COMMITTEE ON FINANCE
NEWS RELEASE

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Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding Oil and Gas Tax Breaks
As prepared for delivery

In 2005, President George W. Bush said, "With $55 oil, we don't need incentives to oil and gas companies to explore. There are plenty of incentives."

Today, oil costs more than $100 a barrel.

So today we will again evaluate those oil and gas incentives. We will consider how they have affected profits in the industry and prices at the pump.

We will ask the same question our 43rd President answered more than five years ago: Is it wise to continue these tax breaks given to the largest oil and gas companies every year?

Gas prices are nearly $4 a gallon today, and experts anticipate they will remain close $4 for the remainder of the season. That means gas prices are up more than $1 a gallon compared to last summer.

In fact, families will pay an average of about $825 more for gas this year than they did last year. And in rural areas like Montana, where people drive farther, the increase is more like $1,200 per household.

At the same time, the five largest oil companies, who are here today, collectively earned over $35 billion in profits in the first quarter of 2011 alone. At this pace, 2011 will be their most profitable year ever.

Businesses should make a profit – that's what drives our economy – but do these very profitable companies actually need taxpayer subsidies?

Energy incentives should help us build the energy future we want to see – not pad oil company profits. Americans want us to work toward an energy future made in America. They want us to develop energy sources that won't be depleted, like the wind and the sun.

We can't reduce our use of fossil fuels overnight, but investments in clean energy will move us away from the oil and gas bills that are squeezing consumers today.

To reach a clean, American-made energy future, we have to scrutinize every dollar of energy subsidies we spend.

The $2.1 billion we spend every year on subsidies for the largest oil and gas companies are not moving us closer to our energy goals.

Today, everyone's budgets are tight. Congress is debating the best way to address our deficits and debt. Some are proposing cutting Medicare for seniors or slashing Pell grants for students. This sacrifice must be shared fairly. So we have to take a hard look at every subsidy and every spending program to be sure we are using our dollars wisely.

In 2004, Congress created the Domestic Manufacturing Deduction, often referred to as Section 199. The deduction is designed to stimulate manufacturing here in America. Each company here today has claimed this deduction.

But what have taxpayers received in return? Have these tax breaks proven to be more valuable than Medicare or Pell grants?

These tax breaks have not lowered prices. When these tax breaks were created, retail gasoline prices averaged about $1.80 per gallon.

In fact, prices have gone up. By 2008, prices had risen to an average of $3.26 per gallon. Last week, they approached $4 per gallon.

Furthermore, these tax breaks have not moved us towards energy independence. According to Treasury Department estimates, if all the subsidies for the oil and gas industry were eliminated, domestic production would fall by less than one half of one percent.

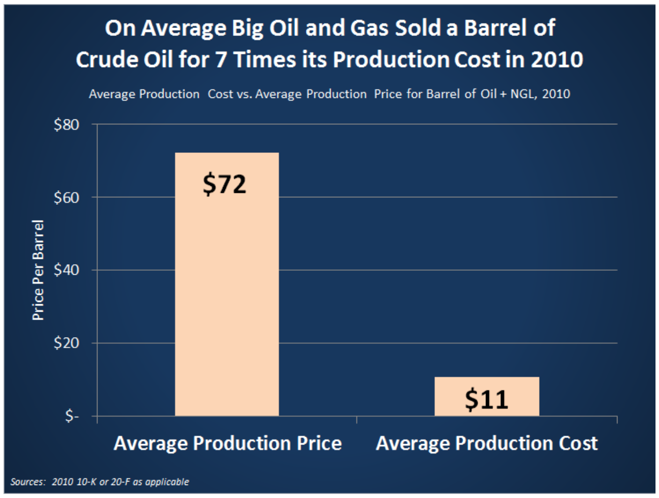
Today, we are only talking about the five largest companies, producers of only one-third of all domestic oil. The Big Five have the most resources and are the least dependent on government subsidies, so the effect on domestic production from repealing the subsidies for these companies would be even less.

Despite these facts, some still argue that eliminating tax breaks for the largest oil and gas companies will raise prices at the pump or force layoffs. The oil and gas industry has launched ad campaigns arguing that repealing these tax breaks will hurt consumers.

But a 2007 Joint Economic Committee analysis found that repealing the oil and gas tax breaks would not raise energy prices for consumers. Why?

Oil prices are set on a world market, and the U.S. share of production is only 10 percent. That makes it difficult – if not impossible – to pass on the cost of losing these subsidies to consumers.

Given profits of $35 billion in just the first quarter alone, it's hard to find evidence that repealing these subsidies would cut domestic production or cause layoffs. After all, based on first quarter profits, these tax breaks represent less than two percent of what these companies are on pace to make this year. Even without these tax breaks, these companies would clearly be highly profitable.



This chart looks at financial documents the companies here today have filed with the Securities and Exchange Commission. According to those documents, the average cost to produce a barrel of oil was $11 in 2010. The average price these companies received for a barrel of oil was $72.

Today, oil prices are higher – a lot higher, almost 40 percent higher – which would increase these large profit margins even further. So it is hard to imagine that companies faced with these opportunities would cut production.

Some might argue that these subsidies or these record profits create much-needed jobs. But those same SEC documents show that nearly 60 percent of these companies' 2010 profits went to stock buybacks and dividends, not job creation.

We can put this money to better use – and we should.

We should use this money to reduce our deficit instead of putting the burden on seniors and on our children's future.

We should use it to move this country toward a cleaner, American-made energy future.

And we should act now.

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