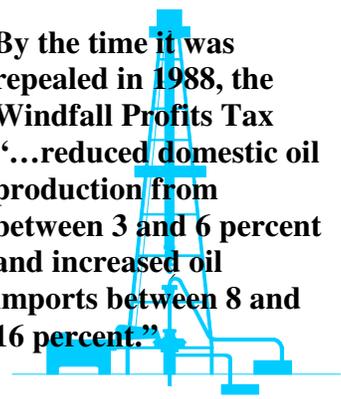


Windfall Profits Taxes

Over the past few years, legislation has been introduced in Congress to impose a “Windfall Profits Tax” on American oil and natural gas producers. Most proposals are really excise taxes on American production. The last Windfall Profits Tax was enacted in 1980 and was a complete failure. This mistake should not be repeated.

- **The Windfall Profits Tax reduced American oil and natural gas supplies while increasing our reliance on foreign oil.** The Congressional Research Service analyzed the effects of the 1980 Windfall Profits Tax. By the time it was repealed in 1988, the Windfall Profits Tax “...reduced domestic oil production from between 3 and 6 percent and increased oil imports between 8 and 16 percent.”
- **The United States needs more American oil and natural gas, and that will require a tremendous investment of billions of dollars.** The last Windfall Profits Tax extracted \$40 billion from the industry that could have been invested in American production. In the end, the Windfall Profits Tax led to less American production, more foreign imports and less American investment – three bad results. It may make good press to call for Windfall Profits Taxes, but it makes for bad energy policy.
- **The oil and natural gas industry’s earnings are in line with those of other industries and often are lower.** Over the past five years, the oil and gas industry's earnings averaged 5.9 cents compared to an average for all U.S. industry of 5.2 cents for every dollar of sales. The average earnings of several other industries, including pharmaceuticals and banking, are significantly higher.
- **Congress should encourage more American investment and that’s exactly what independent oil and natural gas producers are trying to do.** Independent producers develop 90 percent of domestic oil and gas wells, produce 68 percent of domestic oil and produce 82 of domestic natural gas. A 2005 analysis concluded that independent producers are investing 150 percent of their American cash flow back into American oil and natural gas development – borrowing funds to enhance their already aggressive efforts to find and produce more energy. Just think of the negative consequences of imposing a windfall profits excise tax on these efforts.
- **A Windfall Profits Tax would be particularly damaging to America’s marginal wells.** Over 80 percent of America’s oil wells are marginal wells – producing less than 15 barrels per day. Yet, these wells produce 75 percent of the amount of crude oil that is imported from Venezuela. Marginal wells are unique to the United States; other countries shut down these small operations. Once shut down, they will never be opened again – it is too costly. Even keeping them operating is expensive – they must be periodically reworked, their produced water (around 9 of every 10 barrels



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- produced) must be disposed properly, the electricity costs to run their pumps must be paid.
- **Years of failure to act cannot be overcome in a few months.** Congress needs to recognize that today's problems are a result of past inaction on energy policy, past failures to recognize the constraints on American energy development. Meeting future energy challenges requires positive actions now – not burdensome new taxes.

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