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The Compromise Energy Bill: Harmful Regulation, Not Affordable Energy

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Last summer's energy bill was loaded down with counterproductive measures that would have raised energy prices. Fortunately for consumers, that bill was never enacted. However, the House is now trying to resurrect that bill's approach with a somewhat scaled-back version that includes new fuel economy standards for cars and trucks, a greatly expanded ethanol mandate, and new renewable standards for electricity. This bill would still raise prices for families and businesses, slowing the American economy overall. The President should veto this bill if it reaches his desk.

Fuel Economy Standards for Cars and Trucks. The new bill contains a sharp increase in the federally mandated corporate average fuel economy (CAFE) standards. Under this proposal, each manufacturer's fleet of passenger vehicles would have to average 35 miles per gallon by 2020, a roughly 40 percent increase over current standards for cars and trucks.

In theory, consumers can save at the pump by being made to switch to more efficient vehicles, and at the same time reduce greenhouse gas emissions and oil imports. But doing so will raise sticker prices, and the costs could more than negate the energy savings.¹

Beyond costs, in order to meet the tough new CAFE standard, cars and trucks will need to be lighter, which makes them less safe in collisions. A National Academy of Sciences study concluded that vehicle downsizing costs 1,300 to 2,600 lives per year.² A tougher fuel economy standard would likely add to the death toll from vehicle crashes.

Federally mandated smaller vehicles also raise the consumer choice issue. Washington is acting as if fuel efficient cars and trucks are currently unavailable, but in truth a variety of such models are already on the market for those who want them, including a growing number of hybrids. They fit the needs of some people but not others. Does the American car-buying public—from soccer moms to seniors—really want or need Washington stepping in and forcing smaller vehicles on everyone?

More Ethanol. The bill goes above and beyond the current renewable fuels standard with an expanded mandate that will cost Americans at the pump, at the supermarket, and at tax time.

The 2005 energy bill required that agricultural-based renewable fuels, mostly ethanol made from corn, be mixed into the gasoline supply. The mandate has raised the cost of driving, because mixing ethanol into the gasoline supply reduces fuel economy. Ironically, the increase in fuel economy standards in the bill will be partially negated by the expanded use of less-efficient ethanol.

Ethanol has also failed to deliver on its promise to appreciably reduce greenhouse gas emissions and dependence on oil imports.³

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At the same time, the diversion of corn to ethanol plants has led to higher corn prices, in turn leading to higher prices for food items such as corn-fed meat and dairy products. Current ethanol usage is much lower than that envisioned in the current bill, but an Iowa State University study estimates that food prices have *already* increased by \$47 annually per capita, or \$14 billion overall.⁴

The new bill seeks to increase the current mandate nearly five-fold—from 7.5 billion gallons by 2012 to 36 billion by 2022. Meeting this expanded mandate will require not only much more corn-based ethanol but also other renewable fuels that are even more expensive. The bill specifies that 21 billion gallons of the total be cellulosic ethanol, even though this energy source is just a few steps beyond the drawing board at this time. It is unknown whether it can be produced in such quantities and at what cost.

Under the new standards, the price increases for food and fuel, which are expected to be significant under the current, smaller mandate, would likely skyrocket.

The bill may also include hefty penalties for refiners that are unable to comply with the mandate—a real possibility, especially given how unproven cellulosic ethanol is at this point. These penalties would act as a gas tax, further raising the price at the pump.

In addition, the large government subsidies for renewables, including a 51-cent-per-gallon tax credit, would rise commensurate with the mandate. The agricultural subsidies to corn growers would also expand with the increase in acres planted. Further, the handouts necessary to launch the cellulosic ethanol industry would also be significant. These costs, to be borne by taxpayers, could soon reach

tens of billions of dollars annually. In effect, taxpayers would be paying hundreds of dollars per household for the privilege of higher fuel and food prices.

Renewable Portfolio Standards. The bill also mandates that 15 percent of electricity be generated from so-called renewable sources—chiefly wind power but also solar and others. In order to comply, utilities generating electricity from natural gas, coal, and nuclear power would have to diversify into these environmentally correct alternatives.

As with renewable fuels, the only reason why renewable electricity needs to be mandated in the first place is that these alternatives are far too expensive to compete otherwise. In effect, Washington is forcing costlier energy options on the public. This is particularly true for certain states, especially those in the Southeast, where the conditions are not conducive to wind power. Moreover, these sources of electricity are intermittent and unreliable and thus pose problems beyond the added costs. And like ethanol, renewable sources of electricity enjoy substantial tax breaks; thus, the mandate will cost Americans both as taxpayers and as ratepayers.

About half the states have recently adopted their own renewable portfolio standards (such as California, New York, and Texas), and others have opted not to have them. Simply put, these sources of energy make more sense in some states than in others. There is no good reason for the federal government to step in with a costly, one-size-fits-all measure.

Missing: Any Real Steps Toward Affordable Energy. Conspicuously absent from the bill is any effort to increase the supply of the proven energy sources that America relies upon. An energy bill that helps consumers would streamline or eliminate the many laws and regulations that restrict access to

1. Hal J. Singer and Robert W. Crandall, “Don’t Drink the CAFE Kool-Aid,” Brookings Institution, September 6, 2007, at www.brookings.edu/opinions/2007/0906business_crandall.aspx.
2. National Academy of Sciences, “Effectiveness and Impact of Corporate Average Fuel Economy (CAFE) Standards,” 2002, p. 3.
3. See Ben Lieberman, “The Ethanol Mandate Should Not Be Expanded,” Heritage Foundation *Backgrounder* No. 2020, April 11, 2007, pp. 2–3 at www.heritage.org/Research/Energyandenvironment/bg2020.cfm.
4. Simla Tokgoz, et al., “Emerging Biofuels: Outlook of Effects on U.S. Grain, Oilseed, and Livestock Markets,” Center for Agricultural and Rural Development, Iowa State University, May 2007, p. 25, at www.card.iastate.edu/publications/synopsis.aspx?id=1050.

domestic oil and natural gas, both offshore and onshore, but no such measures are included. The bill also does nothing to untangle the red tape that has slowed everything from refinery expansions to new nuclear plants.

Conclusion. Costlier vehicles running on costlier fuels, and a boost in electric bills: This is Washington's solution to the nation's energy challenges. It is no exaggeration to say that everything this bill

touches will go up in price. Though the bill is a bit less damaging than last year's version, it is still a major step in the wrong direction. If this bill reaches the President's desk with any of these provisions intact, the President should veto it.

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