost never a way to time such a tax so that prices don't fall and then rise again when it is put on."

Greenspan's point was that whatever restraining influence falling oil prices may have on various price indexes will have occurred already by the time an import fee could be imposed. Then, when the higher oil prices begin to show up in the indexes, the additional inflation will be highly visible, he predicted.

The Finance Committee is considering the fee for several reasons, including providing some price support for the sagging domestic oil industry and for bankers who have risky loans to it. But the principal concern is to find added revenue to offset other

See OIL TAX, P8, Col. 1

Oil Import Fee Questioned

OIL TAX, From F1

tax cuts that President Reagan and members of the committee want to make as part of the massive tax revision bill passed late last year by the House of Representatives.

Several committee members are backing legislation to enact a fee. Sen. Malcolm Wallop (R-Wyo.) wants a sliding fee to capture any decline in crude prices below \$22 a barrel. Sen. David L. Boren (D-Okla.) is pushing a \$5-a-barrel fee that would begin to phase out if the price rose above \$25 a barrel and would disappear after the price reached \$30 a barrel.

Both proposals include a higher fee on imported refined products to provide additional protection for U.S. refiners. Wallop would add \$3 a barrel; Boren, \$10 a barrel. Sen. Lloyd Bentsen (D-Tex.) is a cosponsor of both bills. Senate Majority Leader Robert J. Dole (R-Kan.) also favors an import fee, as does ranking committee Democrat Russell B. Long (D-La.).

All the sponsors are from oil-producing states. Committee members from other parts of the country generally oppose the idea. For example, Sen. George Mitchell (D-Maine) said, "It's an incredible windfall for the domestic oil producers. I don't see what benefit there is to the nation in that. And it would be extremely inflationary."

This split mirrors the different economic impact a fee would have in various regions. Areas such as New England that are heavy users of oil products would pay higher prices but get little of the benefits flowing to the domestic oil industry. Oil-producing areas in the Southwest also are heavy oil consumers, but they would share in the gains of the domestic producers.

Greenspan, a former chairman of the Council of Economic Advisers, noted that a fee on oil imports would raise the cost of chemical products made from oil, of which the United States is a substantial exporter. Higher oil prices could have a significant impact on many lower-cost products, he said.

Nevertheless, Greenspan believes that the fee ought to be looked at as a possible revenue source. "It is the least worst of the available political decisions," he declared. "Whether it's desirable is another question."

Another former CEA chairman, Murray L. Weidenbaum of Washington University, who also testified before the Finance Committee last week, said he would not impose an oil import fee because it would worsen the U.S. competitive position.

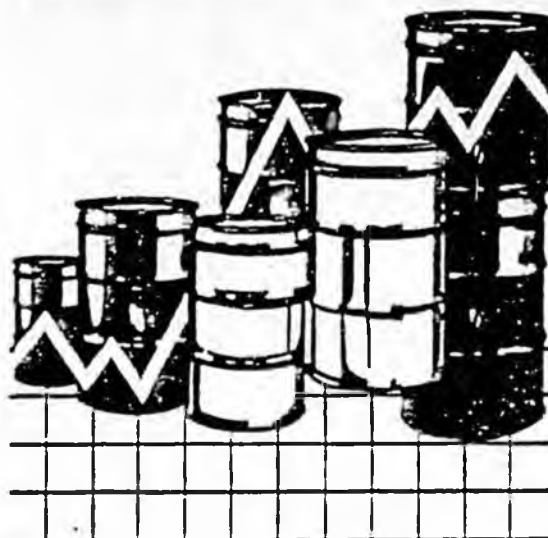
John Makin, a tax economist at the American Enterprise Institute, opposes the proposal. "I really think the energy tax is just a habit of thought," he said. "There was a lot of talk about it in the late 1970s. People have reports and studies, and they dust them off. I don't think that's a good way to go."

Charles L. Schultze of the Brookings Institution, Weidenbaum's predecessor at the CEA, flatly opposes an oil import fee. Falling oil prices "will take some or all of the sting out of the falling dollar," he said. Putting on a fee "would undo some of the good things" that lower prices will produce.

A \$5-a-barrel fee would generate about \$10 billion in additional revenue, Schultze estimated. "If that was the last \$10 billion needed for a decent budget package (to reduce the deficit), I'd hold my nose and buy it but I would not advocate it," he said.

However, the Senate Finance Committee is looking at a fee primarily as a way of making Reagan-backed changes such as reducing the top personal income tax rate from a proposed 38 percent to 35 percent—it is now 50 percent—and increasing the current \$1,080 personal exemption to \$2,000 for all but the highest-income taxpayers.

Other changes Reagan is seeking include a corporate income tax rate of 33 percent instead of the 36 percent



members also want to reduce depreciation allowances on business investments in new plants and equipment significantly less than did the House.

Harvard University economist Martin Feldstein, another former CEA chairman, strongly advocates reducing investment incentives by less than what the House has proposed. In order to do that, while still keeping the tax revision measure from generally neither raising more or less revenue than current law, Feldstein would use the fee. "It's a good tradeoff," he said, adding, "It would be better still to have a combination of an oil import fee and a gasoline tax, with heavier weight on the gasoline tax." Feldstein is much less enthusiastic about using part of the revenue from an import fee to offset revenue lost by reducing the top marginal rate for individuals from 38 percent to 35 percent.

Most of the discussion in recent months about an oil import fee has been in the context of raising revenue to reduce the large continuing federal budget deficits. It was in that vein that President Reagan included a \$5-a-barrel fee on both imported and domestic oil in a contingency tax package he proposed in early 1983. That package—which he later let be known he did not want to have passed—would have gone into effect only if several conditions were met, including prior enactment of major spending cuts.

Recent public statements by some of the major oil companies, including a Mobil Corp. advertisement in today's Washington Post, generally oppose the fee as a way of cutting deficits. Mobil calls the fee "a dud" because of its inflationary and competitive consequences for the American economy.

An Exxon Corp. statement declares, "These additional fees, which are in effect taxes, would increase consumer prices, increase inflation and reduce real gross national product. In addition, they would distort competition among fuels, place energy-intensive U.S. manufacturing industries at a competitive disadvantage against foreign competition and fall inequitably on different regions of the country . . ."

"If it is determined that tax increases are necessary, however, they should be as broad-based as possible."

Former Treasury tax economist Harvey Galper has been invited by the Finance Committee to testify this week on the impact of taxes on international competition and capital formation. Galper said he plans to tell the committee that the most solid way to improve America's competitive position and to increase capital formation is not by providing larger investment incentives through the tax code—especially if the price is imposition of an oil import fee—but rather to increase national saving. And he said that the best way to increase the amount of savings available for investment is to reduce federal

Tax Oil to Save Oil

As surely as rising oil prices taught Americans to conserve energy, lower prices will lead them to forget. That would be a national tragedy, and a foolish security risk. Prices are falling because we conserved. Now that the price is not incentive enough to save, add a tax.

No new oil price shock is in sight. But the world's affordable supplies are still being depleted, and the risk of upheaval in the Middle East is ever present. As long as they last, lower prices mean greater consumption the world over.

Homeowners won't tear out insulation bought when heating costs soared; new energy-efficient buildings won't be razed. But the pressure to spend money for more conservation is being lost.

Just think about automobiles, which burn more than half the oil we consume. At less than \$1 a gallon, drivers lose their incentive to slow down and tune up, and they stop caring about mileage ratings on new cars. They drift back into larger models, and Government can't resist relaxing the regulations that made the biggest '86 cars more efficient than the smallest in 1973.

America consumed 17.5 million barrels of oil a day in 1973. Today, in an economy one-third larger, consumption has fallen below 16 million. Dependence on foreign oil has also declined, from 36 percent of consumption in 1973 to 30 percent, and, significantly, the decline is much sharper for Persian Gulf oil.

The Reagan Administration wants only to reap the disinflation benefits. It favors more off-shore domestic drilling and, rightly, more deregulation of natural gas. But it is blindly rushing past this chance to build up the Strategic Petroleum Reserve at bargain prices. For transient budget benefit, it would even sell off three naval reserve fields. And it has unwisely relaxed the pressure on Detroit's car designers.

Federal fuel standards and other regulation would be less necessary if we turned to a tax to encourage more conservation. With prices falling, we

could conserve by paying ourselves instead of Middle East potentates.

What's the best form of tax? On alternate days, President Reagan offers to consider a tax on oil imports — provided it's called a "fee" and is used to finance tax-law revisions. Congress, too, seems to prefer an import fee to a tax on gasoline or all energy. An all-energy tax, in any case, would have no special impact on oil consumption. The choice comes down to taxing imported oil and refined products or taxing gasoline at the pump.

An import fee would reduce dependence on foreign sources and encourage domestic production. The oil patch likes the idea because raising the price of foreign oil would let American producers charge more for domestic oil. The consuming states of the Northeast and West Coast and Florida balk at the idea and would, at the least, insist on taxing away the domestic producers' windfall. So taxing imports would lead to taxing all oil.

That would raise the cost of living, retard growth and damage friendly suppliers, like Mexico and Canada, which might need exemptions. The petrochemical industry, too, would want exemption, and who knows who else. The administrative complexity is offset by the political attraction: the public wouldn't much notice an import fee.

A gasoline tax would be highly visible even if it only held prices at prior levels. But it would be simple to administer atop the existing Federal tax of 9 cents a gallon. And it would not discriminate against any region.

Either tax could be shaped to yield as much as \$100 billion over five years — \$8 a barrel on imports combined with a 50 percent "windfall" profits tax, or 20 to 25 cents a gallon on gasoline. The revenue could help balance the Federal budget and thus improve the economy.

The main and lasting benefit of either tax would be in conservation and national security. An oil conservation tax is good policy any time. It is more easily achieved now that prices are down.

**HARVARD STUDY URGES
OIL IMPORT FEE**

A study by Harvard Univ. economists Harry Broadman and William Hogan, both with the Energy and Environmental Policy Center, calls for the immediate imposition of a \$10-\$11/bbl fee on imports of crude oil and products in order to halt the nation's rising dependence on imports. They argue that such a tariff could reduce U.S. import levels to the point where the costs to society of importing an incremental barrel of oil just balance the benefits.

The market price paid for imported



International Gas Technology **HIGHLIGHTS**

Volume XVI

December 1, 1986

No. 24

OPTIMAL TARIFF AND COST OF FREE MARKET POLICY PROBABILITY DISTRIBUTIONS

High price case (\$27)

	\$/bbl			
	Lower 25%	Median	Upper 25%	Expected Value
Economic Tariff	\$ 1.95	\$ 2.85	\$ 3.90	\$ 3.14
Security Tariff	3.63	5.64	8.52	6.44
Combined Tariff (\$ per barrel)	7.00	8.96	11.26	9.58
Cost of Free Market Policy (\$billion/year)	4.64	8.24	13.18	10.60

Low price case (\$15)

	\$/bbl			
	Lower 25%	Median	Upper 25%	Expected Value
Economic Tariff	\$ 4.03	\$ 5.68	\$ 6.87	\$ 5.86
Security Tariff	2.80	4.20	6.65	5.23
Combined Tariff (\$ per barrel)	8.71	9.81	13.52	11.09
Cost of Free Market Policy (\$billion/year)	11.72	7.90	27.93	22.44

oil does not reflect its true cost, which includes what the economists call an "economic component" and a "security component." The greater the volume of oil imported into the U.S., the higher the price, which means that, as demand rises, all importers must pay a higher price. Rising oil prices also have an adverse effect on the U.S. economy and the trade balance.

As for the security component, the U.S. is vulnerable in the event of a price run-up to an increased transfer of wealth abroad with all the attendant costs, and this vulnerability is a direct function of the volume of imports. Also, the larger the value share of oil in the economy at the time of a disruption, the greater the macroeconomic costs from the price shock.

In order to calculate the optimal premium, Broadman and Hogan developed a model that maximizes the

expected net social benefits of oil imports for normal and disrupted periods and allows for the simultaneous estimation of the premium's individual components. The table shows their estimates of the optimal tariff and the costs of continuing a free-market policy.

The authors consider 3 optional forms of tariff: a simple fixed fee, a variable fee, and a fee defined in proportion to the price of oil. They prefer the first on the grounds that it provides approximately the right incentives at the margin and the closest approximation to the optimal tariff calculations revealed by their analyses, and avoids the difficulties of managing the macroeconomic costs during an interruption.

The authors note that while the redistribution of resources throughout the economy will have both "winners" and "losers," the winners' gains are likely to be larger than the losers' costs.

Copies of the study are available from Nancy Kingston, Energy and Environmental Policy Center, Harvard Univ., 79 John F. Kennedy St., Cam-