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NEW KEYSTONE BID GIVES GOP POLITICAL 'AMMUNITION'

Bloomberg – FuelFix Blog
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TransCanada Corp. (TRP) has reapplied to build the Keystone XL oil pipeline, inserting a project that is strongly opposed by environmental groups into the November U.S. presidential election.

President Barack Obama delayed the $5.3 billion project in November, drawing criticism from Republican presidential candidate Mitt Romney. Last month, House Republicans sought to advance the pipeline, which crosses the Canadian border, by adding language to a highway spending bill that would set a 30- day deadline to issue a permit.

Republicans have said Obama's action cost jobs and led to higher gasoline prices. The new permit application, filed yesterday, will let Republicans try and force Obama's hand on the issue, said Kevin Book, managing director at ClearView Energy Partners LLC, a Washington-based policy-analysis firm.

"It gives ammunition to the Republicans who want to include language in any bill they can pass," Book said in an interview. "It may create pressure on Obama."

Obama rejected the pipeline after Nebraska state officials and environmental groups objected to the route that crosses the Ogallala aquifer, a drinking-water source for 1.5 million people. The new application uses already-reviewed routes through Montana and South Dakota and will add an "alternative" path through Nebraska determined by the state's Department of Environmental Quality, according to a statement from the Calgary-based TransCanada.

What's His Excuse?

Obama "cited a need for a new application from TransCanada and a new route in Nebraska," Senate Republican Leader Mitch McConnell of Kentucky said in a statement. "Now that he has both, what will his excuse be?"

The company initially applied for a permit in 2008.

The U.S. State Department, which has jurisdiction over the project because it crosses an international border, said it will review TransCanada's application to determine if the project is in the national interest. That will include hiring an outside consultant to evaluate potential environmental impacts, the department said.

"This remains the most significant environmental fight of the Obama years," Bill McKibben, founder of 350.org, an organization that advocates for reducing climate change, said in an interview.

U.S. Conflicts

U.S. Senator Bernie Sanders, a Vermont independent, and 13 other lawmakers last year sought an investigation into whether the department's original consultant, Cardno Entrix, had a conflict of interest. A February report from the State Department's inspector general recommended a revised contractor-selection process to avoid the appearance of improper influence.

Cardno Entrix, which had described TransCanada as a major client, is a subsidiary of Cardno Ltd. (CDD) of Brisbane, Australia.
The environmental review will take at least six months, according to Susan Casey-Lefkowitz, director of the international program at the Natural Resources Defense Council.

"All we've heard from this administration is that they are committed to doing a thorough review of this northern segment of the Keystone XL pipeline," Casey-Lefkowitz said in an interview. "The slate is clean. They need to start from scratch."

The original project, estimated to cost $7.6 billion, would've expanded TransCanada's existing Keystone pipeline to carry as much as 830,000 barrels a day from Canada's oil sands and North Dakota's Bakken Shale along a 1,661-mile (2,672- kilometer) path to Gulf Coast refineries. The scaled-back proposal covers a segment from the Canadian border to Steele City, Nebraska.

'Out of Excuses'

Obama is now "out of excuses for blocking this job- creating energy project any longer," House Speaker John Boehner, an Ohio Republican, said in a statement.

TransCanada said it expects to start construction of the portion of pipeline covered in the new application in the first quarter of next year and finish by late 2014 or early 2015. It anticipates it will begin construction as soon as June on a pipeline from Cushing, Oklahoma, to Texas refineries that was part of the original Keystone XL proposal.

"The president will let the State Department complete its review of the new application," Michael Levi, a senior fellow at the Council on Foreign Relations, said in an interview. "I can't imagine that the pipeline backers would want a legally ambiguous effort to push the pipeline through that could then land them in court."

Conference Compromise

A Senate-House conference committee is scheduled to take up a highway spending bill May 8, including a House version that sets a deadline for the Federal Energy Regulatory Commission to approve the oil pipeline. It's unlikely that the panel's Democrats would go along with that provision, Book said. Many Democrats have already voted for Keystone XL in other bills, giving them political cover.

"As we get closer to an election, the Senate Democrats are not going to give the Republicans an enormous victory," he said. "The White House is obviously not going to change their mind."

Nebraska Senator Ben Nelson, a Democrat who isn't seeking re-election, said in a statement that he hoped "Congress will avoid further political meddling in the review process" while Nebraska officials "work with TransCanada on a route that is acceptable to Nebraskans."
Construction Backed

In a telephone poll of 1,000 likely voters conducted April 6 through April 13, 79 percent said they favor construction of the pipeline and 86 percent said they would rather import oil from Canada than from members of the Organization of Petroleum Exporting Countries, according to Mike McKenna, an oil industry lobbyist and president of MWR Strategies Inc. in Washington.

TransCanada "is going to give the president the opportunity to approve the project before the election," McKenna said in an interview. "It's been out enough in the public consciousness that its beginning to cost him votes."

The survey, conducted by the American Energy Alliance, a Washington-based industry group, shows that Obama may pay a political price for continuing to block the project, McKenna said. The poll has a margin of error of plus or minus 3.1 percent.

"Positive sentiments about production (overlaid with concerns about trading partners) are why Keystone is a winner," McKenna said in an April 23 research note. "Most (62%) respondents believe that, with the right energy policy, gasoline would cost $2.50 per gallon."

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SMOKERS DODGE NEW TAXES

By The Gannett News Company
Asbury Park Press (NJ)
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American smokers have shifted to pipe tobacco and large cigars since federal taxes on cigarettes were increased in 2009, a new government report concludes.

Sales of pipe tobacco and large cigars, both taxed at a lower rate, have soared as smokers have adjusted their buying habits to the new price structure.

The shift cost the federal government $615 million to $1.1 billion in uncollected tax revenue from April 2009 to September 2011, the report said. It did not estimate how much individual states may have lost in uncollected taxes.

"That's real money and a tax avoidance scheme Congress ought to be interested in stopping," said Gregg Haifley, associate director of federal relations at the American Cancer Society's Cancer Action Network. "It's also counterproductive for the public health benefit of tobacco taxes."

Monthly sales of pipe tobacco increased from about 240,000 pounds in January 2009 to more than 3 million pounds in September 2011, the Government Accountability Office found. Monthly sales of large cigars more than doubled, from 411 million pounds to more than 1 billion pounds.

Pipe tobacco is used increasingly to make relatively inexpensive cartons of roll-your-own cigarettes in machines installed in neighborhood smoke shops around the nation.

Congress raised taxes on roll-your-own tobacco and cigarette packs in April 2009, making them equal. It enacted a smaller increase for pipe tobacco.

Congress began taxing small cigars at the same rate as cigarettes. Manufacturers of small cigars increased the weight of many of their products, so they would qualify as lower-taxed large cigars, even though they often are just slightly larger than cigarettes and have filters. Premium handmade large cigars retail for $3 to $20 or more each, but "smaller factory-made cigars that meet the legal definition of a large cigar can cost as little as 7 cents per cigar," the GAO reported.

Liggett CEO Ron Bernstein, whose company sells discount cigarettes that are taxed at the higher rate, said his company estimates the tax loopholes have cost the government even more. About 2.7 million people purchased roll-your-own cigarettes last year, and that could reach 3 million in 2012, he said, citing data from the Treasury Department and Centers for Diseases Control and Prevention.

In a written response to the report, Treasury officials noted that the numbers "are not actual losses of revenues, but rather your estimates of the revenue increases if Congress were to change the law to eliminate the disparities."

That's the GAO's recommendation: fix the disparities.

According to the GAO report, a woman representing one tobacco company said she knew of no difference between the roll-your-own tobacco her firm formerly produced and the pipe tobacco it switched to making -- other than the federal excise tax.

Sen. Tom Harkin, D-Iowa, has 15 co-sponsors for legislation that would eliminate the tax disparities to help fund the Individuals with Disabilities Education Act, but the bill is stuck in the Senate Finance Committee.

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THE LAFFER CURVE STRIKES AGAIN

By Dan Mitchell, Senior Fellow at the Cato Institute
International Liberty Blog
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I periodically explain the principles of the Laffer Curve, particularly in hopes that I will educate lawmakers that higher tax rates are a bad idea – even if they wind up generating additional revenue.

Obama's proposed class-warfare tax hikes, for instance, might pull in some extra loot for the political class to redistribute. But is it a good idea to give the politicians more money if the economy loses $5 of private output for every $1 of added tax revenue?

This is why it is never a good idea to even think about setting tax rates near the revenue-maximizing level.

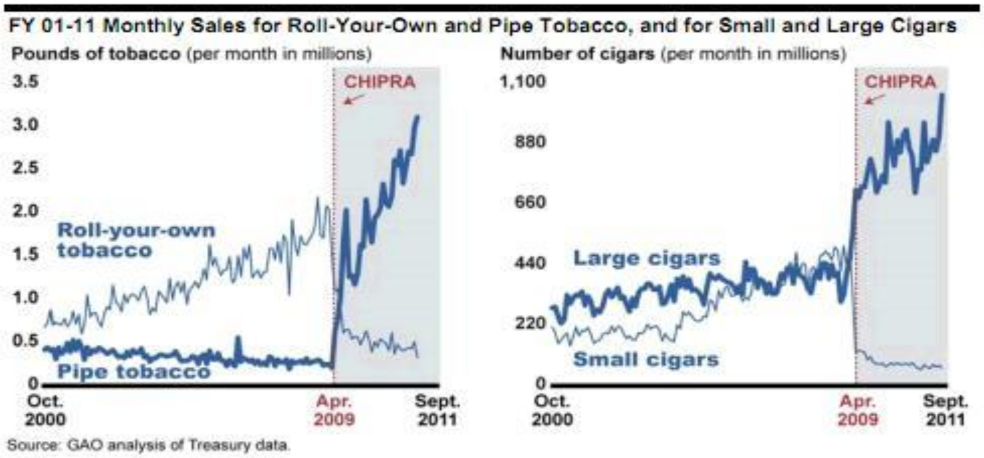
Sadly, many leftists don't recognize this tradeoff. They act as if the private sector is some never-ending pinata that is forever capable of disgorging more money if subjected to enough beatings.

But parts of the federal government are waking up to reality. Here's some of what the Government Accountability Office discovered when investigating the impact of some tobacco tax hikes implemented a few years ago.

Monthly sales of pipe tobacco increased from approximately 240,000 pounds in January 2009 to over 3 million pounds in September 2011, while roll-your-own tobacco dropped from about 2 million pounds to 315,000 pounds. For the same months, large cigar sales increased from 411 million to over 1 billion cigars, while small cigars dropped from about 430 million to 60 million cigars. According to government, industry, and nongovernmental organization representatives, many roll-your-own tobacco and small cigar manufacturers shifted to the lower-taxed products after CHIPRA to avoid paying higher taxes. …GAO estimates that federal revenue losses due to market shifts from roll-your-own to pipe tobacco and from small to large cigars range from about $615 million to $1.1 billion for the same period.

Since the government supposedly was going to get an extra $6 billion-plus from the legislation, this is not one of those rare examples of a tax increase leading to less revenue. But the government is losing 10 percent-20 percent of the extra loot that politicians initially expected.

This chart, from the GAO study, shows the dramatic impact of the tax hike on specific segments of the tobacco market:



To summarize, big tax hikes on cigarettes, roll-your-own tobacco, and small cigars turned out to be good news for sellers of pipe tobacco and large cigars.

Or, to be more precise, it is good short-run news. It's probably just a matter of time before the politicians focus on this "loophole" that enables some consumers to protect themselves against federal rapaciousness. Indeed, the GAO study recommended to Congress that "it should consider modifying tobacco tax rates to eliminate significant tax differentials between similar products. Specifically, Congress should consider equalizing tax rates on roll-your-own and pipe tobacco and, in consultation with Treasury, also consider options for reducing tax avoidance due to tax differentials between small and large cigars."

Needless to say, if lawmakers decide to "eliminate significant tax differentials" and "equaliz[e] tax rates," you can safely bet that they'll decide that some tax rates should go up.

What about solving the alleged problem by lowering the tax rates that are high? Those of you who have followed my writings on international tax policy already know the answer to that question.

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