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Oil & Gas Industry Subsidies

(Oil & Gas Industry Welfare)

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(May be updated periodically)

This PDF is a collection of reports and documents on Oil & Gas Industry Subsidies only, although it may include some general information on Corporate Subsidies, Farm Subsidies and Tax Expenditures. A more specific report on the latter three can be found in PDF's linked at the bottom.

For clarification, **Tax Expenditures** should probably be defined here: "***Any reduction in government revenue through preferential tax treatment such as deductions or credits***".

NOTE: There are literally hundreds of reports on Oil & Gas Industry Subsidies. Many are undermined by self-serving purposes, but some are not. You may find a mixture of those in this document. In addition, depending on what and who these reports included or excluded, the total dollars will vary, sometimes considerably.

(Scroll ↓)

It is impossible to determine exactly how much taxpayer money is dished out *just* to the oil & gas industry alone. The reason is painfully obvious; our elected officials, and certainly the industry, don't want the public to know how much it is; they would prefer we didn't even know it exists. But many organizations and individuals have attempted to do so with limited success. That said, it seems that the general consensus averages' around **$24 billion each year** in both direct payouts and Tax Expenditures, with the top number at **about $37 billion**.

One organization who tries to identify Oil & Gas Industry Subsidies is **Cleantech**. In 2007 they published **Oil Industry Subsidies for Dummies** (not as informative as you might think).

> "*Figuring out exactly, or even roughly, how much oil companies receive in subsidy turns out to be a complicated challenge. Greenpeace believes Europeans spend about $10 billion or so (USD equivalent) annually to subsidize fossil fuels. By contrast, it thinks the American oil and gas industry might receive anywhere between $15 billion and $35 billion a year in subsidies from taxpayers. The exact number is slippery and hard to quantify, given the myriad of programs that can be broadly characterized as subsidies when it comes to fossil fuels.*"

In 1999 Assistant Treasury Secretary Donald Lubick testified before the Senate Finance Committee and said the petroleum industry probably receives the largest tax incentives among all industries. If true, that may be due to their big lobbying interest. The New York Times reported in July of last year, not long after the BP oil blowout, that the **oil & gas industry had spent $340 million on lobbyist since 2008**.

Regardless of how much taxpayer money the industry is receiving, it's too much. In 2010 the "Big 5" --- BP, Chevron, ConocoPhillips, ExxonMobil and Shell --- **projected profits of nearly $100 billion**. Since then the price of a barrel of oil has increased by about 21%. And they've been earning those kinds of profits for years. For example, **in 2005 the world's biggest oil companies reported a profit of $111 billion**, and even more in 2006. Even without corporate welfare they would make a much-higher-than-fair profit.

(Personal Note: As an employee of a major oil company in 1997, we employees became very concerned when oil dropped to around $18 per barrel. We were assured by upper-middle management that as long as the price stayed above $11 per barrel the company was making a profit.)

In **What Oil and Gas Companies Extract — from the American Public**, Jeff Hooke and Steve Wamhoff tell us that "***tax subsidies to oil companies***

provide little benefit to the public". Of course the biggest myth is that oil companies wouldn't do the exploration and production they're currently doing without taxpayer subsidies. But the authors don't have to tell us that — common capitalistic sense tells us. To ***not*** do so would be the same as a grocery store *not* restocking as inventory was sold off.

> "*In fact, in the top five oil companies, managers direct most of their excess cash to dividends and stock repurchases, both of which drive up the companies' share prices and the executives' stock option values. The percentage of net profits directed towards dividends and stock repurchases for the top five oil companies was 58 percent in 2005, 73 percent in 2006, and 72 percent in 2007, 71 percent in 2008 and 89 percent in 2009. These figures are high in comparison to other industries.*
>
> ***American taxpayers have subsidized the fossil fuel industry through the tax code for decades. The taxpayers have received nothing in return. The United States has grown no closer to being independent of foreign oil imports, even as domestic drilling practices threaten our environment here in the U.S. Congress should, as a start, stop subsidizing the oil and gas industry with these unjustified tax breaks***."

The Best Congress Oil Could Buy

> "*Widely denounced as a "do-nothing" Congress, the 2005-2006 U.S. Congress did manage at least one notable accomplishment: It lavished more than $6 billion in royalty relief, tax breaks and other incentives on the oil and gas industry in the* ***Energy Policy Act*** *that was passed in 2005.*" [link added]

The **Institute for Southern Studies** just may have the most complete world-wide study of Oil & Gas Industry Subsidies. (Or maybe not.) In **Oil Industry Subsidies: A Gusher of Another Kind** they tell us that *worldwide* at least $61.3 billion in **public funds alone** were given away from 2000 to 2007. The U.S. ranked number 1 in those giveaways at $15.6 billion.

> "*Rank of the U.S. among providers of aid to the global oil industry during that time:* ***1***
>
> *Amount of subsidies the U.S. provided to the industry worldwide:* ***$15.6***

billion

Subsidies provided by the ***World Bank Group*** [link added]*, the industry's single biggest benefactor:* ***$8 billion***

Year in which Paul Wolfowitz, who as U.S. Defense secretary was a key architect of the Iraq War, became president of the World Bank Group: ***2005***

Year in which the World Bank increased its energy sector commitments by more than half: ***2006***

Percent of the World Bank's energy program accounted for by funding to the oil and gas sector: ***77***

Percent accounted for by renewables: ***5***

Amount the International Finance Corp., the private-sector lending arm of the World Bank, provided to oil and gas companies in 2007: ***more than $645 million***

Percent by which the IFC increased support for oil and other fossil-fuel projects in 2006: ***93***

Percent by which it increased support for renewables and efficiency that year: ***46***

Percent of World Bank Group's extraction projects since 1992 that have been designed for export rather than alleviation of energy poverty: ***more than 80***

Estimated amount in domestic subsidies that national governments provide each year to the oil and gas industry: ***$150 billion to $250 billion***
Estimated amount of annual subsidies the U.S. gives the oil industry if the Strategic Petroleum Reserve and Coast Guard protective services are counted: ***$78 billion to $158 billion***

Amount in annual U.S. subsidies to the oil industry related just to the military protection of oil-producing facilities and shipping lanes: ***$19 billion***

Amount in subsidies for oil and gas companies over the next decade that the Obama administration recently asked Congress to end: ***$36.5 billion***

Percent of expected domestic oil and gas revenues over the coming decade that amount represents: ***about 1***

Amount by which ending subsidies for the oil industry would affect domestic U.S. production, according to the Department of Treasury: ***less than one-half of 1 percent****."*

The above information was obtained from **End Oil Aid**, which offers a database to **track subsidies to the international oil industry**. They use a world-wide "Total Oil Aid" figure of $74.5 trillion (that's Trillion with a "T"). They don't tell us the exact time period that covers, but in their **Story of Oil Aid** they imply it begin in the early 1980's during the Reagan Administration.

"For more than 25 years, wealthy countries have been using aid and other foreign assistance to subsidize the expansion of the international oil industry, a practice known as "Oil Aid". International financial institutions like the World Bank, along with bilateral aid agencies and Export Credit Agencies, provide billions of dollars a year in direct financial support to help oil companies like Exxon Mobil, BP and Halliburton expand production overseas. The overwhelming majority of this money goes to projects that export the oil back to wealthy countries."

The database is quite comprehensive, and you have to learn how to use it to find what you want.

Enabling Oil Companies To Maximize Tax Deductibles (Tax Expenditures) – from **American Progress**.

1. Intangible drilling costs. *Firms engaged in the exploration and development of oil or gas properties may expense (deduct in the year paid or incurred) certain types of drilling expenditures from their taxes. These costs include wages, fuel, repairs, hauling, and supplies related to and necessary for drilling and preparing wells for the production of oil and gas. Other companies incurring similar types of costs must recover this cost over the life of the investment. The administration expects that eliminating this subsidy will produce budget savings of about $7.839 billion over 10 years.*

2. Deduction for tertiary injectants. *Tertiary, or enhanced oil recovery, methods increase the amount of oil that a company can extract from a well by an additional 5 percent to 15 percent according to some research. This tax expenditure subsidizes the costs of tertiary injectants—the fluids, gases, and other chemicals that are pumped into oil and gas reservoirs as part of this process. The subsidy essentially gives companies government money for acting in ways that will enhance their*

profits. It allows companies to expense the costs of tertiary injectants, even though such costs should be recovered over time. Companies can alternatively choose to deduct these costs as an intangible drilling cost. The administration expects that eliminating this subsidy will produce budget savings of about $67 million over 10 years.

3. Percentage depletion allowance. *Percentage depletion allows an independent oil company to deduct from its taxes about 15 percent from the revenue generated from a well, even if that amount exceeds the well's total value. This means that oil companies take a deduction as long as a well is producing oil, without regard to how much, or whether, the well is still declining in value. Companies in other industries are only allowed to deduct an amount that represents the decline in their investment's value that year. The administration expects that eliminating this subsidy to produce budget savings of about $10 billion over 10 years.*

4. Passive investments. *The government generally only allows investors to deduct a limited amount of losses from "passive activities" such as renting land in order to prevent tax shelters. Yet oil and gas properties are exempt from this rule. This gives oil and gas companies a competitive edge over other types of energy companies. The administration expects that eliminating this subsidy will produce budget savings of about $180 million over 10 years.*

5. Domestic manufacturing tax deduction. *Companies that manufacture, produce, or extract oil and gas or any primary derivative receive a manufacturing subsidy provided that the product was made in the United States. But since removing this subsidy does not affect the production of oil, the subsidy does not significantly affect business decisions and eliminating the subsidy would not affect consumer prices. The subsidy is essentially a throwaway for oil companies. The tax expenditure is provided through a deduction for 9 percent of income, subject to a limit of 50 percent of the wages paid that are allocable to domestic production during the taxable year. The administration expects that eliminating this subsidy will produce budget savings of about $17.3 billion over 10 years.*

6. Geological and geophysical expenditures. *The Energy Policy Act of 2005 created this tax subsidy, which allows companies to deduct the costs associated with searching for oil, recovering the costs over a two-year period. The administration expects that scaling back the amortization period to seven years would produce budget savings of about $1.1 billion over 10 years.*

7. Foreign tax credit. *This credit is intended to prevent the double taxation of income that is taxed abroad but also subject to tax in the United States. Yet companies, particularly oil companies, have managed*

to exploit this subsidy even when they don't pay income taxes abroad. In total, adjusting the rule would prevent companies from avoiding about $8.5 billion in taxes over a 10-year period.

8. Enhanced oil recovery credit. *Companies receive a 15 percent income tax credit for the costs of recovering domestic oil when they use "enhanced oil recovery" methods to extract oil that is too viscous to be extracted by conventional primary and secondary water-flooding techniques. The EOR credit is nonrefundable and is allowed if the average wellhead price of crude oil (using West Texas Intermediate as the reference) in the year before the credit is claimed is below the statutorily established threshold price of $28 (as adjusted for inflation since 1990) in the year the credit is claimed. Oil prices in fiscal year 2006 were too high for companies to receive this subsidy, but the subsidy remains in existence. Its elimination is not expected to produce budget savings.*

9. Marginal well production. *This provision provides a subsidy for oil and gas produced from certain types of oil and gas wells. These wells include those that produce heavy oil and those with an average production within a statutorily specified range. Oil prices were too high for companies to receive this subsidy in fiscal year 2006, but the subsidy remains in existence. Its elimination is not expected to produce budget savings.*

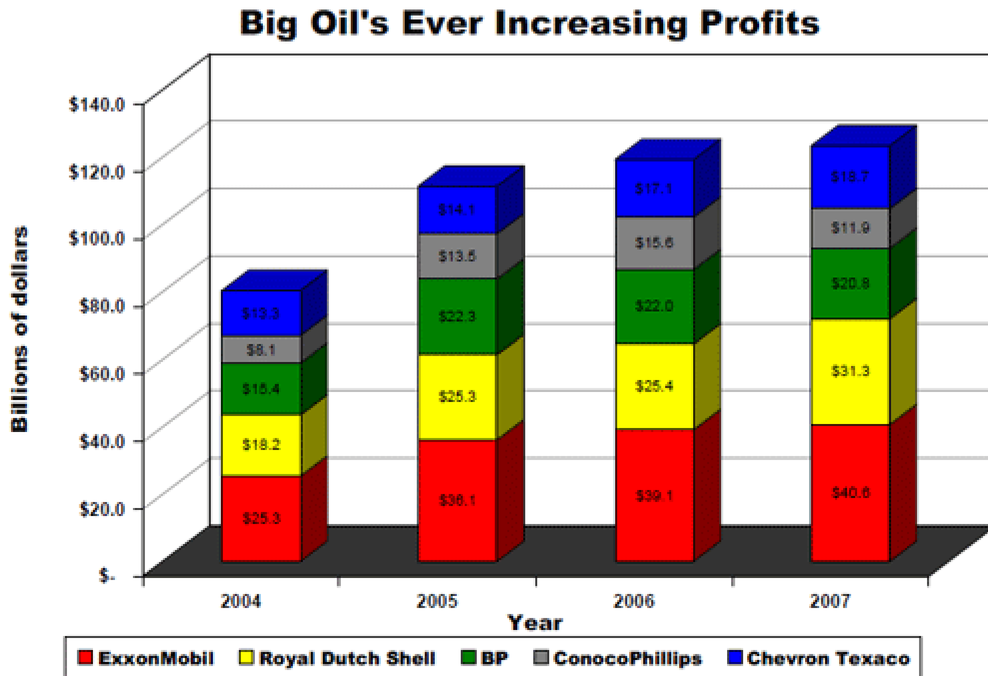
From Friends of the Earth

Friends of the Earth reported in July 2008 that the U.S. oil & gas industry receives a total of **$6.6 billion each year** (PDF) in "tax breaks, subsidies and other handouts" ($32.9 billion over five years). That doesn't include what American taxpayers forfeited for international Oil & Gas Subsidies.

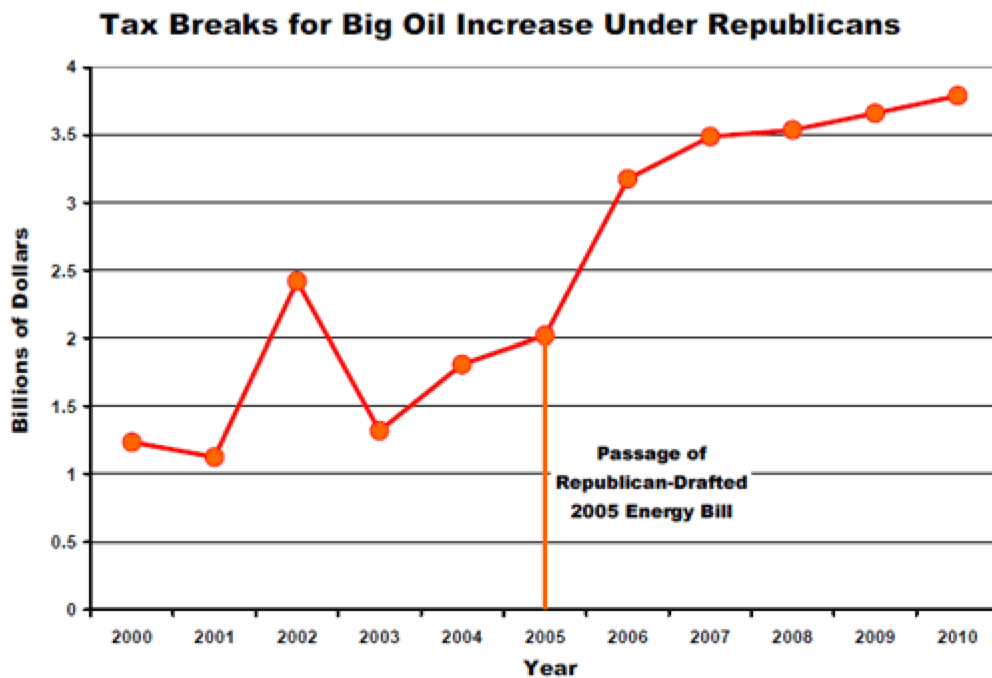
Handout	Cost over Five Years
Tax breaks	$23.2 billion
Royalty relief	$3.8 billion
Research and development subsidies	$1.6 billion
Accounting gimmicks	$4.3 billion
Total	**$ 32.9 billion**

International Subsidies	Cost between 2000-2006
Ex-Im and OPIC Loans	$15.6 billion

The $6.6 billion in subsidies contributed to the $123.3 billion in profits the top five oil companies made in 2007 --- a profit that is **higher than the GDP of Canada**.



These giveaways increased significantly under Republican control of Congress.



A further breakdown of the $32.9 billion (per year):

- **Oil and gas percentage depletion allowance – $1.18 billion**
- **Manufacturing tax deduction for oil and gas companies – $1 billion**
- **Intangible drilling costs – $700 million**
- **Deductions for foreign tax – $600 million**
- **Expensing for refining equipment – $420 million**
- **Enhanced Oil Recovery – $340 million**
- **Geological and geophysical expenditures – $220 million**
- **Natural gas distribution lines – $104 million**
- **Passive Loss – $26 million**
- **Small Refiners Deduction – $20 million**
- **Exemption from bond arbitrage rules – $3.6 million**
- **Natural gas gathering lines – $2 million**

Additionally, royalty payments to the government was decreased by hundreds of millions of dollars. Furthermore, as pointed out above, the U.S. government has directly contributed $15.6 billion in foreign payments to the oil & gas industry, and a good portion of the $8 billion handed out through the **World Bank Group**. Add to that the subsidies for Oil and Gas Research and Development at a cost of $25 million each year.

Then, of course, there is the Accounting Gimmicks at a cost of $4.3 billion each year:

> "*For more than 70 years, the oil and gas companies have used an accounting method known as "last in, first out," or "LIFO," to minimize their tax liability. Using LIFO accounting, oil companies can sell the last oil (and currently most expensive) placed into their reserves first, before selling longer-held and cheaper reserves. By using this method, in the current environment of high oil prices companies are able to minimize the value of their reserves and therefore their tax burden.*"

Early in 2010 President Obama was looking to **end most of the $36.5 billion subsidies to the oil and gas industry**. However, that died before it even got out of the gate. Surely, given our current debt & deficit crisis and the eagerness by some many to address those, the vast majority of the public would have been squarely behind this under any other circumstances. But with the anti-Obama atmosphere that has been generated by the right wing fear-mongers and propaganda machines, the public seems more willing to spite their face by cutting off their own nose than get behind this.

The Big Oil Discount

> "*Following [the Exxon Valdez] spill a court set punitive damages* ***at $5 billion****. Exxon litigated the decision for* ***nearly 20 years*** *until 2005 when* ***the Supreme Court slashed the company's punitive damages to $500 million****. Of that, Exxon* ***paid about $300 million*** *after taking its tax deduction for punitive damages. Exxon's* ***profits that same year totaled $36.1 billion****.*"

Clarification: The above quote is from the Center for American Progress, which references the year "2005" for the Supreme Court ruling. However, I believe that to be incorrect, as it was a ruling in 2008 by the John Roberts court that **cut the damages to $500 million**, confirmed **here**.

Taxes and Tax Rates

So much has been said and written about our corporate tax rate. What we hear quoted from many politicians and corporations is the 35% **statutory tax rate** and how we must reduce that to encourage investments, thus creating jobs. However, the **effective tax rate** that nearly all corporations pay is much less --- in some cases, **no tax at all**.

For example, **ExxonMobil pay 10% less over the past two years**. Worse yet, some oil companies pay as much as 50% below the statutory rate.

Even as oil companies receive billions each year in subsidies, they still **fight what little taxes they pay**. Their effective tax rate on oil field leases and drilling equipment is only 9% while other industries are paying 25%.

Oil companies do every thing they can to avoid paying taxes. An example is the small country of Timor-Leste just north of Australia in the Timor Sea with a population of just over one million. The country's only source of income is from

oil. They **had to sue ConocoPhillips and other companies** just to get back taxes on the oil they export.

It's amazing how some will bloat the effective tax rate of the oil & gas industry. Some put it as high as 48% to 50%. One person is Jan Van Ryan, an employee of an oil company. She tried to make the claim last year **that oil companies were paying an effective tax rate of 48.4%**. Naturally she was using one of those reverse accounting gimmicks as her supportive evidence.

Not only does the oil & gas companies pay a much lower rate than the statutory rate; **oil service companies also pay a lower rate** (PDF). Just about any organization whose sole purpose is to support the industry pays at rates lower than statutory rates.

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