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The facts of Carter's windfall profits tax

A deliberate game of making profits and not producing oil

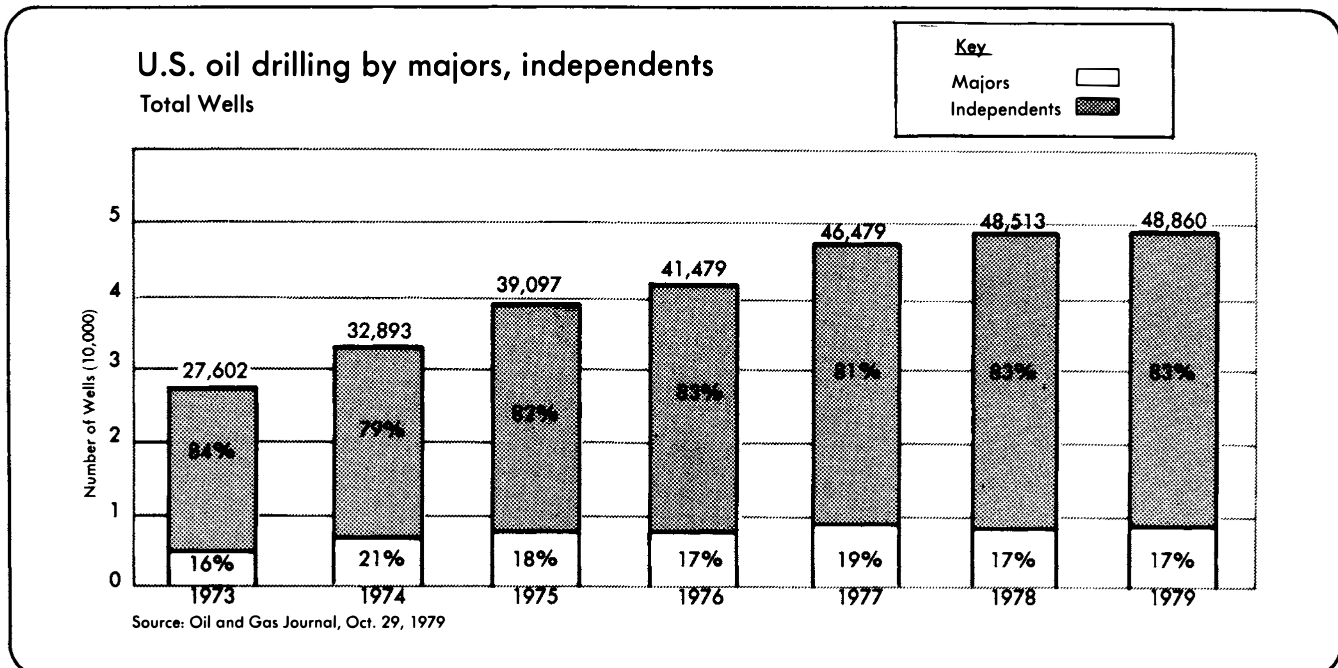
U.S. Senate Finance Committee passage of a version of President Carter's two-part crude oil decontrol/"windfall profits" tax package marks one of the more significant economic developments to hit the energy industry since the National Environmental Protection Act was passed in 1969. It is, however, poorly understood and even misunderstood by those most immediately affected—the domestic oil producers.

The bill, referred to as the Crude Oil Tax Bill (H.R. 3919), must now be taken up by the full Senate and then submitted to a joint House-Senate conference committee to reconcile the far stronger House version with the slightly watered-down Senate Finance Committee version. But passage of the largest single tax revenue bill ever is certain before the Christmas recess.

The press has created a climate of hysteria and confusion over the oil multis' "windfall profits"—fed by sensational accounts of the Seven Sisters' third quarter profits. In the case of Texaco, they were up by as much as 211 percent. Hysteria has never proved a good lesislator. So here we examine some of the hidden aspects of the actual strategy being promoted by the architects of the so-called Windfall Profits Tax.

First the revenues from the tax, estimated for the first decade to 1990, are staggering. The smaller Senate Finance version calculates $138 billion, while the House-Administration version estimates revenues of $273 billion. Critics correctly point out that it is not a "profit tax," but an excise tax without regard for a producer's overall profit or loss.

Carter shrewdly tied the tax package to the carrot of a June 1979 Executive Order for phased decontrol of the price of domestic crude. We must decontrol domestic crude prices in order to encourage more domestic production, ran Carter's argument last summer, while gas lines got longer and longer. This way we can end



Source: Oil and Gas Journal, Oct. 29, 1979

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our dependence on OPEC. The oil industry took the bait.

But then under the rationale that we cannot let the oil companies reap excessive profits by this decontrol, Carter proposed to impose a wellhead tax of at least 60 percent of the price of decontrolled crude oil. The accepted industry standard for crude is also higher in Carter's tax legislation, thus making otherwise exempt grades of oil subject to the tax. The revenues from the Crude Oil Tax Bill are earmarked for rebates to welfare recipients, funds for mass transit, rebates for home insulation, and research and development of such environmentalist energy "alternatives" as solar, geothermal and gasohol.

Thus, the tax amounts to one of the most massive income transfer payments in legislative history, channeling funds away from investment in productive capital and toward service and nonproductive sectors.

The result, as *Executive Intelligence Review* has documented before, is a feeding of inflation at a time when the nation's total energy bill is being pushed to double-digit levels.

The Carter package does not aim to guarantee adequate petroleum supplies for the future even though ample but as yet undeveloped supplies exist. The policy is James Schlesinger's, although he no longer heads the Department of Energy. With the complicity of the oil multinationals Schlesinger moved on a policy of choking off energy production while forcing industrial recession through higher basic energy costs. Carter, in a press conference following his Camp David energy emergency address, made this policy explicit: the proposed exemptions to his windfall profits tax would provide a "grant of $54 billion to the oil companies ... and they'll be able to spend these new revenues which they have not earned in order to increase production of oil and gas in our country." In English, oil and gas production during this supposed energy crisis is not the intention of the Carter policy.

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Louisiana Gov. Edwin Edwards granted an interview to Executive Intelligence Review *Energy Editor William Engdahl during the national convention of the Independent Petroleum Association of America (IPAA). The Governor delivered the keynote to the Oct. 28 meet. The following is a selection from the interview.*

This country must abolish the Department of Energy. We must leave existing energy production to those who know best how to do it. We must reconstitute the Department of Energy to be a department of Energy Research and Development for development of new energy technologies. This must include research on fission, fusion, and fast breeder and other renewable resources. ... We must perfect a long-term oil and gas agreement with Mexico, complete a pipeline to deliver North Slope natural gas; a California-Texas gas pipeline and develop two more superports on the Atlantic Seaboard. ... Our problem is an uninformed public fed by the consuming Northeast and the national news media. ...

How the policy will work

This strategy is a continuation of a series of legislative actions undertaken over the last 10 years that have in fact discouraged and will rapidly eliminate production of economical crude oil in the U.S. at the same time that administration policies abroad are bringing about an almost certain disruption of oil supplies from the Organization of Petroleum Exporting Countries.

Beginning in 1969 with the reduction of the depletion allowance for oil and gas production, there were enacted restrictions on refinery construction, offshore drilling and pipeline construction under the provisions of the National Environmental Policy Act of 1970. Next was a little noticed provision in the 1975 Emergency Energy Production Act to phase out the oil depletion allowances all together by 1983. Then, in 1976, Congress retroactively taxed cash expenditures by producers for drilling costs. And in 1977, the Interior Department under Secretary Andrus, retroactively doubled rent fees on federal oil leases.

It is a little known fact that traditionally the exploration and development of domestic petroleum resources have not been undertaken by the major multinational producers such as Exxon, Shell and Mobil. The real risk-takers in domestic industry are generally the small to medium-size producers, commonly called "independent producers," distinguishing them from the Seven Sisters such as Exxon. There are currently 12,000 such independent operators in the country, often small

family-held partnerships. In 1960, before the wave of legislative restraints, the U.S. had 20,000 independent producers. Annually these independents drill a minimum 80 percent of the nation's oil wells and 90 percent of its wildcat wells. Independents find more than half of this nation's new oil and gas reserves.

In the post-1974 period, legislaton has systematically reduced inexpensive oil production domestically. One qualified study estimates that in this country alone, there is fully again as much petroleum economically recoverable as has been lifted in the 120 years since the first commercial well in Titusville, Penna.

A spokesman for the refinery industry recently stated that the past years' governmental restrictions have accomplished "what Standard Oil has tried to accomplish for almost 80 years," namely to create a monopoly on the production and refining of crude oil in the United States. If the multinationals at this point can control the rate of production of world crude oil and refining capacity and force higher and higher prices for less and less oil, their corporate profit picture will turn sharply upward. It is a strategy that the Seven Sisters formed in London in the 1920s: to create a market monopoly based on price not production. The corporate profile of the U.S.-based majors since the 1974 "Oil Embargo" has shifted toward this "downstream" marketing and pricing game at the expense of production. In this respect, the majors actually have been quite silent in opposing the oil windfall profits tax. Why? Because they have bought the London strategy of price-not-production of energy.

One prominent Louisiana independent has characterized the majors this way: "Geologists built the major oil companies and built them on the basis of production. Engineers and accountants now run those companies; and they are not risk oriented." What he is unaware of is the deliberateness of this policy.

—*William Engdahl*

Exploration hot spots: where the independents are looking for oil

Source: *Oil and Gas Journal*, Oct. 29, 1979.

"If our nation returns to the principles of the American System as laid down by Hamilton, our nation will rise from inflation and recession to resume the course which made us a great world power in former times. A depression is unnecessary."

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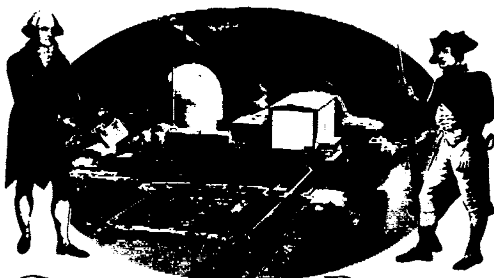
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