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The Gang of 10's Energy Bill: Just More Bad Energy Ideas

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The New Energy Reform Act of 2008—also called the "Gang of 10" bill because five Democratic Senators joined five Republicans in sponsoring it—is the latest in a long line of disappointing energy proposals.[1] The bill offers only a little new energy but a lot of government waste and red tape. Specifically, it would:

- include a very modest expansion of domestic drilling at a time the public is justifiably demanding far more,
- repeat past Washington failures by trying to pick winners and losers among alternative energy sources and alternative vehicles,
- pay for these massive programs in part by raising taxes on the oil companies endeavoring to expand domestic production.

Good energy policy leads to substantially greater supplies of affordable energy, while bad energy policy leads to less. If the Gang of 10 bill is enacted, it will be the third energy bill in four years that fails this test.

An Energy Bill with Very Little Energy. About 85 percent of America's territorial waters are off limits to oil and natural gas exploration and drilling. In addition, several onshore sites, chiefly Alaska's Arctic National Wildlife Refuge, also remain restricted. It is almost inconceivable that the energy bills enacted in 2005 and 2007 avoided the most obvious first step in responding to high pump prices—making full use of the oil right here in America—but both did.

The public favors expanded offshore drilling by 2–1 margins, and a majority support ANWR drilling as well. However, the House and Senate leadership has thus far refused to allow any of these pro-drilling measures to come to a vote. Under the Gang of 10 bill, only a portion of the eastern Gulf of Mexico and the waters off four Atlantic states are made available, at the option of those states. Much of the Atlantic and the entire Pacific remains off limits. In addition, those areas that may be opened up exclude everything within 50 miles of the shore, a buffer zone more than twice what is needed to prevent offshore platforms from disturbing coastal views. For politicians who want to say they support an offshore bill without actually making very much energy available, this bill is the perfect vehicle.

The Energy Information Administration estimates that, of the 18 billion barrels of oil in restricted offshore areas, 8 billion is in the eastern Gulf and Atlantic.[2] Further, only part of that 8 billion will be made available in this bill. In truth, it is very difficult to gauge in advance just how much energy is in these off limits areas and where it is concentrated, but it is clear that a bill that opens only some of them will not realize the full potential of offshore drilling.

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Even doing nothing may be better than the New Energy Reform Act. Since the congressional restrictions on offshore drilling are set to expire on September 30 (congressional Republicans have thus far refused to approve the annual extension of the offshore moratorium), on October 1 the entire offshore would become unrestricted.[3]

Washington-Promoted Energy Alternatives. Aside from disappointingly small offshore provisions, the rest of the bill is a step in the wrong direction. The bill offers up all manner of federal interference with energy markets in the name of promoting alternative fuels and vehicles. This is hardly a new policy: Since the 1970s, Washington has tried to pick winners and losers among emerging alternatives and then throw billions in taxpayer dollars at what it hopes to be the winners. The results, not surprisingly, have been disappointing. The very fact that these chosen alternatives need big government handouts in order to move forward should be a red flag that they don't hold the potential their proponents claim. In the end, federal interference probably won't help in making progress toward diversifying away from petroleum in the transportation sector, and it may actually hurt.

Worst of all is the mandate that 75 percent of new cars beginning in 2015 be alternative fueled automobiles, ramping up to 100 percent by 2020. Proponents of this bill may believe they can wave a magic wand and end the need for gasoline-powered vehicles by a date certain, but reality is almost certainly going to intrude. Most likely, this wishful thinking would cause considerable hardships for the driving public in the years ahead, even if it could be met.

Not as bad as mandates but still problematic are $20 billion in government-funded research and tax breaks for certain alternative vehicles, including $7.5 billion to automakers to help them transform their product lines.[4] The bill tends to favor some technologies over others and thus may well push the market toward costly dead ends rather than real breakthroughs. And, if past is prologue, the taxpayer giveaways to the auto industry, in addition to raising fairness questions, could again prove to be money down the drain. Such was the case with the Clinton-era Partnership for a New Generation of Vehicles, a government/auto industry collaborative effort that spent billions in taxpayers dollars while delivering next to nothing in technological advances.

There is a lesson to be learned from the 2005 energy bill, which created the ethanol mandate, and the 2007 bill, which expanded it. The mandate, currently at 9 billion gallons in 2008, has not provided relief at the pump. At the same time, the diversion of corn from food to fuel use has raised food prices, not just for corn but for a host of related items like corn-fed meat and dairy products. And the mandate is scheduled to ramp up to 36 billion gallons by 2022, so the most severe problems with it are yet to come. Yet rather than repeal this ill-advised measure, the New Energy Reform Act adds additional support for ethanol and other alternative fuels and extends the mistake of dictating choices to vehicles as well.

Tax Increases: Never A Good Idea, and Especially So with Energy. Paying for part of the $84 billion cost of this bill is $30 billion in higher effective tax rates for companies producing domestic oil and natural gas.[5] In effect, the bill seeks to raise taxes on energy sources that work in order to subsidize those that don't. This includes a repeal of the deduction for expenses related to domestic energy

1. This analysis is based on a draft of the bill, which is subject to change. The bill is also known as the "Gang of 16" bill, as six more senators have signed on to it.
2. Energy Information Administration, *Annual Energy Outlook 2007*, February 2007, p. 51, table 10, at *http://www.eia.doe.gov/oiaf/aeo/otheranalysis/pdf/tbl10.pdf* (September 4, 2008).
3. See Ben Lieberman, "Congressional Moratorium on Offshore Drilling in the Outer Continental Shelf Should Be Allowed to Expire," Heritage Foundation *WebMemo* No. 2016, August 8, 2008, at *http://www.heritage.org/Research/EnergyandEnvironment/wm2016.cfm*.
4. The cost figures come from a summary of the bill from the website of Sen. John Thune (R–SD), a co-sponsor, available at *http://www.johnthune.com/index.php?content=080801* (September 8, 2008).
5. *Ibid.*

production under the American Jobs Creation Act of 2004. The law was designed to make U.S. manufacturers more competitive at home by reducing the effective corporate tax rate they face on their domestic activities. This bill would repeal the deduction for one industry—energy producers—that has fallen into political disfavor. In that same vein, the bill would also increase taxes and fees related to offshore drilling.

Trying to solve energy problems with tax hikes is a mistake from the past that should not be repeated. The only thing these tax code changes will do is discourage domestic oil and natural gas production in the long run, perhaps as much or more than the limited pro-drilling provisions would encourage it. It would also give a further comparative advantage to OPEC and other non-U.S. oil producers whose imports into this country are not subject to the bill's tax provisions.

Some of the rest of the bill's cost would be paid for by additional leasing revenues from new drilling. But of course, as the new drilling is fairly limited under this bill, so would these revenues.

A Tradition of Failure. The Gang of 10 bill continues in the tradition of past energy bill failures by neglecting to include very much new energy. The offshore provisions provide little new oil and natural gas and fall well short of what should be done, while the rest of the bill offers federal micromanagement of energy markets and tax increases likely to do more harm than good. The proper role for the government is to remove impediments to increased energy supplies and not interfere with market processes, which is not the approach taken by this ill-advised bill.

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