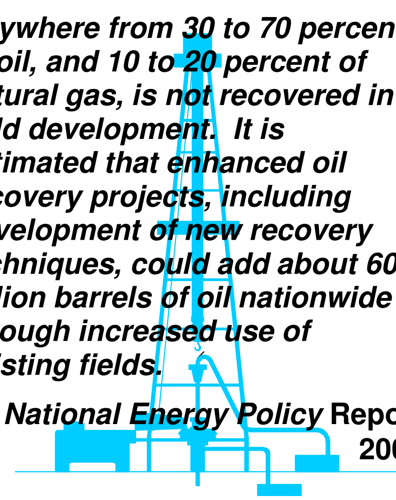
America's Oil & Gas Producers

Enhanced Oil Recovery

Section 43 of the Internal Revenue Code provides an enhanced oil recovery (EOR) credit equal to 15 percent of the qualified enhanced oil recovery costs incurred in a tax year. Existing Treasury guidelines for the Section 43 tax credit are very narrow, generally including only expensive EOR processes -- many of which are no longer in use. It excludes, however, many EOR processes that are the result of technological advances now considered common in the industry.



Anywhere from 30 to 70 percent of oil, and 10 to 20 percent of natural gas, is not recovered in field development. It is estimated that enhanced oil recovery projects, including development of new recovery techniques, could add about 60 billion barrels of oil nationwide through increased use of existing fields.

***National Energy Policy* Report 2001**

Additionally, the EOR credit phases out as the reference price of oil exceeds an annually adjusted threshold. For the 2008 tax year, the threshold price was $41.06 and the reference price was $66.52 based on 2007. Consequently, the EOR tax credit was phased out completely.

Proposal

Oppose repeal of the EOR tax credit

Reasons for Opposition

The EOR tax credit has served the country well by encouraging the development of expensive oil reserves when prices would make them uneconomic. It can continue to do so as a safety net against low prices in the future.

Additionally, one of the EOR technologies in use is carbon dioxide (CO_2) injection. This injection also serves as a mechanism to sequester CO_2 – a component of efforts to diminish atmospheric green house gases.

There is no budget benefit to repealing the EOR tax credit while the consequences could result in lost oil production and lost opportunities to sequester CO_2.

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