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# Incentives needed to kick the oil habit

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By Barry Raleigh

I began with the premise that the decline of global oil production is at hand, with all the economic dislocation that will entail. It is hard to overestimate the impact on our lives that the shift to a new energy economy will have.

The question is, to what extent will we simply wait for the marketplace to decide how we make the change vs. intervening, both public and private, to help soften the inevitable economic shock?

There are arguments on both sides of this issue that will keep economists wrangling for years, but global warming and Middle Eastern resource wars are problems of a magnitude that transcend economics. Legislatures here and around the country are already taking the initiative to reduce our dependency on oil.



BY JAN. 1, 2006, 85 percent of all gasoline sold in Hawaii will be required to contain 10 percent ethanol from renewable sources. To make it easier for Hawaii to supply its own ethanol, tax credits for ethanol production are now available to a maximum of \$12 million a year. The current sugar cane crop in Hawaii would supply about three-quarters of the ethanol that the mandated new gasoline blend will require, and work is already under way to see how best to meet the entire demand from local sources.

Despite generous state and Hawaiian Electric Co. tax credits and subsidies for solar water heaters, about 130,000 homes still heat their water with the nation's most expensive electricity.

A state-backed loan program to help homeowners leap the hurdle of the high capital cost would help to reach much of the remaining market.

At today's price for electricity, the savings would pay back the loan in less than 10 years and provide the homeowner with net savings of a few hundred dollars a year for the future.

The same tax credits apply to other renewable technologies, including wind and solar photovoltaic power.

The credits apply also to equipment that reduces the usage of energy relying upon fossil fuel for its generation.

State agencies have been given incentives to enter into performance contracts to retrofit their buildings for energy conservation. The agencies are allowed to keep their pre-contract energy budgets as a stimulus.

Several states, including Hawaii, have enacted legislation mandating a gradually increasing component of renewables in the generation of electricity. Hawaii's Renewable Portfolio Standard calls for 15 percent renewable energy by 2015, with a goal of 20 percent by 2020.

The additional cost of the electricity, if any, will be borne by the ratepayer. But an analysis in Wisconsin of a similar law shows that the home electricity bills would increase by less than a dollar a month.

A tax credit to benefit the purchasers of fuel-efficient cars could be offset by a tax on gas guzzlers. Such a proposal died in last year's Legislature, but could be reconsidered in 2005.

As unpopular as new taxes on gasoline would be, we are paying less than half of European prices of \$5.50 per gallon.

To help pay for a rail system on Oahu, a tax on gasoline would place the burden where it belongs, rather than on those who don't drive. It would also encourage fuel-efficient autos and use of an improved bus service. The alternative -- an increase in the state excise tax -- spreads the burden, but less fairly.

A tax on gasoline has the added virtue that it would encourage purchase of fuel-efficient autos and use of an improved bus service.

Hawaii's Legislature has been a leader in promoting energy conservation and the use of alternatives. However, the temptation by legislators to pick winners among the array of technologies should be avoided.

These measures, while a struggle to adopt, would add up to real progress in kicking the oil habit. By 2015, we might expect to see a reduction in oil imports of, optimistically, 25 percent. That amounts to savings of \$500 million at today's prices.

Is it enough?

Probably not. By 2015, unless the rest of the world has similarly curbed its appetite for oil, the rising price of oil will swallow our savings and then some. We must plan for \$100 a barrel oil in the next 10 years, and to face it unprepared will lead to economic stagnation.

Hawaii must look to its own resources of energy, wind, sunlight, geothermal power, and, especially, biofuels if we are to emerge from the coming oil crisis as strong as we are now.

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