

# ENERGY ANSWERS

## Government Tax Proposal is Bad for Supply, Jobs and Prices

President Barack Obama's Administration has proposed significant tax increases on America's oil and natural gas industry, estimated at about \$80 billion over 10 years. These unprecedented taxes would have devastating effects on the industry and an already struggling American economy. New taxes are new costs that, like other costs, will be passed through to consumers, increasing the price of gasoline, electricity and other energy-dependent goods and services. Higher prices for these goods and services result in consumers buying less with their available money, a further decline of the economy, more unemployment, and a greater dependence on foreign oil.

ConocoPhillips, along with many other companies and organizations, has encouraged its stakeholders to take action by contacting their elected representatives and asking them to stop these tax increases. In this issue of *Energy Answers*, we'll explore the tax issue and its implications. As always, we encourage you to share this information with anyone who is interested in having a conversation on energy.

### Today, the U.S. oil and natural gas industry:

- Pays an average 40.4 percent income tax rate (based on 2007 income tax expense, as a share of net income before income taxes) – compared to 26.7 percent for all U.S. manufacturing companies.
- Directly employs 1.8 million people.
- Supports more than 6 million American jobs.
- Produces 5.3 million barrels of oil per day in the United States.
- Produces 60.1 billion cubic feet of natural gas per day in the United States.
- Provides 9 million barrels, or nearly 380 million gallons, of gasoline to consumers each day.
- Is investing billions of dollars in new projects and operations that will supply more energy – both traditional oil and natural gas and new alternatives and renewables – in fact, the U.S. oil and natural gas industry invested an estimated \$121.3 billion between 2000 and 2007 in emerging energy technologies alone (including wind, solar and other renewables; frontier hydrocarbons, such as oil shale and oil sands; and end-use technologies, such as fuel cells).
- Remains committed to health and safety, reflected by a declining rate of illnesses and injuries – a rate much lower than that for the private sector as a whole.
- Gives millions of dollars and volunteer hours to U.S. charities.

Source: American Petroleum Institute

### Increasing taxes on the oil and natural gas industry will:

- **Stifle economic recovery.**  
Raising taxes in a time of economic decline is a recipe for disaster. President Hoover did it in the 1930s, President Carter did it in the 1970s, and President Obama wants to do it now. New taxes could hurt workers by extending the recession or depressing job creation just as an economic recovery starts to bloom.
- **Cost thousands of American jobs each year.**  
The energy industry supports more than 6 million American jobs. According to a preliminary estimate based on Center for American Progress data, each year thousands of oil and natural gas jobs would be destroyed by the Administration's new taxes. Many support jobs would be impacted as well.
- **Increase consumer prices for fuel and other products.**  
Not only would consumers see the direct impact of higher fuel prices, but costs would likely go up for other petroleum-based consumer goods, such as items made from plastic or fibers. In addition, products or services that rely on fuel to transport them to consumers, like most grocery items, would likely see price increases.
- **Reduce investment in new U.S.-based energy supplies.**  
Higher taxes would undermine the one industry that is best positioned to produce more domestic energy resources and

### Tax Increases on the Energy Industry Are Bad for America

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*Continued on back*

develop large-scale alternative forms of energy. At a time when other countries are providing incentives to develop their own energy resources, the United States is the only country actively discouraging it. When the economy recovers, America will need all the energy we can produce.

A recent poll found that 61 percent of Americans who voted in the 2008 presidential election support access to offshore oil and natural gas resources. New taxes will make it more expensive for oil and natural gas companies to expand or initiate new exploration and development programs.

- ***Reduce local, state and federal revenue.***

A recent ICF International study found that developing the vast oil and natural gas resources on federal lands that are not leased could generate \$1.7 trillion in government revenue. Higher taxes will make such development less attractive, lowering potential revenue to government.

## **Specific tax proposals include:**

- ***Repeal of the use of LIFO (last-in/first-out) accounting.***

LIFO is a well-accepted accounting method that has been permitted since the 1930s as a proper way to determine a taxpayer's income, and it is based upon the assumption that the last goods brought into inventory are the first goods sold. It is considered a more relevant way to reflect the current financial health of a business that has rising inventory costs, since it pairs current income with the current higher cost of inventory (such as with supplies of crude oil used at a refinery). Repeal of LIFO accounting would result in a significant up-front tax increase for a broad range of businesses in the United States – placing significant cash constraints on them and limiting their ability to manage inflation. For the oil and natural gas industry, the proposed change would represent a one-time, multibillion dollar tax penalty on petroleum refiners. Ultimately, it would mean a significant tax hit felt by U.S. consumers when they already are struggling to make ends meet in a difficult economy.

- ***Repeal of the Intangible Drilling and Development Costs (IDC) tax treatment.***

The IDC tax treatment was designed to attract capital to the high-risk business of oil and natural gas production, and it has been part of the tax code since 1913. IDC generally includes any cost incurred that has no salvage value and is necessary for the drilling of wells or the preparation of wells for oil and natural gas production. Eliminating IDC expensing is anticipated to remove billions of dollars that would have been invested in new American production.

- ***Reinstatement of Superfund taxes.***

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), otherwise known as Superfund, is a federal program created to pay for the cleanup of “orphan” waste disposal sites – those that are either abandoned or whose owners are bankrupt. At the time of its creation, taxes were imposed on the oil and natural gas industry to pay for Superfund's existence. In fact, the industry paid almost 60 percent of all Superfund taxes prior to their expiration in 1995, yet its share of the cleanup liability was less than 10 percent, according to the U.S. Environmental Protection Agency. Since 1995, the Superfund program has used general revenues to successfully carry out its mission of cleaning up the low percentage of sites that are abandoned and where no solvent responsible party can be found. Some policymakers and public interest groups claim that using general revenues to pay for these abandoned Superfund sites “lets polluters off the hook” by funding cleanups on the backs of American taxpayers. Yet, while the oil and natural gas industry has not been identified as the primary polluter at the majority of these Superfund sites, it will most likely bear the bulk of the financial burden if these taxes are reinstated. Further, for those few Superfund sites in which the oil and natural gas industry is the responsible party, the industry has been able to meet its cleanup obligations without the benefit of Superfund dollars.

- ***An end, for the oil industry alone, to the manufacturing tax deduction.***

This deduction encourages investment and job creation in the United States by all manufacturing industries. Putting an end to this deduction – and again, singling out the oil industry – will discourage investments in domestic production capacity.

- ***An increase in royalties received from mineral production on federal acreage.***

This is despite a 50 percent increase since 2007 already enacted on offshore production. Last year alone, lease bonus and royalty payments yielded \$23 billion for the federal government. Raising the royalty rate will increase costs, which inevitably will discourage production, and in essence, decrease government revenue.

- ***A measure that would charge a fee on nonproducing federal leases.***

Called “Use It or Lose It,” the measure requires energy companies to develop existing leases or turn them over so that another company can develop them, without taking into consideration the significant time needed to actively explore and fully develop the leases.

**For more in-depth information on these issues and more, including past issues of *Energy Answers*, go to [www.conocophillips.com/energyanswers](http://www.conocophillips.com/energyanswers).**