Statement of Senator Chuck Grassley
Release of Chairman's mark on Finance Committee Energy Tax Incentives Legislation
Tuesday, June 19, 2007

Today, Chairman Baucus puts before the committee his chairman's mark for the Finance Committee to consider on energy tax incentives. I'm pleased to be joining my friend from Montana in this bipartisan exercise. It follows the pattern over the last six years. Each piece of Finance Committee energy legislation has been bipartisan whether he or I have been chairman. The Finance Committee has a long history of energy tax policy. For many years, the committee took the lead, for instance, under Chairmen Russell Long or Lloyd Bentsen in developing tax incentives for production of conventional oil and gas production. As always, there were differences among members about the degree to which oil and gas production ought to be incentivized.

Over time, the Finance Committee took into account alternative energy production, especially with respect to alternative fuels like ethanol and green energy production like wind energy. I'm pleased to say that my pioneering role in those efforts has seen those green energy sources become more important players on the national energy scene. Still, until recent years, the mix of energy incentives tended to be dominated by oil and gas production. During the last six years, we produced a balanced mix of incentives that tended to be roughly equal thirds between fossil fuels, alternative energy, and conservation.

Today, we shift even further toward alternative energy and conservation. We have not abandoned fossil fuels. Rather, we've focused on tax incentives for developing new technology for America's most abundant fossil fuel, coal. The reason you will not find incentives for oil and gas production is that, as everyone who drives a car knows, the market price of oil and gas has shifted dramatically upward. For many reasons on the demand and supply side, that shift appears to have established a permanently higher global price for oil and gas. In this new market, it is clear the tax code should not be providing general subsidies for the production of oil and gas.

This shift in market prices should not affect targeted subsidies for particular oil and gas problems, like the shortage of refining capacity. For this reason, the chairman's mark leaves in place the targeted refining capacity incentives of recent legislation. The chairman's mark also leaves in place several billion in tax incentives for oil and gas production for domestic independent producers. These incentives include percentage depletion, intangible drilling costs, and their treatment under the alternative minimum tax. The chairman's mark continues and enhances incentives for alternative energy and conservation. This is not a shotgun approach. After many hearings and roundtable discussions, the chairman's mark directs tax incentives toward provisions that have proven to be the most effective.

Just as the chairman's mark does not provide new incentives for oil and gas production for multinational oil companies, so too does this sector of the energy industry provide the offsets. There are four offsets in the chairman' mark. The first is a repeal of the manufacturing deduction for the major oil and gas companies' domestic manufacturing activities. The manufacturing deduction was the cornerstone of the FSC-ETI replacement legislation of 2004. No one should see this repeal with respect to major oil and gas companies as a signal that Chairman Baucus and I are re-thinking that very important domestic manufacturing incentive. Quite the contrary. More than ever, American manufacturing needs this tax relief. It should be noted that domestic oil and gas activities have declined since the deduction went into effect. As with other oil and gas incentives, the manufacturing deduction has been left intact for smaller independent domestic producers.

The second revenue raiser is a revision to the foreign tax credit rules as they apply to oil and gas activities. This proposal leaves intact the foreign tax credit so that U.S. companies are not subject to double tax on their foreign oil and gas income. By treating oil and gas exploration and production income the same way as downstream manufacturing income, the foreign tax credit rules are simplified and rationalized.

The third revenue raiser is a package of anti-fuel excise tax fraud proposals. This package of proposals continues the Finance Committee's efforts to reduce the tax gap in the fuel excise tax area. The fourth revenue raiser extends the excise tax on oil which is dedicated to the oil spill trust fund. This trust fund is used to cleanup oil spills.

I expect some friends of the multinational oil and gas companies will level some criticisms at the offsets in the chairman's mark. One charge might be that, once in effect, these corporate income tax changes will be passed along to the consumer in higher prices at the pump. The Joint Committee on Taxation indicates that this charge is not well-founded. The pump price is determined by a complex set of global demand and supply factors, not an isolated corporate tax change. Still another charge from the friends of the multinational oil companies might be that domestic oil and supply might decline because of these tax changes. As mentioned earlier, domestic production has declined as the global price, a much bigger factor than these repealed tax incentives, has rocketed upward. While I am uncomfortable with any cutbacks on the manufacturing deduction, this narrow change, seems likely to have little, if any effect, on domestic production. To sum up, we have entered a new era in energy markets. This new era requires a dramatic shift away from tax incentives for oil and gas production that are enjoyed by multinational corporations. By the same token, we must re-double our efforts to incentivize the production of alternative energy and conservation. The chairman's mark aligns our energy tax incentives with the market realities.