

Dethroning "Big Oil"™ to crown big corn

by Andrew Moylan

It pays to be friendly with the majority party in Congress. The proof is in the new energy bill that just passed the House during the Democrats'™ 100-hour agenda. The CLEAN Energy Act of 2007, a contrived political acronym for "Creating Long-Term Energy Alternatives for the Nation," has been portrayed as ending preferences for so-called Big Oil - a familiar victim on the left-wing's whipping post. In truth, what the bill does is raise taxes to subsidize a lesser-known but growing conglomerate: Big Corn.

The first main component of the bill raises taxes and fees paid to the federal government by oil and gas companies. It does so by eliminating tax deductions instituted by Congress to spur domestic exploration activities and by raising royalties paid for oil exploration in offshore areas under federal control. The net effect of these policies is, of course, a \$14 billion tax increase on oil companies.

If Democrats want a reduction in our dependence on foreign oil, tax increases are not the way to go. History tells us that vengeful tax hikes on the oil industry serve no economic purpose. In 1980, Congress instituted a windfall profits tax to punish the energy industry. The result, according to a Congressional Research Service study, was a drop in domestic oil production of 3 to 6 percent and an increase in oil imports of 8 to 16 percent. According to the Tax Foundation, the average effective tax rate on major oil and gas companies is roughly 38.3 percent, as opposed to a rate of 32.3 percent for the market as a whole. This is hardly the profile of an industry failing to pay its "fair share."

A second provision establishes the "Strategic Energy Efficiency and Renewables Reserve." What that means in English is that the \$14 billion in additional taxes on the oil industry will be dumped into a slush fund from which Congress can subsidize what are defined as "clean domestic renewable energy resources." This fund would exist above and beyond the normal budget, which already includes significant spending on politicians'™ favorites like ethanol and "clean coal" technology.

Democrats would have you believe that they are breaking the link between special interests and energy policy. If Pelosi, Reid, and company really wanted to do so, they'™d hold their legislation up to a mirror and acknowledge that it looks no better than the energy bill that the GOP ushered to passage in 2005.

Furthermore, the federal government has a dismal record of subsidizing successful alternative energy programs. Simply stated, Congressmen are all thumbs in trying to point out emerging technologies, because they distribute funding based on political concerns rather than sound science.

The Carter years brought us the \$2 billion boondoggle called the "Synfuels" program, which sought (and failed miserably) to produce alternatives to petroleum. The Clinton Administration hatched the \$1.1 billion Partnership for a New Generation of Vehicles whose main focus, diesel technology, has since fallen out of favor as an inherently dirtier fuel. The technology that we use today to improve mileage and lower emissions (hybrid drive trains, cylinder shutdown, etc.) is more often the result of private companies in search of profits, not government agencies in search of PR plaudits.

A recent federal favorite is corn-based ethanol, which is subsidized by taxpayers at roughly \$2 billion per year (not counting tariffs and government-usage mandates that prop up an artificial market for the commodity). Despite acknowledgement that ethanol from this source won't fuel energy independence, it enjoys heavy government support because of powerful Midwestern Congressmen who do the bidding of farmers in their districts.

The Democrats have passed a bill that may lead to greater dependence on foreign oil and higher costs at the pump. A sound energy policy means keeping taxes low, eliminating government meddling, and allowing the market to determine which technologies merit significant investment. President Bush and Members of Congress ought to know that bureaucracies and energy policy mix like ... well, oil and water.

About the Author

Moylan is Government Affairs Manager for the 350,000-member National Taxpayers Union (www.ntu.org), a non-partisan citizen group founded in 1969 to work for lower taxes and smaller government at all levels.

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