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Testimony Before the Hawaii House Committee on Energy & Environmental Protection Regarding HB 2278

Tim Benson, Policy Analyst
The Heartland Institute
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Chairwoman Lowen and Members of the Committee:

Thank you for holding a hearing on HB 2278, which would establish a carbon-dioxide tax on all fossil fuels emitted or sold by distributors in Hawaii.

My name is Tim Benson, and I am a policy analyst with The Heartland Institute. The Heartland Institute is a 37-year-old independent, national, nonprofit organization whose mission is to discover, develop, and promote free-market solutions to social and economic problems. Heartland is headquartered in Illinois and focuses on providing national, state, and local elected officials with reliable and timely research and analysis on important policy issues.

HB 2278 would establish a "state environmental response, energy, carbon emissions, and food security tax" that would be charged "on each barrel or fractional part of a barrel of petroleum product sold by a distributor to any retail dealer or end user of petroleum product, other than a refiner." This includes gasoline, diesel fuel, kerosene, butane, propane, aviation gas and jet fuel, and liquified petroleum gas.

The tax would also incrementally increase through 2035. For example, the tax on gasoline would begin at $5.27 per barrel in 2023 and top out at $33.16 per barrel in 2035, while the tax on diesel fuel would begin at $5.95 per barrel in 2023 and rise to $38.37 per barrel in 2035. (Propane would go from $3.80 to $21.97, butane from $4.26 to $25.44, kerosene from $5.93 to $38.15, jet fuel from $4.68 to $35.65, and aviation gas from $3.99 to $30.39, respectively.)

Included in the carbon-dioxide tax portion of the bill is a tax credit intended to "mitigate the effect of a carbon emissions tax on taxpayers." Single tax filers would receive a $65 tax credit in 2023 that would gradually rise to $480 in 2035. Married filers would receive $130 in 2023 and $960 in 2035.

These credits are necessary because carbon-dioxide taxes are inherently regressive and disproportionally harm low-income families. The Congressional Budget Office (CBO) found a $28-per-ton carbon tax would result in energy costs being 250 percent higher for the poorest one-fifth of households than the richest one-fifth of households.[1]

CBO reports the reason for cost discrepancy is "a carbon tax would increase the prices of fossil fuels in direct proportion to their carbon content. Higher fuel prices, in turn, would raise production costs and ultimately drive up prices for goods and services throughout the economy … Low-income households spend a larger share of their income on goods and services whose prices would increase the most, such as electricity and transportation."

A 2013 report by the National Association of Manufacturers estimates a $20-per-ton carbon-dioxide tax in Hawaii would result in a 5.3 percent increase in household electricity rates. Additionally, the tax would raise gasoline prices by more than 20 cents per gallon in just the first year alone.[2] In July 2012, Australia established a nation-wide carbon-dioxide tax set at $23 (Australian dollars) per ton and repealed it just two years later after it produced the highest quarterly increase in household electricity prices in the country's history.[3]

One other substantial problem with the carbon-dioxide tax is that it would produce an insignificant environmental benefit, as a country-wide carbon tax that completely reduces U.S. emissions to zero by 2050 would only avert global temperature by just 0.2 degrees Celsius by 2100.[4] A state-based carbon dioxide tax would have even less impact on global temperature.

Any environmental benefits that it might produce would be effectively meaningless without concomitant legislation enacted throughout the rest of the globe. In a December 2015 speech to the U.N. Framework Convention on Climate Change, former Secretary of State John Kerry said, "The fact is that even if every American citizen biked to work, carpooled to school, used only solar panels to power their homes, if we each planted a dozen trees, if we somehow eliminated all of our domestic greenhouse gas emissions, guess what—that still wouldn't be enough to offset the carbon pollution coming from the rest of the world."[5]

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[1] Congressional Budget Office, *Effects of a Carbon Tax on the Economy and the Environment*, May 2013, https://www.heartland.org/_template-assets/documents/publications/carbon_one-column.pdf.

[2] Ann E. Smith et al., "Economic Outcomes of a U.S. Carbon Tax," National Association of Manufacturers, February 26, 2013, https://documents.nam.org/Nam.org_Web_Archive/www.nam.org/Issues/Tax-and-Budget/Carbon-Tax/CarbonTax%202%2022%2013.pdf.

[3] Alex Robson, *Australia's Carbon Tax: An Economic Evaluation*, Institute for Energy Research, September 2013, https://instituteforenergyresearch.org/wp-content/uploads/2013/09/IER_AustraliaCarbonTaxStudy.pdf.

[4] Patrick J. Michaels and Paul C. Knappenberger, "Current Wisdom: We Calculate, You Decide: A Handy-Dandy Carbon Tax Temperature-Savings Calculator," Cato Institute, July 23, 2013, https://www.cato.org/blog/current-wisdom-we-calculate-you-decide-handy-dandy-carbon-tax-temperature-savings-calculator.

[5] John Kerry, "Remarks on COP21 and Action Beyond Paris," U.S. Department of State, December 9, 2015, https://2009-2017.state.gov/secretary/remarks/2015/12/250502.htm.

As Oren Cass, senior fellow at the Manhattan Institute, noted in *National Affairs*, "The effectiveness of a carbon tax as a matter of environmental policy [depends] not only on how it would directly alter the trajectory of [local] emissions but also on its ability to affect global emissions by driving globally applicable technological innovation or by influencing the behavior of foreign governments. On each of these dimensions, the carbon tax fails."[6]

At 27.55 cents per kilowatt hour, retail electricity prices in Hawaii are already 160 percent higher than the national average and are by far the highest of any state in the country.[7] Gasoline prices, currently $4.41 per gallon on average across the islands, are the second-highest in the country, while diesel prices are also currently the second-highest in the country at $4.74 per gallon.[8] Think of what this massive tax increase would mean for gas prices. Are you sure this rebate will be able to cover just this increase in costs for a low-income family?

Think also of what this massive increase in taxes on jet fuel could mean for the state's tourism industry. How many potential visitors will be priced out of a visit to these beautiful islands because airfare is too expensive? Why pay so much extra to fly to Hawaii when they can always spend their tourist dollars in Mexico or the Caribbean? How many Hawaiians themselves will forego a trip to or from the mainland to visit family because the costs are just too prohibitive?

Therefore, Hawaii legislators should refrain from taking any self-defeating action, such as this tax, that would increase costs, especially when Hawaii's overall tax climate is already one of the ten worst in the nation.[9] This tax would make everything more expensive for working families in Hawaii, drive up costs for businesses, and have an insignificant effect on global carbon dioxide emissions.

Mahalo.

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[6] Oren Cass, "The Carbon Tax Shell Game," *National Affairs*, Volume 24, Summer 2015, https://nationalaffairs.com/publications/detail/the-carbon-tax-shell-game.

[7] U.S. Energy Information Administration, "State Electricity Profiles," November 4, 2021, https://www.eia.gov/electricity/state/.

[8] American Automobile Association, "State Gas Price Averages," accessed February 6, 2022, https://gasprices.aaa.com/state-gas-price-averages/.

[9] Janelle Camenga and Jared Walczak, *2022 State Business Tax Climate Index*, Tax Foundation, December 16, 2021, https://files.taxfoundation.org/20220104110127/2022-State-Business-Tax-Climate-Index3.pdf.