John S. Watson
Chairman and Chief Executive Officer
Chevron Corporation
Statement Prepared for the Hearing on
"Oil and Gas Tax Incentives and Rising Energy Prices"
U.S. Senate Committee on Finance
May 12, 2011

Mr. Chairman, Ranking Member Hatch and Members of the Committee: I'm John Watson, Chairman and CEO of Chevron Corporation.

Affordable, reliable energy is the backbone of America's economy and competitiveness. Fortunately, our nation is endowed with abundant supplies of energy, including oil and natural gas.

Each time we come to Capitol Hill, we advocate for measures that would better help America develop our energy supplies. More domestic supply, along with aggressive measures to use energy more wisely, is one of the most effective ways to counter rising energy prices, enhance our energy security and stimulate economic growth.

Tax increases on the oil and gas industry – which will result if you change long-standing provisions in the U.S. tax code – will hinder development of energy supplies needed to moderate rising energy prices. It will also mean fewer dollars to state and federal treasuries…and fewer jobs – all at a time when our economic recovery remains fragile and America needs all three.

Because my time is limited, I want to make three points today.

First, the oil and gas industry pays its fair share in taxes.

Despite the current debate on energy taxes, few businesses pay more in taxes than oil and gas companies. The worldwide effective tax rate for our industry in 2010 was about 40% – that's higher than the U.S. statutory rate of 35% and the rate for manufacturers of 26.5%.

Between 2005 and 2009, our industry paid or accrued to the U.S. government almost $158 billion in taxes, royalties and fees, including $98 billion in federal income taxes. That totals nearly $86 million a day.

Changing important tax provisions outside the context of broader corporate tax reform would achieve one unmistakable outcome – it would restrain domestic development and reduce tax revenues at a time when they are most needed.

Likewise, calls to raise royalty fees will increase the cost of doing business in places like the deepwater Gulf of Mexico and impede development of these resources just when we are getting back to work.

Second, long-standing oil and gas provisions in the tax code parallel tax treatment of other industries or are designed to prevent double taxation of income.

For all U.S. businesses, a basic tax principal is that they are taxed on income after costs. All companies, in all sectors, may deduct these costs in various ways. The oil and gas industry can deduct intangible drilling costs – such as site preparation, labor, engineering and design. These expenses are similar to the research expenses deducted by pharmaceutical and technology firms. These deductions allow companies to recover the costs of risky investments necessary for the viability of their business.

The tax provisions some seek to change are long-standing provisions in the tax code. Many apply to other segments of the U.S. economy, including the manufacturer's deduction and LIFO accounting.

We are deeply concerned about proposals to curtail foreign tax credits for dual capacity taxpayers. Credits for foreign income taxes are critical because without these credits – which are available to all taxpayers – we would pay tax twice on income generated overseas. This would make us less competitive internationally and cost U.S. jobs that support our overseas operations.

My third point is that there should be equitable treatment for <u>all</u> forms of energy and for <u>all</u> energy producers – large and small.

I am an advocate for developing all forms of energy and using energy more wisely. But it is wrong to increase taxes on oil and gas companies to subsidize other forms of energy. This is also likely to have serious unintended consequences for production, jobs and tax revenues.

Singling out five companies because of their size is even more troubling. Such measures are anticompetitive and discriminatory. After all, our five companies are providing the technical, operating and managerial expertise that is allowing the global energy industry to operate at the forefront of energy development.

Let me close by suggesting that the most sensible path is simple – don't punish our industry for doing its job well. Create energy and tax policies that make our country a more attractive place to do business. Allow us to develop our nation's vast energy resources. And strengthen, don't weaken, our ability to compete against large national oil companies who are major players in the U.S. and global energy markets.

Responsible development of our resources – which will be enabled by sound tax and energy policy -- will add more high-paying jobs; provide billions in new tax revenues; and reduce our dependence on foreign energy sources.

If our nation's concern is keeping investments here at home and ensuring reliable, affordable energy for all Americans – then what we ask for here is what we look for anywhere we invest: conditions that are not punitive and discriminatory – but stable, transparent and equitable.

Mr. Chairman, I'm proud to lead a 132-year-old American company…I'm proud of the vital role we play in our economy…and I'm proud that our profits allow us to make significant investments in our communities and in the long-term health of our country.

Thank you.