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HB 1194 HD 2
RELATING TO ENVIRONMENTAL RESPONSE

Senate Committee on
Government Operations, Environmental Protection
and Hawaiian Programs

Public Hearing - March 16, 1993
1:00 P.M., Room 305 SOT

By
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Alyssa Miller, East-West Center
Bruce Miller, Sea Grant
James Moncur, Economics
Peter Rappa, Sea Grant

HB 1194 HD2 would impose a tax of 6 cents on each barrel of crude oil refined by distributors in Hawaii to be paid into the Environmental Response revolving fund. Amendments contained in HD2 would further address one of the State's most persistent specific pollution sources, namely the management of used automobile motor oil.

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.

We note that petroleum products sold to marine or air carriers are considered exports, and thereby excluded from the proposed tax. Given the magnitude of this sector of the state petroleum economy, it seems that such an exclusion significantly decreases potential revenues, and it is unclear why this sector is treated preferentially, particularly when the existing tax rate on fuels sold to airlines is so comparatively low (1 cent per gallon, and waived due to an agreement between the airlines and the State Airports Division of the DOT).