Energy Insider by William Engdahl

Production incentive or tax windfall?

Some little-publicized aspects of the President's recent oil-decontrol decision bear attention.

The Reagan administration's decision to order, effective immediately, the elimination of remaining federal controls on U.S. oil production and marketing has generated intense heat, but so far with little light. The actual facts behind the decision bear attention.

In April 1979, in the midst of growing gasoline lines, the Carter administration, by executive order, called for the gradual phaseout of price controls on domestically produced crude oil (roughly 50 percent of total U.S. consumption), to be totally removed by Sept. 30, 1981. At that time discretionary control authority expires under the Emergency Petroleum Allocation Act of 1973 and the subsequent Energy Policy and Conservation Act of 1975. The controls were initially imposed during the Nixon 1971 wage-price freeze. They have remained in effect on crude oil prices and product profit margins.

What the President did by executive order on Jan. 28, would otherwise have come to pass automatically by Oct. 1, 1981.

Immediately, howls of protest were issued by such consumer advocates as the pro-environmentalist New Jersey Energy Commissioner, Joel Jacobson, who cried that the policy will "soak the consumer and enrich the oil companies."

I did some work on the actual impact of the crude-oil decontrol decision. The results are a little different from general press accounts. First, recall that this is only for crude oil and product, not for natural gas, which still is slated for phased decontrol by 1985 under a different law for major categories (see *EIR*, Jan. 20).

C. John Miller, president of the nation's largest association of independent oil producers, the Independent Petroleum Association of America (IPAA), pointed out that the federal government, not the "greedy oil companies" will be the "principal financial beneficiary" of the decontrol decision. How so? Remember that Windfall Profits Tax on crude oil that Carter passed last March? As long as a certain portion of domestic crude remained below about $13 dollars per barrel, it was not subject to the severe tax. Now it is.

The IPAA estimates that between now and October, decontrol will send some $13 billion of tax revenue to the federal and state governments, or 90 percent of the rise in price. Only some 10 percent will make its way back into the cash flow of oil producers, hardly the windfall being talked of.

Bud Stewart, president of the Energy Consumers and Producers Association, a 1,200 member association of primarily independent producers, expressed his concern that decontrol now "might jeopardize future amendment or alteration of the Windfall Profits Tax" by deluding the public that the industry has just gotten a major windfall. The Windfall Tax was primarily designed to leech some $277 billion out of domestic production by Carter strategists who aimed to ensure that the April 1979 phased decontrol only resulted in higher energy prices, not increased production.

To his credit, Reagan's policy echoes his campaign pledge to emphasize increased production rather than decreased consumption as the cornerstone of national energy policy. The President stated that "for more than nine years, restrictive price controls have held U.S. oil production below its potential."

Already, since the beginning of gradual decontrol, domestic drilling activity has grown out of the industry depression of the last two and a half decades back up to levels of the mid-1950s. This is hardly sufficient to develop large new basins such as the Rocky Mountain Overthrust Belt and the promising Appalachian Overthurst. But it is a step in the right direction.

Immediate decontrol, however, will not substantially increase this rate of exploratory drilling. Because only 15 percent of the crude oil processed by U.S. refineries is still subject to price controls, equal to about 25 percent of the crude produced in the United States, its impact at the consumer level will most likely be less than feared.

The point is that "decontrol," like "free market," is one of those loaded political buzz words which can mean very different things in each specific situation. If the rush to decontrol now is merely a convenient political cover to pull further capital out of the industrial energy economy to repair Carter's budgetary hemorrhage, the nation and the energy industry could be the loser. We will watch this closely.