Energy Security, Energy Taxes, and KXL

Affordable and abundant energy is the linchpin of both a strong national and Nebraska economy. Time and again, the free market has proven to be the solution for satisfying America's growing energy needs, both for renewables and for oil and natural gas. Now, thanks to innovations in directional drilling, hydraulic fracturing and software used to analyze "tight" oil and gas in shale deposits, the United States stands at the brink of revolutionary changes that will drive down the costs and vastly increase energy security for decades to come. Bill Gates recently noted: "The one thing that is different today [in energy] is software, which changes the game."[1] The U.S. Energy Information Administration is estimating that U.S. energy production will outpace consumption and that the nation could be a net exporter of natural gas by early 2020s.[2]

Despite this promise, which will greatly benefit the U.S. economy, members of Congress along with the Obama administration have pursued an unbalanced energy policy. In 2009, the Obama Administration tried and failed to pass unpopular cap-and-trade legislation. Now, many of the provisions of cap-and-trade are under consideration for implementation by executive order or agency directive.[3] The policy objective is to drive up the cost of oil and gas through increased taxes and other measures and favor green energy projects- projects that too often have been characterized by fraud and waste.[4]

The continued delays in approving the Keystone XL pipeline, which has been rerouted and approved by the State of Nebraska and Governor Heineman, is just one example of agenda driven policy implications for American energy security. This proposed pipeline would generate more than $585 million in new revenue for states and communities along the pipeline route.[5] Keystone XL would also generate $60 million in local property tax revenue in Nebraska by 2016.

The White House and various members of Congress are also pushing for higher taxes on U.S. energy producers by claiming the goal of "ending subsidies." Obama has called for an end to "tax giveaways" and "oil subsidies that keep us trapped in the past" and has proposed $41 billion in new taxes for American oil and gas companies.[7]

A subsidy, intended to prevent industry decline, is a direct cash payment from the government to a business. The White House has intentionally clouded the meaning of "subsidies" in its pursuit of higher energy taxes. In many cases, the issue is actually tax deductions, many of which are widely available to American manufacturers in other sections. Tax deductions are intended to lessen disparities in a flawed tax system and to spur international economic competitiveness.

The oil and gas industry receives the same tax treatment that every other manufacturing or extractive industry receives in the federal tax code. There is nothing uncommon about the tax provisions that are being debated right now. A great example of the mischaracterization of this issue is the Manufacturer's Tax Deduction, commonly referred to as Section 199. Section 199 was enacted in 2004 by Congress to encourage manufacturers to bring overseas jobs back to the United States, and is in no way specific to the oil and gas industry. In fact, the ability of the oil & gas industry to utilize Section 199 has already been singled out when Congress, in 2008, reduced the industry's deduction to two-thirds of what other manufacturing industries may deduct.[8]

Increasing taxes on the oil and gas industry would trigger significant negative consequences for the U.S. and Nebraska economies.

According to a July 2011 study by Joseph R. Mason, an economist at Louisiana State University, the repeal of just two tax provisions that the Obama administration wants to selectively deny energy companies will result in lower investment, job losses and reduced tax revenue.[9]

Mason estimated that the United States could "suffer approximately $341 billion in lost output over the 2011-2020 period." Associated employment losses would be approximately 155,000 jobs in 2011 and 115,000 for each year thereafter until 2020 and workers could suffer approximately $68 billion in lost wages from 2011 to 2020. Mason also estimated that, "as a consequence of the decrease in economic activity state and local governments could lose $18 billion in tax revenue while the Federal government could lose $65 billion in tax revenue over the relevant time period."

For Nebraska's rural population and agriculture sector, the impact of rising energy costs associated with higher taxes would hit workers, farmers, and commuters especially hard. In fact, if Congress engineers the tax code to penalize the oil and gas sector, it will have a profoundly negative impact on Nebraska's rural economy. The costs for ag inputs have increased in recent years because of higher prices tags for energy input, a factor also reflected in transportation and raw material costs. Any increase in energy-related production cost lowers agricultural output, raises the price of products, and reduces farm income.[10] The run up in the production of agricultural commodities also has a direct effect on food prices.

A Consumer Federation of America study showed that rural households drive 15 percent more miles and spend 20 percent more on gas than their counterparts in metropolitan areas.[11] Rising diesel fuel prices have already pinched budgets for farmers and rural residents. Although it's too soon to tell for certain, some analysts are openly speculating that the shale gas boom could lead to a mass conversion of farm vehicles to natural gas.[12]

The federal tax code should not pick winners and losers. The effort to single out and penalize the oil and gas industry is an improper policy approach, and would have negative economic consequences. Global energy demand is expected to rise 35 percent by 2035- natural gas demand alone is expected to rise 50 percent over the same period- now is not the time to raise energy taxes.[13] This would stall the energy boom in its tracks, and have devastating consequences for Nebraska's resurgent agriculture sector and manufacturing industries.

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