



University of Hawaii at Manoa

Environmental Center

A Unit of Water Resources Research Center

Crawford 317 • 2550 Campus Road • Honolulu, Hawaii 96822

Telephone: (808) 956-7361

RL:01091

HB 1194

RELATING TO ENVIRONMENTAL RESPONSE

House Committee on
Energy and Environmental Protection

Public Hearing - February 3, 1993
8:00 A.M., Room 1310 SOT

By

John T. Harrison, Environmental Center

Alyssa Miller, East-West Center

Bruce Miller, Sea Grant

James Moncur, Economics

Peter Rappa, Sea Grant

HB 1194 would impose a tax of 5 cents on each barrel of crude oil refined by distributors in Hawaii to be paid into the Environmental Response revolving fund.

Our statement on this bill does not constitute an institutional position of the University of Hawaii.

Opinions of our reviewers differed on this measure. Most felt that the bill would serve to internalize previously unaccounted environmental costs of petroleum shipping and distribution, in that the cost would be added on to the prices paid by consumers, thereby making the energy economy more reflective of reality. In particular, since the tax would be imposed on crude oil, all refined products, and thereby all market sectors would be equally affected. Given the high preponderance of transportation and tourism-related energy sectors in Hawaii, ordinary residents would not bear an unreasonable share of the additional tax burden. In particular, to the degree that revenues are dedicated to enhancing and supporting emergency response government infrastructure, the bill would help the state meet federal Oil Pollution Act mandates to be prepared to function as trustee of its natural resources.

On the other hand, it was pointed out that the bill doesn't actually internalize costs as intended, since nothing in the measure directly affects the industry's incentive to avoid spills. Since costs are passed on to consumers, the behavior of individual distributors and sellers with regard to strategies and precautions

undertaken in the face of operating risks is not likely to be altered. If anything, the economic principle of operating on a level playing field is violated in favor of the environmental interests.

While it is clear that theoretic economic principles may not favor this measure, it seems equally evident that the playing field has been far from level in terms of petroleum industry advantages for a considerable part of the fossil fuel era. The environment has a great deal of catching up to do if we are to remedy ongoing long term degradation. Consequently, the majority of our reviewers strongly support the intent of this measure.