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Californians weigh a new tax on oil companies

By [Daniel B. Wood](#) | Staff writer of *The Christian Science Monitor*

STUDIO CITY, CALIF. – As Los Angeles motorist Jill Cantrell removes the pump nozzle from her Honda Civic gas tank, she spouts out two figures: "\$56 for a gas tank for me and \$78 billion in profits last year for the oil companies," she says. "I'm livid."

How many other Californians are angry about gasoline prices - and ready for their state to take action - will be clear this November, when voters decide whether to levy a new tax on oil companies that drill in California and use the money for in-state development of alternative fuels.

The fight over Proposition 87 is no small matter. Not only will the vote give Congress and other states a first reading of public disgruntlement over gasoline prices, but it might even affect the domestic oil market. California crude, after all, accounts for 12 percent of US production - supplying 37 percent of the state's oil demand, according to the Legislative Analyst's Office.

Prop. 87 aims to raise and spend \$4 billion on alternative-fuel programs over time, with the goal of cutting Californians' use of gasoline and diesel 25 percent by 2017. It also would prohibit oil companies from simply raising prices at the pump to cover their costs of the new tax.

"Politicians across the country will be watching this to see if the voters want to get back at the oil companies through higher taxes," says Robert Stern, president of the nonpartisan Center for Governmental Studies in Los Angeles. One TV ad in support of Prop. 87, he notes, shows an unflattering picture of former Exxon CEO Lee Raymond, who last year received a retirement package valued at about \$400 million. "Will the voters want to punish the oil companies," Mr. Stern asks, "or will they worry that the [ballot] measure will increase gas prices?"

Californians paid an average of \$3.16 last week for a gallon of regular gasoline. Prop. 87 proponents say the initiative will eventually reduce oil use by supplying new technologies and alternative fuels for California motorists. It will also provide incentives to make clean

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energy more affordable, cutting polluting emissions, they say.

"We want to get California off its dependence on oil," says Beth Wilson of YesOn87. "It will bring cheaper and cleaner alternatives to market in an innovative way so that consumers can choose."

Opponents say Prop. 87 would reduce revenue for local government, schools, public safety, and healthcare and drive up the price of gasoline, diesel, and jet fuel. Refineries in California would simply seek cheaper oil from out of state (not subject to the in-state tax), they argue, and demand for California crude would slacken.

"No one disputes the need to pursue alternative energy, but is 87 the way? We say no," says Al Lundeen, spokesman for the campaign against Prop. 87. "This will cost consumers more and will create a new agency of government that gives out \$4 billion without any demand for results. That is not a wise investment of money."

Voters approve - so far

Each side has amassed a campaign war chest of more than \$25 million. A California Field Poll conducted in July found Prop. 87 is favored 52 percent to 31 percent, with 17 percent undecided. But only 19 percent of respondents knew anything about the measure. "We think that when voters get a closer look at the claims of this, they will reject it," says Mr. Lundeen.

In the past, taxing oil companies to get them to supply clean fuels has not worked, some observers say, citing failed efforts by the federal government in the late '70s and by California's Prop. 11 in 1980.

"We have seen this movie before, so one has to question if it didn't work before why would it work now?" says John Felmy of the American Petroleum Institute. "This is something we are watching very carefully ... we are concerned about it, but we are ultimately wondering, how will consumers think it helps them?"

Others have a different view, saying economic conditions now are more favorable to bringing alternative fuels to market.

"Providing incentives for alternatives didn't work for a variety of reasons in the '70s, among them that the price of gas went back to reasonable levels and people lost the momentum, interest, and the will to continue them," says Nabil Nasr, director of the Center for Integrated Manufacturing Studies at the Rochester Institute of Technology in New York. "Now, with the prospect of higher [oil] prices for the foreseeable future, things may be different."

But is it possible, really, to prevent oil companies from passing on to consumers the added tax, as the initiative proposes? Proponents of Prop. 87 say yes, citing the state attorney general's comments that it would be possible. Some economists, meanwhile, say the price at the pump is likely to rise for reasons beyond Prop. 87.

"You cannot legislate away the laws of economics any more than you legislate away the laws of gravity," says Benjamin Powell, director of the Center on Entrepreneurial Innovation at the Independent Institute, a California-based think tank. A tax on oil production, he says, will result in less drilling activity, making California oil more scarce and leading refineries here to import oil from elsewhere. Added dependence on costlier foreign oil - often because of added transportation or refining costs - is inevitable, he says.

Too complex for voters?

Another hurdle for Prop. 87, say analysts, is voter confusion. Several state initiatives have failed during the past 10 years because voters did not understand their implications. In November, Californians will also decide whether to OK a \$60 billion bond measure to improve infrastructure, and



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that measure could affect their decision on Prop. 87.

"This is a complicated measure with a lot of moving parts: creation of an independent board, severance tax on oil, money to provide incentives" for fuel alternatives, says John Matsusaka of the Initiative & Referendum Institute at the University of Southern California in Los Angeles. "I don't dismiss the possibility that the measure could have an effect, but the voters should not be asked to commit all that money on faith. Proponents have to come up with some reliable evidence."

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