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# DPCC FACT SHEET: ENDING GIVEAWAYS TO BIG FIVE OIL COMPANIES WILL NOT RAISE CONSUMER GAS PRICES

*Contrary to GOP claims, eliminating unnecessary subsidies and tax loopholes for the major oil companies – while these companies continue to report record profits – will not raise gas prices for American families. Historically, gas prices have risen even as the major oil companies reap billions in tax subsidies that have outlived their usefulness, and ending these subsidies will not impact gas prices for consumers. In fact, Congressional Republicans have acknowledged that ending tax subsidies for oil companies makes sense. But it was President Bush who put it best when he said in a 2005 address on the oil and gas industry: "I will tell you with $55 oil we don't need incentives to the oil and gas companies to explore. There are plenty of incentives. What we need is to put a strategy in place that will help this country over time become less dependent." If that was true at $55 a barrel, it is even more valid with oil at $100 a barrel.*

## *Ending Taxpayer-Funded Giveaways for Big Oil Companies Will Not Raise Gas Prices for Consumers*

**Treasury: Consumers Will Likely "Feel No Impact at the Pump From Removing These Tax Preferences."** In 2009, Alan B. Krueger, then Chief Economist and Assistant Secretary for Economic Policy at the Treasury Department, said, "the domestic price of oil is determined by global supply and demand because oil is an internationally traded commodity. Although the U.S. does constitute a large share of world demand, the U.S. contribution to world oil supply is relatively small: U.S. petroleum production accounts for about 10 percent of the world annual total, and U.S. proved crude oil reserves represent less than 2 percent of the world total. The relatively small U.S. share of global production means that any change in U.S. domestic oil production will have a limited impact on the world supply of oil… Because we expect little or no effect on the world supply of oil, removing these subsidies would have an insignificant effect on world oil prices. If the world oil price does not change, U.S. consumers would feel no impact at the pump from removing these tax preferences." [Krueger Remarks, 10/15/09]

**Experts Agree Ending Big Oil Subsidies Will Not Raise Oil Prices.** Severin Borenstein, co-director of U.C. Berkeley's Center for the Study of Energy Markets, said, "the incremental change in production that might result from changing oil subsidies will have no impact on world oil prices, and therefore no impact on gasoline prices." When asked how the proposed cuts to oil subsidies would affect gasoline prices, John Kingston, Director of News at energy information firm Platts said: "It wouldn't." Kingston added, "My demand for oil isn't going to change one iota because of the changes that are under consideration, and therefore it won't change the price of gasoline." [Media Matters, 4/28/11]

**CRS: Loss of Section Tax Breaks Unlikely to Slow Production, and "Little Reason to Believe" That Gas Prices Will Increase.** Discussing a proposal to repeal the Section 199 manufacturing deduction for oil companies, the non-partisan Congressional Research Service wrote in March 2011, "Because Section 199 provides an incentive for domestic production compared to foreign production, some have claimed that the result of repeal would be greater dependence on foreign sourced oil and natural gas. In the short-run it is unlikely that this would occur due to the nature of oil and natural gas production. Once a well is in the producing phase, production tends to be maximized, within the limits of sound oil field management techniques. With current oil prices at, or near $100 per barrel in the United States, it is unlikely that firms will slow production, or close wells as the result of the loss of the Section 199 deduction." CRS added, "It is widely accepted that a proportional change in taxes on profit affects neither the firm's incremental costs or revenues, and therefore does not change its behavior with respect to output. Since output does not change, there is little reason to believe that the price of oil, or gasoline, consumers face will increase." [CRS, 3/8/11]

**CRS: Closing Tax Loopholes "Unlikely to Reduce Oil Output" or Increase Gas Prices.** The non-partisan Congressional Research Service wrote in March 2011, "In the recent market environment, with the price of oil averaging approximately $90 per barrel over the period December 2010 through February 2011, and the current price over $100 per barrel, prices are well in excess of costs and a small increase in taxes would be unlikely to reduce oil output, and hence increase petroleum product (gasoline) prices." [CRS, 3/8/11]

**CRS: Closing Specific Loopholes As Proposed By Senate Democrats Will Have "No Effect on the Price of Gasoline."** Discussing the proposal to eliminate the Section 199 deduction for big oil companies, CRS wrote, "With current oil prices at, or near, $100 per barrel in the United States, it is unlikely that firms will slow production, or close wells as the result of the loss of the Section 199 deduction." On the plan to repeal the intangible drilling costs provision, CRS added, "Since the provision has little effect on wells already in production, available output and prices should be unaffected if the provision is repealed and replaced with less favorable amortization procedures." And on the plan to close the dual capacity loophole on foreign income, CRS wrote, "this provision again is a tax on profit, and in line with the economic theory of taxation, should have no effect on the firm's output or pricing decisions, and therefore no effect on the price of gasoline." [CRS, 3/8/11]

**Most Oil and Gas Subsidies Have Been on the Books for Decades, Even As Gas Prices and Company Profits Rise.** "Most oil and gas subsidies have been on the books in the United States for many decades. They represent an era when oil and gas exploration was in its infancy, and when resources were plentiful but remained largely unexplored. However, while the industry has now become the most profitable in the world, its legacy of U.S. tax subsidies remains alive and well. Some of the subsidies have been on the books for nearly 100 years." [House Committee on Natural Resources, Democratic Staff Report, 2/3/11]

## ***With Record Profits, Big Oil Companies Don't Need Any More Taxpayer Money…***

**Study: "Oil Production Is Among the Most Heavily Subsidized Businesses."** "An examination of the American tax code indicates that oil production is among the most heavily subsidized businesses, with tax breaks available at virtually every stage of the exploration and extraction process… According to the most recent study by the Congressional Budget Office, released in 2005, capital investments like oil field leases and drilling equipment are taxed at an effective rate of 9 percent, significantly lower than the overall rate of 25 percent for businesses in general and lower than virtually any other industry." [New York Times, 7/4/10]

**Big Oil Companies Are Already Announcing Huge Profits in 2011; Exxon Reported Its Best Quarter Since 2008.** Exxon, the world's largest publicly traded company last week reported a profit of $10.65 billion for the first quarter of 2011, making it the company's best quarter since mid-2008. In addition, Exxon's revenue increased 26 percent to $114 billion. Even after the Gulf oil spill, BP reported a 17 percent increase in first quarter profit to $7.1 billion. [Associated Press, 4/28/11; Washington Post, 4/28/11]

**Five Major Oil Companies Made Nearly $1 TRILLION in Profits Over the Last 10 Years.** The big five oil companies—BP, Chevron, ConocoPhillips, ExxonMobil, and Shell—made a total profit of nearly $1 trillion over the past decade. [Center for American Progress, 1/31/11]

**From 2005-2009, Major Oil Companies Spent The Vast Majority Of Their Profits Lining The Pockets Of CEOs.** "Among the largest five oil companies, less than 10 percent of after-tax profits went to exploration for new oil fields during the 2005-2009 period. Meanwhile, the percentage of net profits used to pay dividends and buy back stock was 58 percent in 2005, 73 percent in 2006, 72 percent in 2007, 71 percent in 2008 and 89 percent in 2009**.** These figures are high in comparison to other industries… In other words, the companies spent 3.3 times as much on dividends and stock buybacks as they did on exploration in 2010. The strategy works for oil company executives. For example, the value of the Exxon stock held by CEO R.W. Tillerson rose by $32 million in just the last 12 months." [Citizens for Tax Justice, 4/29/11]

## ***...And Oil Company Executives Agree With Taxpayers That Subsidies Are Wasteful***

**Nearly ¾ of Americans Support Ending Oil Subsidies to Reduce the Deficit.** A February 2011 NBC / Wall Street Journal poll found that 74% of Americans support "eliminating tax credits for the oil and gas industries" in order to reduce the deficit. [NBC/Wall Street Journal Poll, February 2011]

**Former Shell Oil CEO: "Subsidies Are Not Necessary" for Drilling and Production.** Large oil companies don't need tax subsidies when oil prices are high, a former CEO of Shell Oil said in February. "In the face of sustained high oil prices it was not an issue—for large companies—of needing the subsidies to entice us into looking for and producing more oil," John Hofmeister told National Journal Daily. "The fear of low oil prices drives some companies to say that subsidies should be sustained," Hofmeister said. "And my point of view is that with high oil prices such subsidies are not necessary." [National Journal, 2/11/11]

**Big Five CEOs All Said They Do NOT Need Incentives to Explore for Oil and Gas.** In a 2005 hearing, Sen. Ron Wyden asked the CEOs of the big five oil companies, Exxon, Chevron, ConocoPhillips, BP and Shell, "Gentlemen, the president says, and I quote, 'With $55 oil, we don't need incentives to oil and gas companies to explore. There are plenty of incentives.' Now, today, the price of oil is above $55 per barrel. Is the president wrong when he says we don't need incentives for oil and gas exploration?" All five CEOs said they agreed with the President. Exxon CEO Lee Raymond said, "I don't think our company's asked for any incentives for exploration." ConocoPhillips CEO Jim Mulva added, "with respect to oil and gas exploration and production, we do not need incentives." [Joint Hearing of The Senate Commerce, Science And Transportation Committee And The Senate Energy And Natural Resources Committee, 11/9/05]

**Exxon CEO on Tax Loophole: "It Doesn't Make Any Difference Whether It's There Or Not."** Asked in 2005 about a proposal to repeal $2.6 billion in tax breaks for oil companies, Exxon CEO Lee Raymond said of the tax break, "As far as my company is concerned, it doesn't make any difference whether it's there or not." That same year, Raymond said, "let me be clear. I'm not asking for any incentives from Washington. I never have, and I never will." [Joint Hearing of The Senate Commerce, Science And Transportation Committee And The Senate Energy And Natural Resources Committee, 11/9/05; Fox News, 10/17/05]

## ***Even Republicans Acknowledge That It Is Time to Close Big Oil Loopholes***

**Speaker Boehner Said Oil Companies "Ought to Be Paying Their Fair Share."** During an ABC News interview last week, House Speaker John Boehner said Congress should "take a look" at multibillion-dollar tax subsidies to oil companies. "It's certainly something we should be looking at," Boehner said. "We're in a time when the federal government's short on revenues. They ought to be paying their fair share." [ABC News, 4/25/11]

**GOP Budget Chairman Ryan Agrees Tax Subsidies for Big Oil Should End.** Last week, Rep. Paul Ryan said that oil company subsidies should end. Ryan said, "as part of an overall corporate tax reform, tax loopholes and deductions for all corporations should be scaled back or eliminated entirely. That obviously includes oil companies." [Reuters, 4/29/11]

**GOP Sen. Kirk Explaining Opposition to Big Oil Subsides: "They're Doing Just Fine On Their Own."** Earlier this year, Sen. Mark Kirk said, "I voted to wipe out many of the oil company subsidies. They're doing just fine on their own. I think that many of the corporate welfare programs are misplaced." [Think Progress, 3/1/11]

**GOP Sen. Corker: Eliminating Section 199 Deduction is NOT a Tax Increase; It Is "Closing a Loophole."** In 2008, Republican Senator Bob Corker and the so-called "Gang of 10" introduced an energy package that included eliminating the Section 199 manufacturing deduction for oil and gas companies. Discussing chances that the package could become law, Sen. Corker said of the Bush Administration, "Will they look at what we're doing with Section 199 as a tax increase? We look at it as closing a loophole." Corker added, "I don't consider this a tax increase. I consider it closing a loophole." [Commercial Appeal, 8/17/08]

- **Corker: Eliminating Section 199 Deduction is About Getting Incentives "On Balance" And Correcting Inadvertent Error from 2004.** In 2008, Sen. Bob Corker explained, "with respect to 199, I do think it should be noted, the oil companies did not even benefit from this provision until 2004… So this is not something, you know, our Congress was trying to solve a manufacturing issue in this country. They came in almost inadvertently into this. So I think it should be noted that this is just about correcting something and actually trying to get the incentives around energy on balance again." [Press Conference, 8/1/08]

**GOP Sen. Graham: It's Not Good Policy to Give Incentives "To Do What They're Going to Do Anyway."** Discussing the "Gang of 10" proposal to eliminate the Section 199 manufacturing deduction for oil and gas companies, Sen. Lindsey Graham said, "It doesn't increase taxes by one dime. It's an incentive. And what I think would be good public policy is to give incentives to create alternatives to oil. Not give oil companies and incentives to do what they're going to do anyway." [Fox News, 8/13/08]

**GOP Sen. Snowe: At a Time of Record Oil Profits and High Consumer Prices, Tax Breaks for Big Oil Are "Not Only Unnecessary, They Are Reckless."** "At a time of record profits for oil companies and skyrocketing energy costs for consumers, tax breaks for the oil industry are not only unnecessary, they are reckless," Sen. Olympia Snowe said in 2006. "It would be far wiser to redirect the tax expenditures from these provision [sic] to incentives, such as the development of alternative and renewable energy sources from products that are developed, grown and manufactured domestically, so that the current energy crisis can be the last one." [Snowe Press Release, 4/26/06]

**GOP Sen. Grassley Supported Eliminating Section 199 Deduction for Big Oil To Fund Tax Relief.** Discussing a bipartisan tax package in 2008 that included eliminating the Section 199 manufacturing deduction for major oil and gas companies, CongressNow reported that Sen. Chuck Grassley defended the provision as proper because the bill's approach 'reflects the principle that tax-related offsets should be used for tax relief and not more spending.'" [CongressNow, 9/11/08]

**Bush in '05: "We Don't Need Incentives to Oil and Gas Companies to Explore."** In 2005, President Bush said, "I will tell you with $55 oil we don't need incentives to oil and gas companies to explore. There are plenty of incentives." [Remarks at the American Society of Newspaper Editors Convention, 4/14/05]

**Leading Conservative Organizations Support Eliminating Big Oil Tax Subsidies.** In a March letter to Congress, conservative groups including the Heritage Foundation, Americans for Tax Reform, National Taxpayers Union, Americans for Prosperity and Club for Growth asked Congress to dismantle the current system of tax subsidies that benefits Big Oil companies. Specifically, they urged urging a phase-out of mandates, loan guarantees, tax credits and other subsidies for all energy sources -- without exempting fossil fuels or ethanol [Letter to U.S. Congress, 3/17/11]