

Cleaner Cars, Less Foreign Oil

A Path to Economic Prosperity and Oil Security

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Introduction and summary

America is suffering from another oil price shock less than three years after prices hit a record of \$147 per barrel in July 2008. Over the past month oil prices rose by over \$20 per barrel, or more than 25 percent. This price hike reflects political instability in many oil-producing Persian Gulf nations. And Wall Street speculators have preyed upon oil users' fears about supply interruptions to bid up the price to over \$100 per barrel.

As the price of oil climbs, so too does the price for gasoline. Every \$10-per-barrel increase in oil prices boosts gasoline prices by 25 cents per gallon. Many Americans do not have the option to significantly reduce their driving or easily buy more fuel-efficient new cars, so they spend more on gasoline and less on other goods and services. This slows our nation's still shaky economic recovery and disrupts job growth. Meanwhile, our economy ships off nearly a \$1 billion per day to other nations to purchase foreign oil. And higher prices due to instability and speculation inflate the profits of big oil companies while Americans' wages remain stagnant.

It's time to get control of volatile oil prices that are hurting our economy, our security, and the everyday budgets of American families. These measures are crucial for long-term economic growth, more jobs, and less dependence on foreign oil. They work together to reduce imports and save money.

We propose a bold "Cleaner Cars, Less Foreign Oil" plan that has four crucial elements.

- **Cut foreign oil use by 5 percent annually to slash these imports in half by 2022.** Importing foreign oil sends \$1 billion per day to other countries instead of investing these dollars at home. Foreign oil purchases are nearly half of our trade deficit.
- **Invest in 21st century clean, efficient vehicles and transportation.** We need to build 21st century cars that get 60 miles per gallon by 2025, trucks with a 15 percent improvement in fuel economy, and invest in electric cars. And we need to modernize

our transportation infrastructure by providing more transportation choices to consumers. The domestic manufacture of these cars and trucks of the future alongside a 21st century transportation network will dramatically cut oil use, save vehicle owners thousands of dollars, create jobs, and restore America's manufacturing might.

- **End tax loopholes for big oil.** End billions of dollars of tax giveaways to big oil companies. Use these funds to support transportation choices and deficit reduction. Recover one cent of every dollar of Big Oil profits to invest in advanced vehicle technologies, such as cars with double the fuel economy, electric cars, and natural gas powered buses.
- **Stop speculators from driving up oil prices.** Prohibit Wall Street speculators from driving up oil prices by hiring more “cops on the beat” at the Commodity Futures Trading Commission to police oil trades. There is evidence that speculators are driving up oil prices to make a quick buck, just as there were during the record oil and gasoline prices in 2008.

President Barack Obama and Congress must act to make fundamental changes in our energy policies. These systemic changes we recommend will enable us to finally shed the chains of oil dependence after 40 years of imports, high prices, stagnant growth, and pollution. But we must act now.

Our nation's appetite for oil

Americans have a legendary appetite for oil. For a century “open roads” meant freedom. But every president beginning with Richard Nixon is on record explaining to the American people that this freedom is no longer free. The recent Middle Eastern democracy movement is inspiring, but it also sparked oil price increases that deliver higher costs to American families. And buying half of our oil from other nations means that instability 10,000 miles away can harm us here.

The bottom line is this—imported oil costs too much in dollars and in independence. The United States must take immediate and long-range actions to lower the price of oil in the only way that works—by reducing our use of oil through energy diversification.

On March 23, oil prices reached their highest level since September 2008. This \$20-plus per-barrel increase is nearly a 25 percent hike from a month ago. Economists estimate that a 20 percent rise in oil prices amounts to a tax increase of \$150 billion over a year, only this tax increase is imposed on our economy not to reduce our own federal budget deficit but instead to fatten the treasuries of countries such as Venezuela and Saudi Arabia. This massive drain on our economy is dragging down our recovery because it is an immediate problem for businesses and families. They require as much relief from high gasoline prices as we can provide.

We need to adopt measures to reduce oil use, make Big Oil pay its fair share, and stop speculators from driving up prices. Before we present in full our recommendations to do this, let's first detail why it's necessary and proper to do so.

Higher oil prices led to many rising costs

The bills for our oil dependence add up in many ways. We send nearly a billion dollars a day to other countries to purchase oil, an amount equal to another big bank bailout every seven days. Foreign oil imports also count for nearly half of our trade deficit.

Rising oil prices threaten to halt the current economic recovery. Analysts project that every \$10 increase in a barrel of oil reduces our gross domestic product by one-tenth. So far this year, we have lost 0.2 percent from our projected economic growth for 2011. AP reports that “Mark Zandi, chief economist at Moody’s Analytics, has reduced his forecast for 2011 economic growth from 3.9 percent to 3.5 percent, in part because of gas prices.”

Now add in the military costs. We rely on “dangerous or unstable” nations for one of every five barrels of oil. The Defense Department reports that we spend up to \$100 billion a year to provide security in the Persian Gulf to ensure that this lifeblood of the world’s economy flows freely through this troubled region—and that figure is in peacetime.

Then there are public health costs to burning oil in our cars, trucks, and buses. The harmful ingredients that form smog and the carbon-dioxide pollution that comes from our tailpipes, motors, and refineries leads to asthma attacks, respiratory ailments and other serious illnesses. The National Academy of Sciences estimates that the additional external cost of burning oil is approximately \$60 billion annually due to premature deaths, health care costs, and lost productivity.

Finally, there are real burdens on families’ budgets. Their commutes to work, trips to the grocery store, visits to their place of worship, and taking their children to school are more expensive. Many have no real alternatives to driving to go to these and other places that are essential parts of peoples’ lives. American families, businesses, and government have been forced to spend over \$56.2 billion—\$183.06 per person—more over the past year as gasoline prices rise.

High oil prices only slightly reduce demand

Unless we take action as a government and as a people to reduce our reliance on foreign oil, rising gas prices will continue to haunt our economy and our individual family budgets. And rising oil prices only slightly slake our thirst for oil. Gasoline consumption is built in to most people’s lives. A plumber who drives 50,000 miles a year can’t just stop driving—it’s his livelihood. Until recently, he couldn’t even buy a highly fuel-efficient panel truck—no one made one.

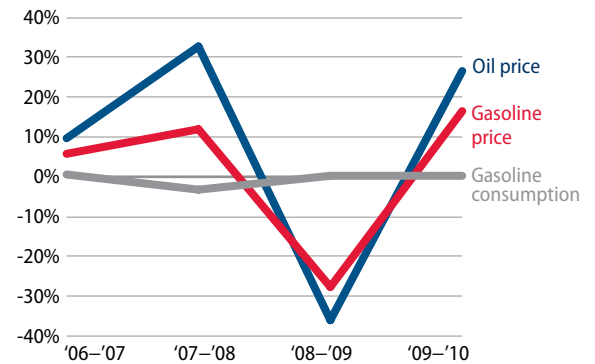
During the record oil and gasoline prices in 2008 Americans shelled out an additional 12 percent (in 2011 dollars) to fill up at their local gas station. Yet gasoline consumption slipped by a mere 3 percent because people had an inflexible dependence on this commodity. Some people eventually bought more fuel-efficient cars. But for many families, buying a new, more fuel-efficient car was out of reach during the Great Recession.

The good news is that we have the technology and the know-how to permanently reduce our dependence on foreign oil. But we must commit to serious action or we will continue to pay the costs of our oil dependence through our wallets, our military commitments, our economy, and our health.

Our reliance on oil is inflexible

Unless we diversify our energy mix, this won't change

Percent change in price and consumption



Source: U.S. Energy Information Administration

Cleaner cars, less foreign oil

For all of these reasons, we need “Cleaner Cars, Less Foreign Oil.” This is the most effective way to permanently cut foreign oil use. By investing in 21st century fuel-efficient vehicles and other forms of similarly efficient means of transportation, we can cut our foreign oil imports by half by 2022. We can pay for it by ending \$40 billion worth of needless tax breaks for Big Oil. And we can ensure the price of oil is based on actual demand, not by price manipulation, by policing Wall Street speculators.

These policies would keep billions of dollars in the U.S. economy, and could foster investments in transportation innovations and manufacturing. Significantly reduced oil use would save families thousands of dollars per year, while creating jobs. And Big Oil would become a partner in the patriotic effort to get off foreign oil while paying its fair share and still making an ample profit. Here's how to do it:

- Cut oil imports in half
- Build 21st century fuel-efficient vehicles and transportation networks
- End tax breaks and giveaways for Big Oil
- Stop Wall Street speculators from driving up the cost of oil

Let's examine each of these steps in turn.

Cut oil imports in half

The United States must establish a target to end our use of imported oil by a certain date, and make a binding commitment to achieve it. Only if investors know that the United States is getting out of the business of importing oil will they have the confidence to make the enormous investments that will be required to build ultra-clean cars; replace petroleum

as the dominant fuel of our transportation system; and invest in alternative sources of energy and new, fuel-efficient transportation networks. Only a clear U.S. commitment to reduce oil imports steadily, gradually, but predictably will put oil market manipulators out of business.

President Obama recognizes the urgency to reduce foreign-oil imports. In 2008, the Obama-Biden campaign committed to “save more oil than we currently import from the Middle East and Venezuela combined” within 10 years, about 3.3 million barrels a day. In 2008, the United States imported an average of 3.3 million barrels of crude oil per day from the Persian Gulf and Venezuela.

To achieve this goal, the United States should cap its imports at 10.5 million barrels per day in 2012, and then reduce imports by 5 percent of this cap, or 500,000 barrels per day, annually, until we reach the president’s initial goal in 2018. Congress should enact a limit on the importation of oil and petroleum products with a limit that declines by an average of 500,000 barrels per day annually.

We should then continue to further reduce imports down to 5.5 million barrels a day by 2022. This would cut imports in half over ten years. This reduction target is more than all the oil we import from the Eastern hemisphere, including the Persian Gulf and Africa.

In 2010, the United States had total net petroleum imports of 9.4 million barrels per day. This year imports will likely rise to 10.5 million barrels a day. The import limitation program would cap them at 10.5 million barrels a day in 2012, and then begin a gradual, steady, and predictable decline in oil imports over the following years. It would help expand the market for nonoil transportation fuels. This would put the nation onto a pathway to lower energy costs and energy independence. This is a reasonable, prudent, and achievable proposal to reduce the economic and security threat posed by our dependence on foreign oil.

Build 21st century fuel-efficient vehicles and transportation networks

To cope with the cap on foreign-oil imports and to jumpstart rapid and sustained investment in new modes of transportation, which will boost job growth now and into the future, we need to build 21st century vehicles that maximize fuel efficiency and innovation, and reduce pollution. This requires investments, incentives, and standards to make sure that all our vehicles—cars, trucks, buses, trains, planes—are modernized and improved to get as many miles out of every gallon of fuel they use, and to use fuels other than oil when possible.

The oil we don’t waste is oil we don’t have to import.

Next year's cars will arrive in showrooms across the nation this fall. Because of actions by President Obama, these vehicles will have to achieve an average fuel economy of 29.7 miles per gallon. This is the first significantly higher average fuel-economy standard since the original 1975 fuel-economy law was fully implemented in 1989. The fleet-wide fuel-economy standard for new vehicles sold in model year 2016 is set at 35.5 miles per gallon, with a carbon-dioxide pollution standard of 250 grams per mile. This is a one-third improvement in fuel economy compared to today.

These new standards will save nearly 1.8 billion barrels of oil over the life of these vehicles. The average owner of a new car will save at least a *net* of \$2,800 from lower gasoline purchases, but will save much more if gasoline prices remain high. But more can be done, and more needs to be done.

Maximize fuel efficiency and pollution reductions

The Obama administration and California are developing new fuel-efficiency and emissions standards that improve on the requirements for model year 2012-2016 vehicles. The next improvements will begin with 2017 models and culminate in 2025. These new standards should reduce oil use and pollution by 6 percent per year to achieve an average combined fuel economy of at least 60 miles per gallon for cars and light trucks in 2025 (and emit no more than 143 g/mile of carbon dioxide).

This would further reduce oil use by 2.8 million barrels per day in 2030, in addition to the savings from the 2012-2016 program. If gasoline costs \$3.50 per gallon when these cars are on the road, drivers would save a net of \$7,700 in reduced-gasoline purchases over the life of the vehicle. The 60-mpg standard for 2025 compares to the European Union fuel-economy requirements of nearly 65-mpg standard in 2020, which means that this standard is technologically and economically achievable. In addition, auto companies will have to produce even more fuel-efficient cars for the EU market.

According to federal and state engineers, technologies are available *today* that could decrease the oil use and pollution of new vehicles between 3 percent to 6 percent annually beginning in 2017. These technological advances include:

- High strength, lightweight materials
- Better aerodynamics and more fuel-efficient tires
- More efficient engines and transmissions
- Adding start/stop technologies to reduce fuel use
- More hybrids, plug-in hybrids, and electric vehicles

These and other technologies would continue to provide consumers with a wide range of vehicle choices.

By setting the 60-mpg standard for 2025 now, the auto industry would have ample time—a dozen years—to meet it. Setting a lower standard, as some advocate, would

continue unnecessary oil use, and force consumers spend billions of dollars more on fuel. In addition, American auto companies would miss an opportunity to out-innovate their foreign competitors.

Reduce fuel use by medium and heavy duty vehicles

Medium- and heavy-duty vehicles use approximately 12 percent of all crude oil consumed in the United States—more than two million barrels per day. President Obama has ordered the Department of Transportation and Environmental Protection Agency to develop:

[The] first-ever program to reduce greenhouse gas emissions and improve fuel efficiency of medium- and heavy-duty vehicles, such as the largest pickup trucks and vans, semi-trucks, and all types and sizes of work trucks and buses in between. These vehicles make up the transportation segment's second largest contributor to oil consumption and GHG emissions.

The new fuel-efficiency and emissions rules will be final in July 2011, and implemented for vehicles built in model years 2014-2018. This will save 500 million barrels of oil over the life of these vehicles.

These standards must be complemented with standards for the van trailers that freight trucks/tractors pull to reduce fuel consumption by another 10 percent. Once these rules are finished, the Department of Transportation and EPA should begin another round of fuel efficiency and emissions improvements for trucks built between 2019-2025.

Other steps to reduce oil use from vehicles

Improving automobile fuel economy by 70 percent in 15 years will significantly reduce oil use. There are other steps that would further reduce oil use. Shifting from oil-based motor fuels to electricity whenever possible would cut oil imports. Taking cars off the gas pump and plugging them into the grid would utilize domestic electricity that will also become cleaner as we transition from dirty coal to cleaner natural gas and emission-free wind and solar power. We should also deploy domestic natural gas as a transportation fuel for heavy-duty vehicles such as delivery fleets, buses, and heavy trucks.

Encourage the purchase of electric vehicles

Plug-in hybrid electric cars and all-electric vehicles, including the Chevrolet Volt and the Nissan Leaf, are arriving at America's auto showrooms. The first Volt users report fuel economy of nearly 170 miles per gallon after 1,000 miles of driving. And the Leaf and other all electric vehicles use no gasoline at all.

President Obama proposed to have 1 million electric vehicles on the road by 2015. We must add a second goal to this target by seeking to put an additional 1.5 million electric vehicles on the road by 2020. This will require the expansion of existing incentives for individuals to purchase them and communities to build recharging infrastructure.

Buyers of these and other electric vehicles are eligible for a \$7,500 tax credit to offset some of the purchase price. Converting this inducement into a tax rebate at the point of purchase or lease would increase the incentive to purchase an electric vehicle. This enticement should continue until 2015. Additionally, Congress should adopt the White House proposal to increase the corporate tax credit eligibility from 200,000 to 500,000 electric vehicles sold per company.

The president's proposed fiscal year 2012 budget would fund a "race to the top" for communities that plan to build recharging infrastructure. The program must expand as the use of electric vehicles increases so the 20 largest metropolitan areas have adequate recharging infrastructure to support these gasoline-free vehicles by 2020. In addition, we should continue to invest in advanced battery research and development and provide incentives for domestic manufacturers of this vital 21st century technology. The Indiana University report "Plug-in Electric Vehicles: A Practical Plan for Progress" includes all of these recommendations as part of a strategy to reach the 1 million EVs goal.

Alas, the House-passed FY 2011 budget would eliminate funding to help domestic auto plants convert to build significantly more fuel-efficient vehicles, including electric vehicles. The final FY 2011 spending plan should restore this cut so American factories will produce the cars of the future. And this loan program should continue in FY 2012 and beyond as the demand and production of electric vehicles expand.

Invest in natural gas trucks

Heavy-duty vehicles use 12 percent of America's oil so the issuance of the first fuel-efficiency and pollution standards for these vehicles is very timely. Like cars, trucks must use oil-based fuels more efficiently as well as replace them with a domestic, cleaner fuel.

Electricity is an excellent alternative fuel for passenger vehicles but it won't work for some medium and heavier trucks and buses. The large amounts of energy needed to power these heavier vehicles frequently requires too many batteries that would add too much weight and take up too much space. Instead, natural gas—in the form of liquefied natural gas, or LNG, or compressed natural gas, or CNG—is the best available alternative fuel for these vehicles. Because many of these vehicles are short-haul, centrally fueled vehicles, only a limited number of natural gas refueling stations are necessary.

Carbon dioxide pollution from both petroleum- and natural-gas-based fuels vary widely depending on the source and the specific technology deployed. But because a British Thermal Unit—an energy measure—of natural gas contains one-quarter less carbon than a BTU of petroleum, natural-gas-based fuels enjoy a natural, and in many cases substantial, advantage over petroleum. And given the current supply situation, marginal uses of natural gas will be met by domestic production and will displace marginal imports of foreign oil.

Analysis by the Center for American Progress shows that, by 2035, natural-gas-powered heavy trucks could reduce oil use by 1.2 million barrels per day, or 45 percent of the projected oil consumption of heavy trucks by 2035. These fuels are cheaper per mile compared to diesel fuel as well as any oil price higher than \$31 per barrel. Natural gas has been as low as one-quarter of the price of diesel fuel on a dollar per unit of energy basis.

We must set a target to have 1 million each of natural-gas-powered medium and heavy trucks on the road by 2020. This is a quarter and a fifth, respectively, of the existing fleets. These targets could save a total of at least a half-million barrels of oil per day. To meet this target, the federal government must create incentives to buy natural gas trucks. In addition, it should also invest in the construction of natural-gas refueling infrastructure.

Recent technological breakthroughs made it possible to produce shale gas from deep below the Earth's surface. This dramatically increases estimates of the U.S. supply of natural gas, making it possible for it to replace oil for transportation and coal for electricity.

It is essential, however, that all natural gas production occurs while protecting public health and the environment. Federal and state governments must establish and enforce rigorous safeguards to protect air and surface and ground waters from pollution from the procedures used to produce shale gas, including hydraulic "fracking." This is a technique for producing natural gas trapped in shale rock deep under the Earth's surface. Congress must close the existing exemptions for the oil-and-gas industry from the Safe Drinking Water Act and other laws.

A small fee on gas production should provide revenue for pollution monitoring and enforcement of federal and state safeguards. Producers of this gas must also publicly report on the toxic chemicals used in fracking. Finally, gas producers must be required to capture fugitive methane from fracking to prevent emission of this potent greenhouse gas.

Invest in modern, efficient transportation choices

Millions of Americans are locked into using their cars because of limited transportation choices. Their communities lack affordable, convenient buses; subways; or other means of transit. Some communities lack safe biking and walking areas. Workers must spend hours in congested driving nightmares. People must drive a car to get a gallon of milk where housing is separated from services and amenities. Seniors face the loss of their freedom when they are no longer able to drive a car.

Businesses are also constrained by limited choices, which have real economic costs. Shipping goods is more expensive because current railroad bottlenecks force them onto trucks, which increases oil dependence and pollution. More truck freight adds to highway congestion and road wear and tear. Too much of our freight moves on trucks because we have invested too little in our rail system. Infrastructure and planning improvements are necessary to provide genuine transportation alternatives for both passengers and freight.

Fortunately, public transit is popular among those Americans who have reasonable access to it. Public transportation experienced a significant increase in use over the past 15 years. According to the American Public Transit Association:

From 1995 through 2009, public transportation ridership increased by 31 percent—a growth rate higher than the 15 percent increase in U.S. population and higher than the 21 percent growth in the use of the nation’s highways over the same period.

Buses, subways, streetcars, and other forms of transit dramatically reduce oil use. The American Public Transit Association determined that

Riding public transportation is a significant way to cut passenger transportation energy use. ... transit reduces annual fuel use by the equivalent of 4.2 billion gallons of gasoline.

This is about 100 million barrels of oil saved annually.

Outlays for new and improved transit networks can also help speed our economic recovery. There is \$4 in economic return for every \$1 of investment. Every \$1 billion provided for transit creates 36,000 jobs.

Fix roads, bridges, and trains, and unclog transportation bottlenecks

While we must increase our investment in transportation infrastructure, we must avoid wasting it. Boondoggles and pork-barrel earmarks have added to our present congestion. We must not build highways we don’t need. We must ensure the ones we have are in good repair. New capacity should be added strategically to increase the overall flexibility of the transportation system rather than simply adding lanes and increasing gridlock. America’s ports, for example, represent major bottlenecks in getting feed stocks to factories and goods to consumers.

Shipping freight by railroad is three times more oil efficient compared to using trucks. Yet our outdated rail system suffers from bottlenecks that make it less attractive for businesses. For instance, the News Hour found that “Chicago has been a freight rail hub for the past 150 years, but an outdated layout often makes it a bottleneck for the country’s shipping network.” And demand for rail shipment is projected to nearly double over the next 25 years. Yet the American Society of Civil Engineers projects a 20 percent shortfall in rail investment over this time.

To address these problems, there should be a national transportation policy with a prominent oil-savings goal. Such a program would first invest in transportation programs that decrease dependence on oil. The president’s outline for transportation program provides a good starting point, including increasing our investment in transit by 128 percent over six years.

In addition, Congress should create an “[Infrastructure Bank](#)” that would lend money for large-scale infrastructure projects, including funds for the repair and rehabilitation of highways, transit, and railroads. These funds would be paid back over time by tolls or local dedicated taxes. The federal government would spur investment in these modes by putting in the first dollars and attracting private partners. Every federal dollar loaned to a project will be matched by as many as six private dollars.

End tax breaks and tax loopholes for Big Oil

At a time of great economic upheaval for most Americans, Big Oil companies continue to prosper. While many Americans lost their jobs and small businesses went bankrupt in 2009 and 2010, the largest oil companies still made money hand over fist. The Big Five companies—British Petroleum, or BP; Chevron; ConocoPhillips; ExxonMobil; and Royal Dutch Shell—[made a combined profit of \\$65 billion and \\$76 billion](#) (the 2010 BP Deepwater Horizon disaster cost BP at least \$20 billion, so overall Big Five profits would have been much higher without it) in 2009 and 2010, respectively (calculated in 2011 dollars).

Yet over the coming decade, Big Oil companies will receive more than \$40 billion in totally unnecessary tax breaks for an industry where the five largest companies [made nearly \\$1 trillion in profits over the past 10 years](#). Big Oil companies have an [effective tax rate of only 10 percent](#) compared to the average American with an effective tax rate of 20 percent. These taxpayer handouts include benefits from measures designed to assist other industries.

The [Obama administration](#) has called on Congress to reduce these subsidies by \$40 billion over the next 10 years. In the last two Congresses, the House passed such measures on several occasions but they stalled in the Senate. It’s also popular with voters. The recent [Wall Street Journal/NBC poll](#) found 74 percent of the American people support an end to oil-industry welfare and 47 percent strongly support it.

Yet the House of Representatives this year just rejected a proposal to eliminate these subsidies for some of the richest companies in the world. On March 1, 2011, the Republican-led House defeated a [“motion to recommit”](#) offered by Rep. William Keating (D-MA) that would have eliminated many of these tax subsidies. It failed by a [vote of 176 to 249](#), with all Republicans and 13 Democrats voting to keep these tax loopholes.

Big Oil companies desperately want to keep these tax breaks that they don’t need or deserve. And despite their claims, these handouts have little impact on the amount of oil they produce or its price. A [Joint Economic Committee](#) report confirmed that “the removal or modification of [one of these subsidies] is unlikely to have any effect on consumer prices for oil and gas.” The committee also found that subsidies do not affect production decisions in the near term.

The [Energy Information Administration](#) explains that the major factors affecting oil prices include the production limits set by the overseas oil cartel the Organization of the Petroleum Exporting Countries, and by global disruptions in supply. Moreover, the minimal impact of tax subsidies on domestic production underscores that eliminating tax subsidies will have little, if any, effect on oil prices.

There are three other ways to have Big Oil pay its fair share for producing and selling oil owned by the American people. Specifically:

- Recover royalties from Outer Continental Shelf drilling.
- Use money from loopholes and royalties for transportation investments and deficit reduction.
- Use a tiny part of oil company profits to invest in future oil-reduction technologies.

Let's examine each in turn.

[Recover royalties from Outer Continental Shelf drilling](#)

In addition to getting \$40 billion in tax loopholes, the [Government Accountability Office](#) determined that big offshore oil companies could owe taxpayers as much as \$53 billion in future royalty payments for production of oil from federal waters. This vital energy resource is owned by all Americans, not just the oil companies.

A 1995 [law meant to encourage offshore oil production](#) when prices averaged \$17 per barrel unfortunately was written so that Big Oil companies can evade royalty payments even though the oil price is nearly five times higher today. [The Hill](#) newspaper reported that:

A mid-1990s law meant to spur costly deepwater drilling granted 'royalty relief' to Gulf producers. Under the program, the waivers apply until prices exceed a pre-determined threshold. But in a now-infamous and expensive goof, the Department of Interior left the price ceilings out of leases issued in 1998 and 1999, thereby allowing royalty-free production at any oil and natural-gas price.

In 2008 the Government Accountability Office estimated that, without the price ceilings on the leases issued from 1996-2000, Big Oil companies could evade \$53 billion in royalty revenue over 25 years. During the debate over funding the federal government for the remainder of FY 2011, [Rep. Ed Markey \(D-MA\) offered an amendment](#) to rectify this situation. According to [The Hill](#):

Markey's plan would have prevented the Interior Department from issuing new leases to companies holding the 1996-2000 leases, in order to get the companies to accept 'price thresholds' on those leases that end the waivers when oil and natural gas prices exceed certain limits.

Unfortunately, it failed in the House by a vote of 174 to 251. Congress should pass such a proposal to begin collecting money owed to the taxpayers for the private removal and sale of our valuable oil-and-gas resources from federal waters. It would generate \$1.5 billion in 2011 alone.

One way to produce more oil and generate more royalty revenue would be to require large oil-and-gas companies to “use or lose” their existing leases. The Department of Interior just released a report that found more than 70 percent of the tens of millions of offshore acres under lease are inactive, meaning they are not producing oil or do not have pending exploration or development plans. This includes about 24 million inactive but leased acres in the Gulf of Mexico that could have more than 11 billion barrels of oil. This is a huge store of oil that could displace oil imports.

President Obama’s budget would place a \$4-per-acre annual fee on energy leases in the Gulf of Mexico that are designated as nonproducing. The budget proposal projects the fee would generate \$1.2 billion from 2010 to 2019. A similar bill was introduced by Sens. Robert Menendez (D-NJ) and Bill Nelson (D-FL) and Reps. Ed Markey (D-MA) and Rush Holt (D-NJ). The Senate plan would generate nearly \$900 million.

Use money from loopholes and royalties for transportation investments and deficit reduction

Closing the tax loopholes and paying a fair royalty from taxpayer-owned oil taken from federal waters could provide \$4 billion in 2011 and more funds in later years.

This money should be invested in oil-efficient transportation networks and reduce the federal budget deficit. The transportation networks would reduce oil demand and assist middle- and low-income families facing higher prices by making buses, subways, street cars, and other public transportation as well as in fuel-efficient shipping transportation for businesses to cut the cost of truck hauling. This is critical since many of these transit systems face financial stress due to steep cutbacks in government funding.

If that weren’t difficult enough, many transit systems are forced to turn away customers when there is an oil-and-fuel price spike. For instance, the American Public Transportation Association determined that in the midst of the 2008 record gasoline prices “more than half [of transit agencies] report they are allowing crowding beyond local service, and four out of ten (39 percent) report they are now turning away passengers.”

The inability of local transit systems to cope with rising demand when gasoline prices spike further reduces the ability of our country to reduce consumption and bring down demand and price when oil gets expensive. This type of program could offset pending fare increases and help transit systems maintain full service by avoiding layoffs, thereby maintaining or increasing oil savings.

One solution to these problems was proposed in 2010 by then-Sen. Chris Dodd (D-CT) and 11 colleagues. They introduced a bill to help such transit systems cope with state and local funding cuts. It would have authorized up to \$2 billion to assist public

transit systems suffering from reductions. The Public Transportation Preservation Act of 2010 ([S. 3412](#)) would have provided resources “[to help restore and prevent service reductions and layoffs, or fare increases that occurred due to decreased state and local funding.](#)” The revenue generated by closing loopholes and recovering royalties should be put to this purpose.

Use a tiny part of huge profits to invest in future oil-reduction technologies

The profit motive is a critical element in the drive for improvements and innovation in every sector of the economy. Oil production is a dangerous, dirty, and expensive business, and those companies that produce the oil that fuels our economy deserve to make a profit.

At the same time, many of these companies earn huge additional profits without additional effort due to events beyond their control. For instance, oil prices jumped by \$20 per barrel over the last month due to instability in the Persian Gulf, even though production costs have deviated very little. These profits come from money taken out of Americans’ purses and wallets. It’s time Big Oil return a small amount of these price-spike bonus payments.

We propose that the Big Oil companies divert a tiny portion of their profits—one penny on the dollar—into a Future Oil Reduction Technologies fund. This FORT fund would defend Americans from oil dependence by financing research, development, and deployment of innovative vehicle and fuel technologies that reduce oil use. This could include investments in advanced electric-vehicle batteries, ultra-efficient internal combustion engines, advanced biofuels, recharging infrastructure, and other oil-reduction technologies. It could be overseen by the Department of Energy’s [Advanced Research Projects Agency](#)—Energy as part of its efforts to help develop transformational clean energy technologies.

If the FORT fund existed during the previous decade when the Big Five oil companies made \$900 billion in profits (in 2011 dollars), they would have contributed \$9 billion to invest in oil-reduction technologies. In comparison, [the American Recovery and Reinvestment Act](#) of 2009, which jumpstarted advanced battery production in the United States, had only \$3.3 billion for clean vehicles.

Stop speculation from driving up oil prices

Speculative money seeks volatile investments. Oil has become such an investment. As oil prices rose \$20 per barrel over the past six weeks, there are emerging signs that speculators are playing a part in driving up prices. [Bloomberg](#) reports that

Large speculators and funds increased net-long positions, or wagers on higher prices, by 2 percent in the seven days ended March 8 to 311,632 futures and options, the most

in records dating back to June 2006, according to the Commodity Futures Trading Commission's weekly Commitments of Traders report. The total has jumped 68 percent since Feb. 15.

New data released by Bart Chilton, a commissioner of the Commodity Futures Trading Commission, or CFTC, shows that speculators increased their number of energy futures contracts by 64 percent since June 2008, accounting for a total 1 million contracts as of January 2011. This is the highest level on record and an indication that speculators are buying oil futures at relatively low prices, and then hoping to drive up the price to make money from the sale of these futures in a few weeks or months.

President Obama noted that if “we see any efforts to take advantage of these price spikes through price gouging, we’re going to go after that.” The CFTC has the responsibility to police commodities’ markets, including oil. The CFTC must “crack down” on speculators by using the new tools provided under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. This includes limiting the number of future oil contracts speculators can buy, or increasing the amount of money they must provide to buy them. Finally, the CFTC needs enough investigators to police oil trades and prevent market manipulation designed to drive up prices.

Unfortunately, the House-passed FY 2011 continuing resolution, H.R. 1, does the exact opposite. It would cut more than a third of the CFTC’s funding from FY 2010 levels, leading to massive layoffs of investigators, and crippling its ability to police oil trades and prevent market manipulation of prices.

Another way to limit the potential for speculators to manipulate the market would be to charge a small transaction fee for oil speculators. People who need oil must buy it—and hedge it—long term. Only speculators churn contracts daily, sometimes hourly. The fee per contract should increase as the speculators’ volume of futures contracts increases. Oil end users, such as airlines, should be exempt. The funds levied could pay for more oil-market cops to police trades and prevent the market manipulation of prices that can devastate middle- and low-income Americans, and oil-dependent businesses.

Conclusion

Our “Cleaner Cars, Less Foreign Oil” plan has four key elements: cutting oil imports; building 21st century vehicles and creating more transportation networks; ending tax loopholes for Big Oil; and cracking down on oil speculators. The combination of these bold proposals would grow the economy, enhance our security, help the middle class, and protect public health.

We invite those with better ideas to meet these challenges to lay them out. The approach outlined here will boost American innovation, security, and solvency by making fundamental changes to move off of oil.

This is not easy but it is also not as daunting or impossible as many voices would have us believe. And across our nation, Americans in all regions and of all persuasions would support these measures. They would urge our elected officials to take the leadership path that goes beyond oil—the path to national independence.

After all, one of the very first exercises of American nationalism was a decision that we would no longer import a product that economically enslaved us—in 1773 it was tea, today it is oil. Adoption of our plan would increase our economic freedom while growing our economy and protecting our children’s health. On this one challenge, perhaps, the Tea Party and the Obama administration can agree.

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