

# **A Sustainable Environment: Our Obligation to Protect God's Gift**

by  
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## **How to Reduce Our Dependency on Oil**

No one can disagree that oil consumption in the United States continues to increase. We currently consume about 20 million barrels of oil a day, and more than half of it is imported. Over the next 20 years, the portion of imported oil is projected to increase to 70% of the total. The recently passed energy bill provides for an increase in domestic production to combat the need for more imported oil. As I have indicated earlier, this is a *temporary* solution, yet we need a *permanent* solution. I would like to propose two recommendations on how to reduce the demand on imported oil.

One permanent-type solution to this problem is to reduce the consumption of oil by driving more fuel-efficient automobiles. The U.S. was confronted with rising oil demand in the early 70's when oil production in the U.S. peaked. This occurred when we consumed 50% of all the known oil reserves in the U.S. In 1975, when Congress was concerned about increased oil imports from politically and militarily unstable countries, it passed the Energy Policy and Conservation Act of 1975 in which it mandated that cars and light-duty trucks (pickup trucks, minivans, and sport utility vehicles) had to meet fleet-wide Corporate Average Fuel Economy (CAFE) standards. The standards of 27.5 miles per gallon for passenger cars and 20.7 miles per gallon for light-duty trucks were to be met by 1985. These CAFE standards led to significant improvements in fuel economy in the early years, primarily by the rapid downsizing of automobiles. Critics of this program claim that it had an adverse effect on safety. If an automobile manufacturer did not meet the CAFE standards, it was allowed to pay a penalty of \$5.50 per vehicle for every tenth of a mile that its fleet average fell below the standard. On the other hand, if the manufacturer exceeds the standard, it earns credits that could be used in future years with some restrictions. The credits are good for only three years, credits earned in one segment cannot be applied to the other (cars vs. light trucks), and credits earned by one manufacturer cannot be traded to another.

The objective of the CAFE standards and the restrictions is to produce more efficient vehicles and thus reduce the demand on oil. It seems that the penalty of \$5.50 per vehicle per tenth of a mile is not sufficiently onerous to force the manufacturers to improve efficiency. The penalty should be increased to some higher level. Also, Congress should allow the credits to be fully tradable between vehicle segments and between manufacturers. Currently, some manufacturers sell small, highly efficient automobiles at a small profit or even at a loss to offset the lower efficient, large automobiles that bring in large profits.

Whether each manufacturer meets the standards or whether all the manufacturers together meet the standards is not relevant, as long as the total effort to reduce oil consumption is achieved. One manufacturer may specialize in very efficient small automobiles and can earn credits that could be sold to a manufacturer that specializes in large automobiles or light trucks. This would reward the manufacturers that produce

efficient automobiles and forces those producing larger vehicles to either pay the penalty or find ways to improve economy. A system like this would improve the allocation of resources in the auto industry and make all the manufacturers more efficient. The lower manufacturing costs could then be passed on to the consumer.

Although the CAFE standards were to be met in 1985, the manufacturers are paying the penalty rather than meet the standards. If the standards were met, we would not be dependent on any oil from the Middle East. In a recent study by the Congressional Budget Office, tightening the CAFE standards by about four miles per gallon would cost almost 20% less if the credits were tradable. Congress must give the manufacturers every incentive reasonable possible to produce more efficient automobiles rather than the oil companies producing more oil.

A second recommendation, which may not be necessary if the first one were to be implemented, is to impose an oil tax. This is not dissimilar from the suggestion by Resources For the Future ([www.rff.org](http://www.rff.org)) to charge people for driving on busy roads at peak periods as being the best way to achieve a reduction in traffic. RFF suggests high-occupancy toll (HOT) lanes to force people to drive during off-peak hours whenever necessary. In this particular case, an oil tax would force people to conserve this valuable resource whenever possible. It is called an oil tax rather than a fuel tax so it can be imposed on a broader scale. Rather than just impose a tax on gasoline to force conservation in automobiles, this oil tax would impact oil conservation in other areas also. In addition to the fuel for cars, trucks and aircraft, it would encourage more gas and electricity for heating as well as encourage oil-saving initiatives in the petrochemical industry. Alternative processes, once too expensive to consider, may now be economically feasible.

An oil tax of, say, \$5 per barrel would generate about \$100 million per day or over \$35 billion per year. These funds could be directed to developing more fuel-efficient automobiles and light trucks or developing more efficient or alternative petrochemical processes. During a ten-year period, this oil tax would generate over \$400 billion with only a modest impact on gas prices, somewhere between \$0.10 and 0.15 per gallon. The total U.S. gasoline tax would still be considerably lower than our European friends. The negative economic impact on the consumer would eventually be offset by lower gasoline usage in the more efficient automobiles, and this decrease would become a *permanent* advantage. A portion, or all, of the tax revenue could also be used to reduce income taxes and thus offset the higher automobile fuel cost to the motorists.

Basically, we are at the mercy of the forces that set oil prices, which are not like most other products set by the market supply and demand. We can minimize our dependency on this very critical component of our energy portfolio by conservation. A small oil tax will encourage less usage and allow for the development of more efficient application.