

Time for governor to dust off oil severance tax?

Stuart Leavenworth, Sacramento Bee, 5-23-10

It was just three years ago that Gov. Arnold Schwarzenegger was celebrating a now-notorious oil giant – BP – and its decision to sponsor an alternative fuels laboratory at California's flagship university.

"I can't tell you how excited I am that BP has chosen UC Berkeley and California for its new \$500 million Energy Biosciences Institute," said Schwarzenegger at the time. "I'm proud that the private sector has once again recognized the world-class stature of the University of California."

Schwarzenegger was once chummy with the oil companies. And why not? They have given roughly \$3 million to his campaigns in the last seven years. Yet last week, while attending the launch of a green initiative by Sacramento Mayor Kevin Johnson, the governor sounded more like Ralph Nader than an oil company benefactor. In his comments, he vilified the industry for causing cancer, creating the Gulf of Mexico oil spill and attempting to sidetrack California's global warming law, Assembly Bill 32.

"Wake up California, wake up America, wake up the world, we've got to do something about it," Schwarzenegger said. "We know that we have the greedy oil companies right now out of Texas. They don't care if anyone dies. They don't care what pollution they create in the Gulf of Mexico. Because they only care about one thing, and this is profits."

Given that the governor has shown himself capable of saying almost anything at any moment, it would be easy to write off his comments. Earlier that day, there was no mention of greedy oil companies when he attended the California Chamber of Commerce's annual Host Breakfast in Sacramento.

Yet it's clear that, in running his last lap for a legacy, Schwarzenegger isn't faking his anger. Several oil companies are financing a campaign to indefinitely delay AB 32. Schwarzenegger gained international fame by supporting this law, which requires California to reduce greenhouse gas emissions from vehicles, industries and energy production by about 27 percent by 2020.

So far, Schwarzenegger has directed most of his venom at Valero and Tesoro, two Texas-based oil companies that have contributed \$800,000 to a campaign to suspend AB 32.

Yet California-based oil companies have also thrown money in this pot. The largest of these is Occidental Petroleum, which earned \$4.8 billion in revenues during the first quarter of this year. Five smaller ones have also contributed, and others may soon jump on board.

A few months ago, voters worried about California's high jobless rate might have overlooked the involvement of oil companies in seeking to roll back a major environmental law. But the Deepwater Horizon oil catastrophe has altered that dynamic. The daily images of oil washing ashore – fouling marshes and threatening a vast fishing industry – are a slap in the face for those who consume petroleum and presume that the oil industry has cleaned up its act.

Schwarzenegger's doubts led him to drop support this month for an offshore drilling project near Santa Barbara. But should he go further? California is a major oil-producing state but it is the only one that doesn't tax oil extracted from private lands. Depending on the tax rate and the price of a barrel of oil, an oil severance tax could bring in \$1 billion or more per year, helping to put a dent in the state's budget deficit.

Schwarzenegger endorsed such a tax in late 2008, but it failed to get a two-thirds vote of support in the Legislature. Perhaps it is time for the governor to put his name behind a ballot initiative for an oil severance tax.

That would be one way for Schwarzenegger to channel his anger. If nothing else, it would send a clear message to his former oil industry friends that their betrayal comes with consequences.