The Heritage Foundation
LEADERSHIP FOR AMERICA

ISSUE BRIEF

No. 3884 | MARCH 25, 2013

Trust Fund or Slush Fund? Energy Security Trust Has Fatal Flaws

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In a recent speech at Argonne National Laboratory, President Obama reiterated his desire for an Energy Security Trust.[1] Under the President's proposal, the trust would divert billions of dollars of revenues generated from oil and gas production on federal lands to subsidize alternative fuel technologies.

The Administration's plan has three fatal flaws. First, it neglects expanding oil and gas production on federal lands and off America's coasts. Second, it would duplicate already-tried-and-failed attempts to subsidize energy technologies. Third, it ignores that competition in the marketplace is most effective in driving technological innovation.

Congress should reject the creation of a new pot of money for subsidies—whether tied to new exploration or not. Instead of promoting more of what does not work, Congress and the Administration should expand opportunities for energy production on federal lands and provide states with a larger percentage of the royalty revenue to use at their own discretion.

How the Energy Security Trust Works. The President's plan calls for $2 billion over 10 years for investments in a number of different alternative fuel technologies including but not limited to natural gas, biofuels, batteries, and hydrogen fuel cells. The trust would also "help fund a small number of real-world experiments that try different transportation techniques in cities and towns around the country using advanced vehicles at scale."[2]

A White House infographic[3] on the Energy Security Trust obscures the fact that money to pay for the trust fund will be diverted from other federal priorities. The statement that "revenue from profitable oil and gas companies" would pay for the trust suggests that oil companies are paying for it with new funds. This is hardly the case.

The government currently collects revenues from bonus bids, royalties, and rents from oil and gas extraction on federal lands. The White House stresses that the new trust would not add any additional costs to the budget, but if the trust is funded with royalties and bonuses the government is already collecting, then the energy trust would not collect any new revenues and would simply divert money away from the U.S. Treasury that could go toward appropriate federal priorities, including reducing the nation's deficit. While directing more royalty revenue to the states would also divert money away from the Treasury, that policy would encourage more state involvement in drilling decisions and is good policy.

No New Energy Expansion. The White House proposal does not address expanding onshore or offshore leasing and exploration. This is a costly missed opportunity. At least 19 billion barrels of easily recoverable oil lie off the currently restricted Pacific and Atlantic coasts and the eastern Gulf of Mexico.[4]

This paper, in its entirety, can be found at
http://report.heritage.org/ib3884

Produced by the Domestic Policy Studies Department

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The proposal extends the senseless restriction on drilling in the Arctic National Wildlife Refuge, where an estimated 10 billion barrels of oil lie beneath a few thousand acres that can be accessed with minimal environmental impact.[5] Federally owned land in the western United States would also continue to be off limits.

Duplicates Existing Programs. The U.S. already has several programs in the Department of Energy's (DOE) Office of Energy Efficiency and Renewable Energy (EERE) that promote the commercialization of alternative vehicle technologies, including:

- Hydrogen production, delivery, storage, and fuel cell technologies[6];
- Bioenergy research in feedstocks, conversion, biorefineries, and infrastracture[7]; and
- Vehicle technologies research in hybrid and vehicle systems, energy storage, power electronics and electrical machines, advanced combustion engines, fuels and lubricants, and materials technologies.[8]

In addition to these programs, the DOE conducts research in the Office of Science on hydrogen and battery storage and bioenergy with the end goal of advancing alternative fuel technologies. The DOE also has an Advanced Technology Vehicles Manufacturing (ATVM) loan program in which the agency provided $8.4 billion in loans since 2009 to develop advanced vehicle technologies and associated equipment.[9]

On top of all these government programs, federal and state incentives exist for alternative vehicles, as does a mandate to produce 36 billion gallons of ethanol by 2022.

The Incentive for Alternative Fuel Technology Already Exists. Not only would creating an Energy Security Trust to fund alternative vehicle technologies be duplicative; it would likely be inefficient and wasteful. Subsidies funnel taxpayer money to technologies that would have either become market viable on their own or would not survive without the government's help.

Oil's dominance as a transportation fuel is not because a government program is lacking or because more taxpayer investments are needed to jumpstart a transformation in the fuel industry. At present, even with the dramatic spikes in prices, oil is the most efficient and economic source of transportation fuel.

Americans spent $481 billion on gasoline in 2011.[10] Globally, the transportation fuels market is a multi-trillion-dollar one. If any alternative fuel technology captured a mere slice of that market, it would capture billions of dollars in profit annually. The market demand for transportation fuel is incentive enough to spur competition in the industry.

1. The White House, "President Obama Speaks on American Energy," March 15, 2012, http://www.whitehouse.gov/photos-and-video/video/2013/03/15/president-obama-speaks-american-energy#transcript (accessed March 24, 2013).
2. Colleen Curtis, "What You Need to Know About the Energy Security Trust," The White House Blog, March 15, 2013, http://www.whitehouse.gov/blog/2013/03/15/what-you-need-know-about-energy-security-trust (accessed March 20, 2013).
3. The White House, "Infographic: Energy Security Trust," http://www.whitehouse.gov/infographic/energy-security-trust (accessed March 20, 2013).
4. Institute for Energy Research, "Obama's Offshore Plan: One Giant Leap Backwards," May 8, 2012, http://www.instituteforenergyresearch.org/2012/05/08/obamas-offshore-plan-one-giant-leap-backwards/ (accessed March 24, 2013).
5. U.S. Geological Survey, "Arctic National Wildlife Refuge, 1002 Area, Petroleum Assessment 1998, Including Economic Analysis," April 2001, http://pubs.usgs.gov/fs/fs-0028-01/fs-0028-01.pdf (accessed March 24, 2013).
6. U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy, Fuel Cell Technology, http://www1.eere.energy.gov/hydrogenandfuelcells/ (accessed March 20, 2013).
7. U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy, Bioenergy, http://www.eere.energy.gov/topics/biomass.html (accessed March 20, 2013).
8. U.S. Department of Energy, Office of Energy Efficiency and Renewable Energy, Vehicle Technologies Office, http://www1.eere.energy.gov/vehiclesandfuels/ (accessed March 20, 2013).
9. U.S. Department of Energy Loan Programs Office, https://lpo.energy.gov/?page_id=45 (accessed March 20, 2013).
10. Janice Podsada, "Americans Spent Record Sum on Gasoline in 2011," January 3, 2012, http://articles.courant.com/2012-01-03/business/hc-gasoline-record-spending-2011-20111230_1_tom-kloza-oil-price-information-service-crude (accessed March 21, 2013).

Markets adapt to changes in resource demand and supply through the price mechanism. If vehicles powered by natural gas, electric, or biofuel become economically competitive, consumers would respond, and alternative-fuel vehicle and necessary supporting infrastructure would be built. But it would not be as a result of a government program or a politician in Washington thinking he knows which is the best alternative to a gas-powered car. Subsidies create dependence on government, crowd out private-sector investments to distribute benefits to favored industries, and disperse the costs among taxpayers.[11]

Market Access Promotes Energy Security. The best way the government can promote American's energy interests is to ensure access to energy resources—both domestically and abroad—and remove subsidies for all energy sources. To that end, Congress should:

- **Lift offshore and onshore exploration and drilling bans.** The United States is the only country that has made a majority of its territorial waters off limits to oil exploration. The government should open waters and unblock prohibited areas onshore. Congress should require the Secretary of the Interior to conduct lease sales if a commercial interest exists. As evidenced by the $1.2 billion generated from the most recent lease sale in the central Gulf of Mexico (in the top 10 of all-time receipts), that interest exists.

- **Remove subsidies for all transportation fuels.** This includes removing federal incentives, DOE spending to commercialize alternative fuel technologies or programs better suited for the private sector, the Renewable Fuel Standard, and *actual* oil subsidies.[12]

- **Implement 50/50 revenue sharing.** States should receive 50 percent of the revenues generated by onshore and offshore oil and natural gas production on federal lands. States should be able to use their share of the revenue however they choose.

Trust Fund or Slush Fund? The old adage "If it's too good to be true, it probably is" undoubtedly applies to alternative fuel investments that need government support. Too many times, politicians have promised that a few billion taxpayer dollars would fundamentally transform the energy sector. These attempts have done little else but waste taxpayer money and benefit special interests.

Congress should reject the idea of an Energy Security Trust Fund and instead open access to federal energy resources and remove subsidies for all energy sources and technologies.

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11. Jack Spencer, "Seven Reasons Loan Guarantees Are Bad Policy," Heritage Foundation *Issue Brief* No. 3882, March 20, 2013, http://www.heritage.org/research/reports/2013/03/seven-reasons-loan-guarantees-are-bad-policy.

12. Congress should not eliminate broadly available tax credits the oil and gas industry receives that are often targets of drilling opponents. For more information, see Nicolas D. Loris and Curtis S. Dubay, "What's an Oil Subsidy?," Heritage Foundation *WebMemo* No. 3251, May 12, 2011, http://www.heritage.org/research/reports/2011/05/whats-an-oil-subsidy.