



How to avoid a windfall profits tax

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Topic: [Policy/Politics](#)

Last week, I [wrote about the Senate response to high oil prices](#): there seemed to be a lot of grandstanding, and assuring the consumers that the Big Bad Oil Companies would be paying. It very well may come to nothing, but one senatorial reaction was that of Byron Dorgan (D-ND), who hopes to propose a windfall profits tax on the oil companies that will kick in whenever gas rises above \$40/barrel. (According to [this article](#), he may be introducing that legislation today.) The Houston Chronicle has an [updated article](#) on various Senate responses to high oil prices.

Well, it seems that France is in a very similar—and perhaps more advanced—situation.

[MSN Money](#) reports that French finance minister Thierry Breton has proposed a windfall tax on oil profits and that Total, France's largest oil company, is taking his pronouncement very seriously (especially because Breton has said that this tax could close up France's deficit).

So how has Total fought back? By spending more on oil exploration, drilling and refining. The company will boost capital spending by \$1 billion next year, according to Total CEO Thierry Desmarest. See, the company is saying, we're plowing those profits back into finding and refining more oil. Tax those profits and there will be less oil in the future.

It turns out that under Dorgan's proposed tax, which would tax 50% of the oil companies' profits when oil is above \$40/barrel, companies would be exempt from the tax if that money was invested to build new oil exploration or refining infrastructure. Of course, [Motley Fool](#) probably rightly predicts that this legislation is DOA.

Still, we've debated plenty of ideas here that aren't likely to see the light of day (like a gasoline tax). Are there any merits to a windfall profits tax with an exploration exemption clause? Are the French government and oil companies really likely to take the idea more seriously than we will?

Before assessing this, make sure you read [J's response](#) to our previous post on exploration.

I leave you with a [thought-provoking \(and somewhat long\) piece](#) by the Center for American Progress which does advocate a windfall profits tax, among many other ideas.

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