Exxon Mobil Says No to Subsidies

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Blogger Conference Call: ExxonMobil Discusses Energy Taxes

I asked several questions, which I will get into below, but first I want to make my position on subsidies clear. My position is not that I am anti-subsidy. I think there are times that subsidies may be warranted. For example, I don't want to see the U.S. lose our ability to produce our own food because we can't compete with cheap imports. Thus, I favor policies that help keep farming and rural communities intact. If it required subsidies in order to accomplish that, this is more along the lines of the kind of subsidy I could support. (It obviously depends on the particulars, what the subsidy is actually achieving, and whether there are negative consequences as a result). But, I don't think taxpayers should subsidize the oil industry. I would imagine that is the same way most people feel. I don't think we should subsidize consumption of any depleting resource. To the contrary, we should promote policies that discourage excess consumption to slow down the depletion of the resource.

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But some of the tax deductions that are being characterized as subsidies are only being done so with respect to the oil industry. For instance, businesses are allowed to deduct the salaries of their employees when they are figuring taxes. Would people normally consider such a tax deduction a subsidy? What if the government decided to deny this "subsidy" to the oil industry and nobody else? That is the nature of some of the "subsidies" we are talking about here. That isn't to say that there aren't some legitimate subsidies that the oil industry receives, but some of the things being called subsidies for the oil industry aren't called subsidies when another industry receives the same treatment.

This was part of what was discussed on the call. Internal Revenue Code Section 199 gives a tax break to a wide range of businesses operating in the U.S. Despite the credit being broadly available to main industries, Section 199 is often called a "Big Oil subsidy." Over the past few years, the energy industry has been singled out for disqualification from receiving the tax break. Perhaps "energy industry" is too broad, because ethanol companies, for example, would continue to receive the tax break. (Have you ever heard anyone list Section 199 as an ethanol subsidy?) Coal companies would also be allowed to keep the tax break, while natural gas companies would not. Most recently Senator Bill Nelson had put forth an amendment to Section 199 that would rescind the deduction for the oil industry, but the amendment did not get enough votes.

Another tax issue discussed on the call was that of double-taxation of foreign earnings. Currently, oil companies that earn money overseas have those earnings taxed by the host governments. Various proposals have been floated to eliminate a foreign tax credit, which would mean that the earnings would be taxed by the foreign government and then again by the U.S. government. So, as an example let's say ConocoPhillips earns money from their operations in the North Sea (where I previously worked), they would pay taxes to the UK government, and then pay taxes again to the U.S. government without receiving a tax credit for taxes they had already paid on the income. BP, across the street, only has to pay for taxes on their earnings to the UK government, thus putting U.S. companies operating overseas at a competitive disadvantage. That is also something that I don't think we should do — pass policies that put our domestic industries at a competitive disadvantage to foreign competitors.

After an opening statement in which some of these issues were described, the floor was opened to questions. I asked several questions, such as whether the administration understood the possible implications or whether they simply disagreed with them, and the estimated impact on jobs. Eventually the topic turned to ethanol, and then to the subject of the Volumetric Ethanol Excise Tax Credit (VEETC) — the $0.45 per gallon tax credit gasoline blenders get for putting ethanol into gasoline.

Since the gasoline blender receives this credit, it has often been painted as an oil company subsidy, or some have claimed that it benefits the oil industry by helping them pay for ethanol blending equipment. In fact, the ethanol industry has painted it as an oil company subsidy. Vinod Khosla, in his Google TechTalk Biofuels: Think Outside The Barrel characterized it as an oil company subsidy:

> **Vinod Khosla:** Ethanol has a subsidy, but the farmer doesn't get any of that. What I heard, is that well past midnight when this was being debated in the conference committee, the oil companies inserted 2 words into the language, calling this subsidy a blender's credit. So the person who is blending it with gasoline gets it. All $2 billion of it last year was collected by the oil companies. Like they needed more money. It's unfortunate, but that's the way the system works. I talked to one of the senator's aides who was in the conference room, and he said they got to 1 a.m., and were still negotiating, and oil guys were willing to stay there.

So, I was interested to hear ExxonMobil's take on this subsidy, given that they actually collect the money. Here is the exchange:

> **43:17 MR. RAPIER:** I've written quite a bit about that actually, the redundant nature of the blenders' credit with the mandate. But I'm curious as to your view on that. The industry often paints that as an oil industry subsidy since the oil industry or the gasoline blender receives the blender's credit.
>
> What is your position then on the expiration of the credit at the end of the year? You know it's scheduled to expire. Do you object to that expiring? Would you be happy to see that expire? What's your view?
>
> **43:49 MR. SPELLINGS:**I think we would be content for it to expire. We do not see ourselves as the beneficiary of that subsidy. We think in the marketplace today, that

subsidy probably flows through to the consumer. We do not see how it's a subsidy that benefits us or a subsidy that benefits ethanol refiners or farmers that produce the corn, although some folks continue to think that this is a subsidy that benefits either ethanol producers or corn producers.

We have a hard time seeing how in a world where you have a mandate, that the subsidy ends up flowing through to those folks.

44:39 MR. RAPIER: I agree with that.

44:41 MR. SPELLINGS: It sounds like you've reached the same conclusion.

44:43 MR. RAPIER: Yeah, I've been writing about that since they put the mandate in place. It's completely redundant. So the headline here is "ExxonMobil Ready to Give Up Subsidies." They will allow the blender's credit to expire without protesting it.

44:59 MR. COHEN: As long as it's uniform and applies across the board and doesn't create the distortion of only being eliminated for a few large blenders. There's enough distortion in the market. This is Ken speaking. As long as it's a rational, across the board, industry-wide –

45:20 MR. SPELLINGS: And the one thing – this is Jaime. The one thing I'd want to add is I'd want to make sure the headline did not characterize this as our subsidy because in a pre-mandate world, I would have seen this as a subsidy that flowed through to corn producers or ethanol producers.

In a post-mandate world, I would say it flowed – probably flows through to consumers. But in neither one of those worlds was it a subsidy that actually benefited the oil and gas refiners who were buying the ethanol to blend into gasoline.

So there you have it. This subsidy which has been sometimes portrayed as an oil industry subsidy — and which the oil industry does indeed collect — is one that they would be happy to give up provided it is eliminated across the industry. So the next time you hear someone call the blender's credit an oil industry subsidy, just point out that this is one that will be easy to eliminate.