



Senator Feinstein Seeks to Repeal Drilling Incentive for Major Oil Companies

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Washington, DC – Senator Dianne Feinstein (D-Calif.) and a bipartisan group of 12 other Senators today sought to eliminate a tax incentive for major integrated oil and gas companies, which allows them to get a credit for the costs of their exploration and development at a charge to taxpayers of \$2.4 billion over five years.

“Why should the oil and gas industry get tax breaks from the federal government when they are making record profits?” Senator Feinstein said, while introducing the amendment. **“In the third quarter of 2005 alone, the five biggest companies earned a staggering combined total of more than \$30 billion in profit.”**

Cosponsors of the amendment to the tax reconciliation bill were Senators John Sununu (R-N.H.), Judd Gregg (R-N.H.), Ron Wyden (D-Ore.), Maria Cantwell (D-Wash.), Russell Feingold (D-Wis.), Richard Burr (R-N.C.), John Kerry (D-Mass.), John McCain (R-Ariz.), Susan Collins (R-Maine), Hillary Clinton (D-N.Y.), Chuck Schumer (D-N.Y.) and Olympia Snowe (R-Maine). The amendment was defeated in a 48-51 vote.

The amendment would have struck a tax credit for only the major integrated oil companies—ExxonMobil, Shell, ConocoPhillips, Chevron and BP, which these companies have already testified to the Senate Energy and Natural Resources Committee that they do not need. This credit:

- Costs the Federal Treasury up to \$2.4 billion over 5 years, according to the Joint Committee on Taxation;
- Allows companies that are engaged in the exploration and development of oil and gas to deduct intangible drilling and development costs (such as fuel, labor, repairs to equipment, and supplies);
- Is largely claimed by integrated oil and gas producers, which get to expense 70% of their drilling costs up-front, then the next 30% over the course of five years; and
- Lowers the oil industry’s effective tax rate. Rather than paying taxes on 35% of their profits, the oil and gas industry have only paid taxes on 13.3% of their profits on average between 2001 and 2003.

The following is Senator Feinstein's floor statement (with an exchange with Senator Wyden):

"Mr. President, this amendment would strike a tax incentive from the books for the oil and gas companies that allows them to expense their exploration and development costs.

This tax credit is unnecessary, not because I say that it is, but because the oil companies have said they do not need it. The President of the United States has said the oil companies do not need it, and the Joint Committee on Taxation estimates this tax credit costs the Federal Treasury \$2.4 billion over 5 years.

I wish to make clear that this amendment only repeals the credit for the major integrated oil companies -- ExxonMobil, Shell, BP, Chevron, and ConocoPhillips. This tax credit allows major oil companies, such as the ones I have just mentioned, to deduct 70 percent of their drilling costs up front, then the next 30 percent over the course of 5 years. Costs that can be deducted include workers' wages, fuel costs, drilling equipment, materials, and supplies, et cetera.

Now, why should the oil and gas industry get special treatment? And why should they get tax breaks from the Federal Government when they are making record profits? In the third quarter of 2005 alone, the five biggest companies earned a staggering combined total of more than \$30 billion. At the same time this is happening, the Federal budget deficit is the third largest in history, totaling \$319 billion, and the national debt has surpassed the \$8 trillion mark.

In April of this year, President Bush stated: "With oil at more than \$50 a barrel, by the way, energy companies do not need taxpayers'-funded incentives to explore for oil and gas." At the joint Senate hearing last week, at which the CEOs of ExxonMobil, Chevron, ConocoPhillips, BP, and Shell testified, Senator Wyden asked them if, given the fact that oil prices are above \$55 per barrel, they needed these Federal tax incentives. They all responded "No." In fact, Lee Raymond of ExxonMobil stated this: "No and I don't think our company has asked for any incentives for exploration."

Now, I see Senator Wyden is in the Chamber, and since I have quoted him, I would like to ask him if I have accurately reported what happened at this Senate joint hearing with the oil executives.

Mr. WYDEN. Mr. President, the Senator from California has accurately reported it.

Mrs. FEINSTEIN. Let me ask this question, Senator. Did you get the idea from all of the big oil companies that none of them wanted these tax incentives?

Mr. WYDEN. What is so staggering is, when these big oil companies are charging record prices, making record profits, they are being given record tax subsidies that they show up and tell the American people they do not want. So I intend to speak on this after the distinguished Senator from California is done. But she has an excellent amendment. I say to the Senator, you have characterized their testimony correctly.

Mrs. FEINSTEIN. I thank the Senator from Oregon. In essence, Mr. President, this is the biggest handout to the biggest corporations in America -- as a matter of fact, in the world. We should not be giving them a tax break so they can do their job -- to drill for oil -- when they certainly do not need it.

Again, let me be clear: this is a tax credit for the major oil companies only. It should not surprise anyone to learn that these same oil companies' effective tax rates were well below 35 percent. In 2001, their tax rate was 17.3 percent; in 2002, 5.6 percent; in 2003, 13.3 percent. This averages out to 13.3 percent over the 3-year period.

By contrast, 14 industries have higher effective tax rates. The health care industry is 22.3 percent; the financial industry, 19.7 percent; pharmaceuticals pay 21.6 percent; the chemical industry, 20.8 percent; the computer industry, 16 percent; tobacco and food industries, 23.8 percent -- and on and on and on, and yet the oil companies pay very little.

So not only are these energy tax incentives taking money out of the Treasury, they are also allowing oil companies to lower their effective tax rate so that less money actually flows from them into the Treasury. That is unacceptable. They say they do not need it. The President says they do not need it. And this would essentially correct that situation.

When this tax bill was considered, the Finance Committee recognized this fact and repealed the amortization of geological and geophysical expenditures for the major integrated oil companies. It also changed the way oil companies with gross receipts over \$1 billion can account for their oil inventories. The amendment I offer today takes one more step in taking away unnecessary tax breaks for the oil and gas industry.

So, Mr. President, I hope my colleagues will join me in supporting this amendment. I thank the cosponsors.