The Best Congress Oil Could Buy

- Steve Kretzmann and Meg Boyle

The 109th Congress will famously go down in history as a “do-nothing” Congress, except if the something you wanted done was a favor for the oil industry. In this regard, the outgoing Congress was quite generous and effective, lavishing more than $6 billion in royalty relief, tax breaks, and other incentives on the oil and gas industry in the Energy Policy Act that was passed in 2005.

In his 2006 State of the Union Address, President George W. Bush famously declared, “We have a serious problem: America is addicted to oil.” But while the rhetoric around our national “oil addiction” has shifted dramatically in the past year, the reality of government largess to the oil industry (and lackluster support for renewable energy) remains firmly in place.

There’s good reason that the industry received such generous attention from the last Congress. The oil and gas industry spent more on the 2004 election than ever before – $11 million in Congressional campaign contributions,[1] eighty percent of which went to Republicans. Although that sounds like a lot of money, given that the value of ongoing and new subsidies to the oil and gas industry can be conservatively estimated at $32 billion over the next 5 years, it’s actually quite a bargain. More to the point, for the Oil and Gas industry, it’s a return on investment of nearly 60:1.

In contrast, the incoming 110th Congress was elected on fewer dollars from the oil industry than any Congress since the early 1990's, when campaign finance reform was first enacted. Incoming Democratic leadership has stated repeatedly that one of its first priorities will be “ending subsidies to Big Oil.” They’ve just won campaigns around the US that tapped into voter anger with the oil industry, and they're in a position to do it.

However, oil subsidies initially being targeted by Democrats appear to be only a slice of the large pie of assistance the government gives the oil industry annually. Whether this slice is the first of many that could be served to an American public hungry for balanced national energy policy remains to be seen.

The Trouble with this Country

Franklin Delano Roosevelt is believed to have said: “The trouble with this country is that you can’t win an election without the oil bloc, and you can’t govern with it.”[2] Oil interests heavily backed Roosevelt's 1932 Presidential race and then reaped substantive rewards from a Congress that was newly controlled by Texans in key leadership positions.[3] The oil industry at that time was relatively young, and so the New Deal included an expansion of the oil depletion allowance,

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1 $25.6 million overall to Federal elections in 2004, Center for Responsive Politics-

2 This quote is widely in circulation on the web (e.g. http://coat.ncf.ca/our_magazine/links/issue51/articles/51_04-05.pdf), however a request to the FDR Presidential library to confirm it was inconclusive. Although no formal records of it exist, the Library allows that thousands of pages of FDR's letters remain uncatalogued – and the Librarian believes it is consistent with his sentiments.

3 Kevin Phillips, American Theocracy, p. 35

price supports, import restrictions, as well as so-called "hot oil" legislation that heavily regulated interstate oil trade. These subsidies were quite necessary at a time when falling oil prices (less than 10 cents a barrel) were threatening to lead to a literal collapse of the oil industry.[4]

According to Doug Koplow of Earth Track, a group that specializes in identifying subsidies in the energy market, "Subsidies encompass a wide range of regulatory, fiscal, tax, indemnification, and legal actions that modify the rights and responsibilities of various parties in society. Interventions can increase or decrease costs to particular groups, effectively acting either as a subsidy or as a tax. Some of these policies increase societal welfare, while others subsidize powerful groups in society, sometimes making societal imbalances worse."

The depletion allowance, which is still with us today, is a classic example of a subsidy gone too far. Originally passed in 1916, this measure allowed oil companies to deduct 5 percent of their sales to reflect the declining value of their investments in drilling equipment, refineries, etc. Twenty years later, the deduction was expanded to an amazing 27 percent, and today, after being renewed and expanded in last year's Energy Policy Act, it stands at 15 percent. Over time oil companies can—and often do—deduct more than their initial investments.

While industry executives were initially grateful for such subsidies, they made their displeasure known as Roosevelt's broader social agenda and interest in industry regulation alienated them over time. In Kevin Phillips' book *American Theocracy*, he notes as evidence of declining oil industry support for Roosevelt and Democrats: "The Democratic share of the Presidential vote in upper-income Houston precincts, tabulated by analyst Samuel Lubell in 1956, mirrored the souring Petroleum Club mindset: a grateful 57 percent in 1936, then a slump to 29 percent in 1940, 18 percent in 1944, 7 percent in 1948, and 6 percent in 1952."[5]

The Lion's Share

The ninety year-old oil depletion allowance, which was expanded in the 2005 Energy Policy Act, will cost American taxpayers $4.7 billion over the next five years.[6] When the allowance was initially enacted, the oil industry arguably needed assistance to compete and expand in a chaotic energy market dominated by coal. But today it is hard to argue that this subsidy is necessary to ensure the success of the oil industry.

Company	2005 Profits	% increase from 2004	1st 9 months of 2006 Profits	% increase from 2005
ExxonMobil	$36.1 billion	43 %	$29.3 billion	15 %
Royal Dutch Shell	$25.3 billion	37 %	$20.2 billion	-4 %
BP	$22.3 billion	30 %	$19.1 billion	3 %
ConocoPhillips	$13.5 billion	66 %	$12.4 billion	25 %
Chevron Texaco	$14.1 billion	6 %	$13.4 billion	34 %
Total	**$111.3 billion**		**$94.4 billion**	

Source: Friends of the Earth

4 Yergin, The Prize, pp.248-259
5 Ibid. p.36
6 FOE, Pica

“Welfare” usually connotes a specific, set of benefits designed to help the needy—food stamps, for example, or a monthly check. Corporate welfare, however, refers to diverse and sometimes subtle forms of industry support that are not intended to help those who need it most, but rather lends the most help those who need it least. Ongoing subsidies to the oil industry are a classic case of corporate welfare.

Earthtrack notes that oil and gas still receive 52.4 percent of all federal energy subsidies, while renewables other than ethanol receive only 7.5 percent.[7] Ethanol, which enjoys the backing of agricultural giant Archer Daniels Midland (and comes from politically important midwest states), currently receives 7.6 percent of total energy subsidies. Koplow of Earthtrack points out that subsidies to the fossil fuel industry are more than two-thirds of all US energy subsidies, and are more than double the total of subsidies to all other technologies, including both nuclear and ethanol.[8]

These energy subsidies are completely out of step with a nation that now broadly accepts the need to end our collective “oil addiction”. According to Democratic pollsters Greenberg, Quinlan and Rosner, “the public overwhelmingly supports the development of alternative energy, higher mileage standards, hybrids, and incentives to produce more energy-efficient appliances.”[9]

While there is general agreement regarding the imbalance in Federal energy subsidies to renewables vs. other energy sources, there is less agreement among estimates of the total value of federal subsidies to the oil industry. By any estimate, they are large: Estimates of the value of federal subsidies to the domestic oil industry range from $31.6 billion in public dollars over the next five years (roughly $6 billion a year), to an amazing $39 billion annually. There are several reasons for this discrepancy. First, accounting methods vary. Second, while environmental and consumer groups tend to calculate the total amount of revenue to the American taxpayer that these subsidies cost, Earthtrack notes that “many subsidies have a higher value to recipients than their direct cost to the government.” Finally, Koplow’s higher estimate includes a portion of defense spending.[10]

In other words, the higher values are more indicative of the corporate welfare given to the already highly profitable oil industry annually, while the more conservative figures are a better estimate of how much the elimination of these subsidies would save the American taxpayer. It should be noted that while this high estimate does include some of the cost of US military “defense” of the Persian Gulf region, it does not specifically incorporate any increase in defense spending relating to Iraq, or any quantification of the environmental externalities associated with oil.

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7 Koplow, Doug, *Subsidies in the US Energy Sector: Magnitude, Causes, and Options for Reform*, November 2006, www.earthrack.net

8 Ibid.

9 Memo dated August 23, 2006 entitled *“Clean Energy: Key to America’s Future Economy To: Democrats, From: Al Quinlan and Mike Bocian*

10 For more on Koplow’s defense methodology, see:http://www.earthtrack.net/earthtrack/library/GP%20Ch4_Defending%20Oil.pdf

“The bigger the oil company—the bigger the piece of the pie they’re going to get” explains Tyson Slocum, Energy Campaign Director at Public Citizen. “Big companies are getting the lion’s share.”

Quid pro quo

“The 2005 Energy Bill was perhaps the best example of the largess Congress is willing to give to oil and gas,” says Erich Pica at Friends of the Earth. With the Energy Bill, the Congress that received more support from the oil industry than any other returned the favor in one stroke and passed legislation that’s worth at least $6 billion to the oil industry each year.

This kind of lavish attention is often justified by the need to keep gas prices down for consumers (and constituents), the need to reduce our dependence on foreign oil, or the need to ensure that American oil companies remain competitive in the global market. As gas prices have continued to climb, some legislators still argue that increased domestic drilling is the only way to lower prices and reduce our increasing dependence on foreign oil.

“Members of Congress are grasping at straws to deal with energy prices, and see subsidizing domestic industry as one way to fix our reliance on oil,” explains Pica. “They see the national security argument as justifying their support of subsidies.

“The truth is we’ve been increasing market subsidies since the 80’s, but our dependence on foreign oil has increased—they [subsidies] are not working. I don’t see many legitimate arguments against repealing oil and gas subsidies.”

Oil Aid

Each year, in addition to giving significant Federal support to the domestic oil industries, the United States also subsidizes US companies operating internationally. Since 1995, the US Export-Import Bank (Ex-Im) has provided $9.8 billion in financing for oil and gas extraction projects and pipelines and other international projects. The Overseas Private Investment Corporation (OPIC) has provided an additional $5.4 billion in similar financing.

During that period, Exxon Mobil received a combined $972 million in financing from Ex-Im and OPIC; Chevron Texaco received a combined $475 million; and British Petroleum, a combined $157 million. All these projects fuel global warming, encourage global oil dependence, and generally increase conflict and poverty around the world.

The World Bank Group (which receives more funding from the US than from any other country) has provided more than $5 billion to oil extraction projects since 1992, while devoting only five percent of its energy budget to clean, renewable energy projects. Moreover, in the oil sector, eighty-two percent of the World Bank's approved financing goes to projects that export to the global North. In other words, these fossil fuel development projects do not serve their stated goal of providing energy for the poor of the world. “The unstated goals that they do serve are more corporate welfare for Big Oil and increased oil supply for the US and Europe," argues Graham Saul, International Program Director for Oil Change International.

"Oil Aid," Saul explains, "is the government's practice of diverting taxpayer money, intended for poverty alleviation, to instead subsidize the international oil industry. Rich governments are providing goods, services, grants, loans and a range of financial guarantees – along with billions of dollars in tax breaks - to the largest and most profitable companies in the world." Saul adds that US agencies and the World Bank alike have long sought to ensure that local laws in oil producing nations are written to entice international oil company investment, and that this also constitutes "oil aid."[11]

Separation of Oil and State

The incoming 110th Congress will be the least beholden to the oil and gas industries in a generation. In the 2006 election cycle, members of the incoming congress accepted fewer total campaign donation dollars from the oil and gas industry than members any other Congress in the past fifteen years - less than seven million dollars, down from over eleven million dollars in the previous election cycle. The number of Representatives and Senators who didn't accept campaign contributions from the industry also jumped nearly one-third between the 109th and 110th Congress.

Moreover, an unprecedented four of the top five Congressional recipients of campaign contributions from Big Oil during the 2006 election cycle lost to cleaner candidates in close Senate races. The unseated recipients—all Senators—include Conrad Burns (Montana), Rick Santorum (Pennsylvania), James Talent (Missouri), and George Allen (Virginia). These results alone will keep nearly $700,000 in oil money's influence out of the 110th Congress.

Where campaign contributions are concerned, reality may be catching to catch up to rhetoric. But what's the likelihood of this political momentum for a separation of oil and state translating from campaign season to Congress and leading to the repeal of tax breaks and subsidies to the oil and gas industry—perhaps even the increased investment in clean energy technologies and energy efficiency that environmentalists are calling for?

Slocum, Pica, and Saul all agree that Speaker Pelosi's public commitment to rolling back subsidies to Big Oil is an indicator of good things to come, though all also caution that not everything will happen at once.

House Democratic leadership is likely to be quite timid in its initial reduction of subsidies to the oil industry.[12] Tax breaks designed to facilitate refinery expansion, promote drilling in the US (as opposed to internationally), and conduct geological studies are all likely to be repealed within the first few months of 2007. While repealing these subsidies will certainly represent a symbolic first step by Congress, they are only a small slice of the large pie of assistance the government gives the oil industry.

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11 For more information see www.endoilaid.org

12 http://www.cnn.com/2006/POLITICS/11/19/congress.energy.ap/index.html

With the question of which oil subsidies will or will not be repealed by the 110th Congress looming large, the issue of how the Government will spend any money recouped from canceling those subsidies is also a timely question.

Pica, of Friends of the Earth, is optimistic that savings recouped from repeals of tax breaks and subsidies to the oil industry can be channeled directly into renewable energy and energy efficiency. "Energy was such an issue in the election, they [Congress] have a mandate to do something energy-related," he says.

But Slocum expresses more guarded optimism: "It's a [anticipated repeals are] a good start… there's going to be a lot of financial pressure on Congress in the next two years. There's going to be a lot of pressure on them to keep deficits under control, so reaching into the oil money is going to be very attractive. The catch is whether there are any linkages between repealing oil company tax breaks and investments in renewable energies."

Ultimately, while new subsidies for renewable energy would help efforts to combat climate change and promote energy independence, simply leveling the playing field (or tilting it less)by removing the existing subsidies to oil and gas would go a long way. While the 109th Congress was the best that oil could buy, the 110th Congress may—with a little added push—turn out to be the best Congress it couldn't.

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