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HATCH STATEMENT AT FINANCE COMMITTEE HEARING EXAMINING THE IMPACT OF TAX INCENTIVES ON THE AMERICAN ENERGY INDUSTRY

WASHINGTON – U.S. Senator Orrin Hatch (R-Utah), Ranking Member of the Senate Finance Committee, today delivered the following opening statement at a committee hearing examining a variety of tax incentives and their impact on the American energy industry:

Mr. Chairman, everybody is angry about high gas prices. I can tell you I'm angry about it.

The press keeps telling us that we need America to come together, and put aside partisanship. Well, nothing makes for a kumbaya moment like high gas prices. Republicans don't like paying high gas prices any more than Democrats do. And with one voice Americans are telling us to do something about them.

Unfortunately, for some people the political philosophy of Rahm Emanuel is too hard to resist. Never let a crisis go to waste.

And so faced with an issue of legitimate concern for the American people, politicians and their media allies decide to exploit high gas prices for political gain.

This is a double game for those politicians. On the one hand, they are able to score some cheap political points against politically unpopular oil companies. On the other hand, all of their sound and fury signifies nothing. It is designed to distract their constituents from the simple fact that the Democrats have no energy policy.

Let me take that back. Actually, they do have an energy policy.

Are you ready for this? Their energy policy is to increase the cost of energy.

You heard that right. This is the President's Energy Secretary Steven Chu.

Somehow we have to figure out how to boost the price of gasoline to the levels in Europe. So while the American people ask Congress to do something about high gas prices, the response of Democrats is to rail against oil executives, to mask the fact that their policy is actually to make the price at the pump more painful.

And for what it is worth — for all of their talk about the shrinking middle class and income inequality — high gas prices don't hit Warren Buffet and Warren Beatty the hardest. They hit moms and dads who have to live far from where they work and drive minivans and SUVs because they have children.

When Al Gore has to pay a little more to gas up the private jet to fly to Cannes, he doesn't feel the pain.

But when my constituents in Utah see gas go above \$4 a gallon, they have to make real choices about whether they have to work longer hours to make ends meet and whether they can send their children to camp this summer.

David Letterman captured this current situation brilliantly. Here's how Mr. Letterman put it. Gas prices, aren't they crazy?

It's so expensive that rats are carpooling in from New Jersey. I'd expect my friend from New Jersey to change the joke and stipulate that the rats arrive from the opposite direction. Of course, my friend from New York might take exception to that.

Now, we don't have as many rats in my home state of Utah. But, like folks in New Jersey and New York, Utahns are plenty angry about high gas prices. They are bearing the brunt of gas prices near \$4 per gallon. This is very discouraging because we are still recovering from one of the worst recessions our country has ever faced, and all that these increased gas prices do is put the brakes on an already fragile recovery.

I hear from small businesses that are trying to make a profit and possibly hire more workers, but now have to make room for added energy expenses. I hear from families who are trying to work out how these gas prices will fit in their budgets. And I hear from those who are still looking for employment.

What the people of Utah and this country need is a forward-thinking energy policy that will address rising gas prices that are a lead weight around the neck of the economy.

I am not here to defend any particular industry. After all, I am one of the leading proponents of promoting alternative fuels.

But let's not make any mistake about what we are talking about here. Let's not gloss over the plan that is being offered here. The plan that is being offered here is to raise taxes. Americans are rightly upset about the cost of gasoline.

And the solution being offered here? Let's raise some taxes. Lawyers would call this a non sequitur. Everyday Americans would call it beside the point.

Raising taxes to address high energy prices is about as relevant as a person walking into a doctor's office complaining of chest pain, and having the doctor respond by offering to reupholster the patient's couch.

Families and businesses are being hit by high gas prices. This demands an energy policy. But all this hearing is about is providing a justification for tax increases.

I wish I could say I was surprised.

No matter what the question is, it seems that for the President and some of my colleagues, the answer is always raise taxes.

Government spends too much? Raise some taxes.

Health care too expensive? Raise some taxes.

Gas prices too expensive? I've got it . . . Let's raise some taxes!

I would be doing a grave disservice to my constituents if I was to ignore the consequences of these tax increases.

Some of us are trying to create American jobs, increase energy supply, and reduce dependence on foreign oil, at a time when we are still recovering from a historic economic collapse.

The proposals that will be discussed today are completely divorced from those pressing needs. The reasoning put forth for repealing these tax provisions — rising gas prices and reporting high first quarter profits — would set a bad precedent for future tax increases.

Are we to increase taxes any time a company sees an increase in quarterly profits due to high demand of a commodity? What if Wal-Mart's profits increased due to a spike in global demand for cotton?

What if an increase in demand for coffee results in Starbucks reporting record profits? What if the Hollywood studios hit a few home runs with some new films and record profits result? Well, I'm not going to hold my breath waiting for Democrats to haul George Clooney up here to justify his salary.

I do not believe we really want to go down the dangerous road of deterring American businesses from becoming too profitable.

This hearing should not be used to score cheap political points, but I'm afraid, with all due respect, Mr. Chairman, that is what we will see today. I have a chart depicting what I expect this hearing to turn into.

It is perfectly appropriate to examine the purpose, intent, design, and effectiveness of certain tax incentives that promote the domestic production of oil and gas. Let's have that debate. In 2004, Congress passed the American Jobs Creation Act. The centerpiece of that legislation was the Domestic Manufacturing Deduction. This particular provision was designed to strengthen the domestic manufacturing sector. It is a deduction for manufacturing everything from coffee to appliances to the domestic production of oil and gas. The amount of the deduction is specifically tied to wages paid to American workers.

The intent was not to incentivize manufacturing and production, but to manufacture and produce within the United States rather than overseas. Congress passed this provision with the expectation that it would promote economic growth and job creation here in the United States. It is important to note that this provision is not just tied to the oil and gas industry, but applies to income derived from all manufacturing within the United States.

Maybe we should have a meaningful conversation about whether this provision is good tax policy. Given that it impacts industries far outside the scope of the oil and gas industry, it is a conversation more properly suited to a debate over tax reform.

But I am not going to hold my breath waiting for this adult discussion of tax policy. Instead, I expect some good political theatre. The liberal mouthpieces over at MSNBC certainly had the talking points yesterday afternoon, and are ready to make some political hay at the expense of our witnesses today.

Many will point to a comment made by a former CEO that oil and gas companies do not need these tax provisions. That CEO might be right.

Oil and gas companies would probably drill with or without these tax incentives. But let's be clear. They would be less likely to do so in the United States. We have to ask whether we want to help increase the market share for U.S. corporations in the global oil and gas marketplace, or do we want to decrease that market share and put ourselves at the mercy of foreign importers?

I am not going to wait for the MSNBC lineup to put on their hardhats, stand on an oil rig, and do a promotional ad asking this tough question about the potential loss of blue collar American jobs.

We have a great number of resources that could be used to promote energy security within the United States. I applauded President Obama's recent pledge to reduce foreign oil imports by a third by

2020. However, I was taken aback when he told Brazil that we want to be their best customers if they increased their oil production.

So it is OK for other countries to produce the energy that will drive our economy, but it is wrong to produce it here at home?

To be honest, I do not know what the President and his administration's agenda is for energy security. And I don't expect to get any clarity on that point today. I think that is the point.

The American people are upset at high gas prices and are demanding energy solutions. The President has no solution. In fact, his policies would do precisely the opposite of what our constituents are asking for. They would increase the cost of domestic production and harm our economy.

So faced with the uncomfortable fact that the buck stops at the Oval Office, and that the President's only solution to high energy prices is to double down on them, liberals hope to distract the American people from their failure to develop a coherent energy strategy.

I do know that we currently depend on oil for our energy needs because it is abundant and dependable. Demand is and will remain high for the next decade. There is a reason why Florida's demand for petroleum-based transportation fuels is among the highest in the US. There is a reason why states like New Jersey and Maryland consume more gas per capita than most states.

And we certainly have the resources to help meet that demand.

Just recently, geologists have discovered in the western part of North Dakota and parts of Montana a twenty-five thousand square mile sea of oil that could hold the largest accumulation of oil identified in North America since 1968. They have dubbed it the Kuwait on the Prairie. About one hundred new oil wells are developed each month.

We also have a great deal of oil in the Rockies on public lands and off our coasts, but our President has done everything in his power to shut down federal leases in these areas.

Look, we all know politics is thick in the air here today. Our dog and pony would feel very much at home.

Many Democratic senators have admitted that it's good politics to take on oil companies when gas prices are high.

We all know everyone is angry about high pump prices. We don't need to hold a hearing on that. But, if we want to do something about it, three questions come to mind. I'll pursue these questions with the witnesses.

First question: will the policies proposed by the President and the Democratic Leadership cause pump prices to drop?

Second question: if pump prices do not drop, then what will the policies proposed by the President and the Democratic Leadership do? One possibility might be that these policies will cause the U.S. to become more dependent on imported oil.

Third question: with respect to tax incentives available for all U.S. manufacturers, is it wise to single out one industry and treat it differently? I'll put a finer point on the question. Is it wise to conduct business tax reform on a selective and punitive basis?

Let's send the pony back to the stable.

Let's send the dog back to the kennel.

Let's get back to reforming the tax code to support economic growth. So far in this Congress, we have been making progress on making the tax code more efficient, simpler, and fairer.

I hope the Chairman will continue these efforts.

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