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Oil Tax Would Increase Gas Prices, Foreign Imports and Destroy Jobs

By Teresa Casazza

The people of California and their representatives have been asked many times to impose a new tax on in-state oil production. Each time, the voters have answered with a loud, "No!" Why? Because imposing billions of dollars in new taxes on California oil production would increase gasoline prices, increase our dependence on foreign oil imports, decrease local revenues to schools and destroy thousands of jobs.

The current oil tax proposal was analyzed by Dr. Jose Alberro and Dr. William Hamm of the Law and Economics Consulting Group. Dr. Alberro is an international expert on petroleum and valuation who has consulted for the United Nations, the International Monetary Fund and the World Bank. Dr. Hamm served as California's non-partisan legislative analyst, where he earned a nationwide reputation for objectivity, expertise and credibility on public policy issues.

Taxes Would Be Highest in the Nation

The report found that California's oil production already is among the most heavily taxed in the country when comparing state and local taxes (property, sales, corporate income and severance taxes) assessed on a representative company. This proposed oil tax would make California's combined taxes on petroleum the highest in the nation by far.

Reduced Local Supplies = More Imported Oil

Alberro and Hamm also found that imposing a new oil tax will reduce the supply of oil produced in California and will require increased imports of foreign oil. This is because a tax discourages the activity being taxed. In fact, these economists calculated that imposing this new oil tax will reduce the supply of oil produced in California between 54,706 and 80,306 barrels per day during the next 30 years. To offset the loss of in-state oil production, California's dependency on oil imports would have to increase. The cost of such imports could top \$1.3 billion a year.

Higher Oil Tax Means Higher Gasoline Prices

Alberro and Hamm examined the relationship between this higher oil tax and gasoline prices. Their conclusion: Because the transportation, distribution, and refining cost of importing oil are greater than the corresponding costs associated with California oil production, consumers will pay higher gasoline prices as a result of the severance tax.

Thousands of California Jobs Would be Lost

More than 100,000 people in California are directly or indirectly employed in producing petroleum and natural gas. Reduced oil production would lead to the loss of many thousands of these jobs and the benefits – like health insurance – that those workers and their families depend on. These direct job losses would likely spread to companies and workers that depend on oil production. Additional jobs would be lost as families are forced to cut spending even more to offset higher gasoline prices caused by this tax. The Alberro/Hamm report estimates that nearly 10,000 jobs would be lost because of this oil tax.

Thousands of hard-working people already have lost jobs in this state due to the terrible economy. Does it really make sense to force thousands more workers who have good jobs with good benefits into unemployment lines?

Local Governments and Schools Lose Funds

Local governments in several counties will lose property tax revenues if a state oil tax is imposed, and most of this money would be lost by local schools. Kern County alone could expect to lose \$12.7 million to \$15.9 million every year.

Unwise Tax Policy

One of the most widely criticized flaws of the current system is that it relies on unstable revenue sources. Every driver is aware of the price volatility of oil. In fact, Alberro and Hamm found that because of the volatility of oil prices, revenues from the oil tax could vary up to 30 percent a year, thus worsening the instability of state revenues.

California is close to reaching 10 percent unemployment, businesses are closing their doors, and families are losing their homes. This is no time for a new oil tax that would increase gasoline prices, decrease local government funding for schools and destroy up to 10,000 good California jobs.