# Talking Points: Windfall Profits Tax – Still a Bad Idea

**Industry Not Earning "Windfall Profits"**

- The oil and natural gas industry is not earning "windfall profits." The reality is that the industry's earnings have been very much in line with other industries, and often are lower. According to *Business Week* and *Oil Daily* magazines, the oil and natural gas industry earned 5.7 cents for every dollar of sales compared to an average of 5.5 cents for all U.S. industry over the past five years.

**Discourages Energy Investment in the United States**

- A WPT discourages new domestic oil production, and makes it more attractive to produce foreign energy resources – thereby increasing our dependence on imported oil. The Congressional Research Service (CRS) concluded that, between 1980 and 1986, the WPT reduced domestic oil production by as much as 1.6 billion barrels.
- In all, the CRS estimated that the WPT caused domestic oil production to fall between 3% and 6%, and caused oil imports to rise between 8% and 16% (1980-86).
- Adopting such a tax, even one that exempts new domestic investment, would set a precedent that could have a chilling effect on investment in U.S. energy development, since investors will be concerned that the tax eventually could be imposed on revenues from new domestic production as well.
- The WPT in the 1980s, combined with subsequent low oil prices, led to 20 years where the domestic oil and gas industry was not able to attract sufficient capital for investment, which is contributing to the tight supply markets of today.
- According to the CRS, before the WPT was repealed in 1988, it generated about $40 billion in net revenues ($79 billion in gross revenues)—money that could have been used by the industry to invest in new energy production and infrastructure. The National Petroleum Council projects that producers will have to invest almost $1.2 trillion through 2025 to fund U.S. and Canadian natural gas exploration and production activities. Investments of this magnitude require long-term fiscal stability.
- The Congressional Budget Office (CBO) recently estimated that the energy sector sustained between $18 billion and $31 billion in capital losses from hurricanes Katrina and Rita. These expenditures will be in addition to the new capital investments that will be required of the oil and gas industry to meet future U.S. energy demand.

**Hurts the Development of Alternative U.S. Energy Resources**

- The recent increase in crude oil prices should encourage greater production from existing U.S. resources and promising new, but costly, alternative sources of energy. Those increased supplies could help to reduce energy costs in the long run.
- A WPT could reverse that trend toward expended production of new resources, by making many of those high-cost alternatives non-economic to produce in the United States. For example, a company that invests in the development of oil from shale could make little or no profit, and still pay a significant windfall profit tax.

**Decrease Domestic Energy Security and Employment**

- Domestic oil and gas companies, who are already heavily taxed relative to their foreign competitors, must compete for foreign investment opportunities with those competitors. The WPT would increase this already substantial tax burden and reduce the ability of domestic companies to compete for those foreign investment opportunities needed to diversify our nation's energy supply and, in turn, support the employment of U.S. personnel in jobs related to those activities both here and abroad.
- According to the Bureau of Labor Statistics, the oil and gas extraction industry nationwide lost about 130,000 jobs from the second quarter of 1985 to the second quarter of 1986. Between 1982 and 1988, when the WPT was repealed, this industry lost about one-third of its jobs.

**Negative Impact on Shareholders and Consumers**

- Almost all large oil and gas companies are publicly-traded entities, whose shares are owned by millions of investors through their 401(k)s, retirement plans and pension funds. Taxing away the earnings of those companies negatively impacts the ability of hard-working Americans to achieve a more financially secure future.
- Taxes, not unlike amounts paid for raw materials and employee salaries, are a cost of doing business and are ultimately reflected either in the price paid by consumers for a company's products (e.g., gasoline and heating oil) or in reduced returns to shareholders.