Rex W. Tillerson
Chairman and CEO, Exxon Mobil Corporation
United States Senate Committee on Finance Hearing
Washington, D.C.
May 12, 2011

Chairman Baucus, Ranking Member Hatch, members of the Committee. I appreciate the opportunity to address the topic of today's hearing, "Oil and Gas Tax Incentives and Rising Energy Prices."

All of us here today recognize the strain that high gasoline prices impose on many Americans, particularly during difficult economic times. And we owe it to our customers and your constituents to address the topic of energy prices and taxes in an open, honest and factual way.

Unfortunately, the tax changes under consideration that target the five U.S. energy companies represented here today fail to honor these goals.

It is not simply that they are misinformed and discriminatory. They are counterproductive. By undermining U.S. competitiveness, they would discourage future investment in energy projects in the United States and therefore undercut job creation and economic growth. And because they would hinder investment in new energy supplies, they do nothing to help reduce prices.

There is a more effective way to take steps to reduce prices and raise revenues – but, unfortunately, it is a way Congress and the Administration has so far rejected. If the U.S. oil and gas industry was permitted to develop our nation's enormous untapped energy supplies, it could put downward pressure on energy prices and increase revenues for government budgets.

Working together, industry and government can achieve our shared goals. In that spirit, I would like to offer several important facts on specific tax proposals that are currently being advocated by some in Washington.

First, it is important to make clear that tax provisions such as the Section 199 Domestic Production Activities deduction are not special incentives, preferences or subsidies for oil and gas, but rather standard deductions applied across all businesses in the United States.

Section 199 applies today to all U.S. domestic producers and manufacturers – from newspaper publishers, to corn farmers, to movie producers, and even coffee roasters. All can claim this deduction, which is intended to support job creation and retention in the United States.

By any reasonable definition it is not an oil and gas industry incentive. In fact, our industry is currently limited to only a 6 percent deduction, while all other U.S. manufacturers are allowed a 9 percent deduction.

Frankly, to then deny a select few companies within the oil and gas industry this standard deduction is tantamount to job discrimination. Why should an American refinery worker employed by a major U.S. oil and gas company in Billings, Montana be treated as inferior to an American movie producer in Hollywood, an American newspaper worker in New York, or an employee at a foreign-owned refinery in Lemont, Illinois?

Another tax measure that is misleadingly labeled a "subsidy" is the foreign tax credit provision, which upholds a basic tenet of tax fairness by preventing our overseas earnings from being double taxed.

This provision applies to all U.S. companies with overseas income, and has been in place since 1918. It is meant to protect U.S. competitiveness.

Again, U.S. oil and gas companies are already treated differently from other U.S. businesses under this provision, which includes unique and prescriptive rules on our industry requiring us to actually prove our foreign tax payments are indeed income taxes and not royalties.

If these rules were changed and the foreign income for select U.S. oil and gas companies like ExxonMobil were to be double taxed, our foreign-based competitors and the full range of foreign-government-owned oil companies would gain a significant competitive advantage.

Clearly, these tax provisions and others under consideration are not special industry incentives or subsidies; they are economy-wide, generally available deductions and credits under the tax code. Removing them for a select few U.S. oil and gas companies is therefore nothing less than a discriminatory and punitive tax hike, which jeopardizes the jobs of American workers.

Doing so would also do nothing to reduce the prices Americans pay at the pump. Gasoline prices are primarily a function of crude oil prices, which are set in the marketplace by global supply and demand – not by companies such as ours.

Furthermore, arbitrarily punishing five U.S. oil and gas companies by raising their taxes will generate far less government revenue than if we were allowed to compete and produce our nation’s resources.

An August 2010 Wood Mackenzie study estimates that approximately $10 to $17 billion in direct upstream investment in this country is at risk per year if the Section 199 and other tax provisions are repealed for the industry.

Another recent Wood Mackenzie study found that opening up federal lands that Congress has kept off-limits for decades could generate 400,000 new jobs by the year 2025. And another analysis shows that such actions could generate as much as $1.7 trillion in government revenue over the life of the resource.

The fact is that raising taxes on five U.S. oil and gas companies is simply not the way to reduce prices or raise revenue. Increasing these companies’ taxes would only discriminate against certain U.S. workers, make our companies less competitive against others who are in the same business, and discourage future energy investment.

A much better solution lies in permitting our industry to increase energy supplies – including supplies found here in North America, such as oil and natural gas found off our shores and in our shale formations.

Access – not taxes – will enable us to meet the goals of increasing affordable energy supplies for Americans, strengthening U.S. energy security, and powering our nation’s economy forward. ExxonMobil shares these goals, and we look forward to working with you to achieve them. Thank you.