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HOUSE SPECIAL COMMITTEE ON OIL AND GAS

HJR 66

HJR 66 proposes to implement a national crude oil import fee. The premise of this resolution, which is embodied in similar proposals before Congress, is that the federal deficit will be lowered and the economies of oil-producing states will be enhanced by artificially raising the price of oil through imposition of an import fee.

Although using this approach to raise oil prices is appealing, the import fee is fraught with problems. In light of HJR 66 being directed toward the President, leading members of Congress, and Alaska's congressional delegation, this resolution should be reviewed in terms of both national policy and the United States' economic ties with other nations.

An import fee is opposed by several major oil producing companies, including Exxon, Mobil and Chevron, as well as by the American Petroleum Institute and the Independent Petroleum Association of America.

Oil industry opposition is largely based on the fact that most major oil companies import much of their product. Vertically integrated corporations, by paying a higher price for imported oil, will also be placed in the position of having to charge more for refined products. Consequently, these companies will incur greater market competition from foreign refiners.

The oil industry also views the import fee as a tax which, by propping up oil prices, will also result in increased windfall profit and corporate income taxes. An import fee, by raising the cost of feedstock, would also result in a direct increase in consumer energy costs. This last factor has led to regional diviseveness on the import tax issue between the eastern and western states.

Exxon has stated that "These additional fees, which are in effect taxes, would increase consumer prices, increase inflation and reduce real gross national product. In addition, they would distort competition among fuels, place energy-intensive U.S. manufacturing industries at a competitive disadvantage against foreign competition and fall inequitably on different regions of the country."

Hardest hit among U.S. industries would be steel, aluminum and petrochemicals, since these major industries would be forced to compete on foreign markets with the disadvantage of paying significantly higher prices for oil. Higher prices for products of U.S. manufacture would likely result in an increase in our foreign trade deficit, since the added cost of the import fee would make the cost of these products less competitive.

An import fee would also hurt major oil exporters to the U.S., such as Mexico, which are already having great difficulty in repaying loans to U.S. banks. Canada and Venezuela would also suffer economically because of their high volume of oil exports to the U.S.

Other problems with the import fee are its uncertain revenue producing capabilities, its effect on raising inflation, its negating of the gains realized by the recent fall in the value of the U.S. dollar, and its means of finding additional revenues to offset President Reagan's proposed tax cuts.

In terms of reducing the federal deficit, the possibility arises that the national economy, spurred on by lower oil prices, will generate more deficit-reduction dollars than would be realized through the import fee. In this sense, the slowing of national economic growth through imposition of the import fee might work against attempts to lower the deficit.

Lower oil prices have also resulted in lower consumer prices and lower rates of inflation. It is difficult to understand how increasing consumer costs, thus lowering national savings rates, and increasing inflation will help to lower the deficit. The improvement in foreign markets for U.S. products, enhanced by devaluation of the U.S. dollar, would also be lost through imposition of an import fee. At the same time, import fees that are tied directly to the price per barrel of oil would generate highly fluctuating revenues dependent on the number of barrels imported into the U.S.

Another difficulty is the possibility that the imposition of an import fee might take effect or be in effect at a time when oil prices are higher than they are at this time. Higher oil prices would warrant the lifting of the fee, though both consumers and industry would argue that imposing the fee and then removing it would remove stability in the marketplace.

An Energy Tax Boost Is Appealing to Congress As Oil Prices Decline, but the Issue Is Divisive

By JEFFREY H. BIRNBAUM
And DAVID ROGERS
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—There's no such thing as a perfect tax.

That's what more and more lawmakers are realizing about energy taxes. As oil prices have fallen, Congress has focused on energy taxes as a relatively painless way to raise revenue to help address two of its most pressing legislative problems: deficit reduction and tax overhaul.

But legislators are finding that none of the energy levies under discussion, such as an oil-import fee and an increase in the federal gasoline tax, are easy or painless. Energy taxes are divisive. They pit lawmakers from one part of the country against those from another, and they set industries to fighting. They also are believed to fall most heavily on taxpayers who are least able to pay. And they could alienate some allies of tax overhaul.

Indeed, the whole question of whether to raise revenue is still in dispute. "It's a very, very tricky issue," says Joseph Minarik, a tax expert at the Urban Institute, a nonprofit Washington think tank. "It will be very hard politically to come to any sort of agreement."

Door Is Opened

An intense debate about energy taxes looms. President Reagan has opened the door for the Senate Finance Committee to include either an oil-import fee or an increase in the federal gasoline tax in its tax-overhaul bill. His only stipulation: The extra funding can be used to keep the package from raising less revenue than current law, but not to increase revenues above current levels.

The tax-writing Finance Committee appears to be moving to take advantage of the president's offer. Demands by the president and panel members to lower tax rates and to retain or enhance tax preferences in the tax-overhaul bill will cost in excess of $100 billion over five years. The committee likely will need to look outside of the income tax to find that much money.

"No matter how you jimmy it and pry it, you just can't get there by moving the shells around," says Finance Chairman Bob Packwood (R., Ore.). He has said an oil-import fee or gasoline-tax increase could be part of his tax-revision bill.

Powerful Challenge

But Sen. Packwood and the president are being challenged by powerful colleagues, notably Senate Majority Leader Robert Dole (R., Kan.) and the chairman of the Senate Budget Committee, Pete Domenici (R., N.M.). These lawmakers, and what Sen. Dole estimates is a majority of the Senate, believe that any new revenue should be used to reduce federal budget deficits and not to pay for what many believe to be the luxury of lowering tax rates, the main attraction of tax overhaul.

Much of this deficit-comes-first talk is a thinly veiled effort to kill the tax-overhaul bill. Many senators, like Sen. Domenici, want to avoid the major tax increase for business that is an integral part of the tax-overhaul package. But, at least for now, a petition seeking to set aside tax revision in order to confront the deficit has been slowed. Senate Democrats are hesitating to sign it, hoping that Republicans will act themselves to sink their own president's top domestic initiative.

The oil-import fee, which commands the support of several of the most senior members of the Finance Committee, would appear to be the Senate's first choice. But beneath the surface lies a caldron of problems.

Chief among these is the regional warfare that an oil-import fee would ignite. Lawmakers from states that produce their own oil, primarily in the Southwest and the West, are eager for the tax. It would prop up the falling price of oil and help their already hurting home-state drillers. But lawmakers from places distant from oil fields, especially the Northeast, would feel only the pinch from higher oil prices, particularly in heating fuel. Sen. Claiborne Pell (D., R.I.), along with 12 colleagues, has introduced a resolution opposing the import fee.

This dispute would tend to make enemies of friends of tax overhaul, a controversial measure that needs as many friends as it can get. On the Finance Committee, for example, some of the strongest supporters of tax revision, such as Sen. John Chafee (R., R.I.) and Sen. George Mitchell (D., Maine), vehemently oppose an import fee. "It is reprehensible," Sen. Mitchell says. "It really represents a tax on the middle and lower-income levels to benefit those on the very top of the income scale."

There are other problems. An oil-import fee would offset some of the inflation-suppressing effect of falling oil prices and, perhaps, hinder economic growth as a result. The tax would hurt some U.S. allies, such as Mexico, Canada and Venezuela, which are major exporters of oil to the U.S. Even a staunch advocate like Sen. Lloyd Bentsen (D., Texas) says that the oil-import fee is an inconsistent source of revenue because, in its most likely version, its yield would fluctuate with the price of oil.

The oil industry itself is split. Most major oil companies dislike an import fee because they import much of their product. The petrochemical industry has the same objection. On the other hand, many, but not all, domestic drillers are clamoring for such a fee. A major association of drillers, the Independent Petroleum Association of America, opposes any sort of energy tax, partly because it fears that any energy-tax debate might open the door for a new tax on "windfall" profits.

The gasoline tax would cause the same regional bickering as the oil-import fee, but in reverse. Northeastern lawmakers, such as Sen. Lowell Weicker (R., Conn.), call the gasoline tax "more equitable" than the oil-import fee. But it is disdained in the Southwest and the West, where drivers must routinely cover long distances.

The gasoline tax also is highly visible, which is a liability, particularly when President Reagan has heightened taxpayers' resistance to tax increases. And to produce significant revenue, this tax would have to be raised substantially from its current nine-cent-a-gallon level.

To reduce the regressivity of energy taxes, some liberals want a rebate or an income-tax deduction to ease the impact on middle-income and lower-income families. Others would impose the broadest type of tax on energy to spread its impact among many groups. One version of this tax, the BTU—or British Thermal Unit—tax, would tax all energy products across the board. "Smaller is beautiful, and broader is better," says Rep. Philip Sharp (D., Ind.).

Some combination of taxes on domestic and imported oil also is being viewed as a possible compromise. But not for everyone. Sen. Chafee doesn't want any new revenue source as part of the tax-revision bill. Instead, he wants to pressure tax writers to produce "true tax reform," which pays for lower tax rates by curtailing tax preferences, and eschews new taxes.

Major Energy Tax Proposals

Revenue raised over five years
(In billions of dollars)

Proposal	Revenue
Oil import fee	
$4 a barrel	$42.4
$8 a barrel	$81.4
$8 with 50% windfall profits tax	$66.2
Gasoline tax	
Increase of 21 cents a gallon	$92.0
BTU tax	
6% tax on value of all energy products	$102.2

Source: Treasury Department

BUSINESS

Economists See Faults in Oil Import Fee

By John M. Berry and Anne Swardson
Washington Post Staff Writers

Imposition of an oil import fee—which is actively under consideration by some Reagan administration officials and members of the Senate Finance Committee—would reverse some or all of the economic growth and lower inflation and interest rates generated by the current decline in oil prices, many economists say.

These economists, who range from conservative to liberal, question whether it would be worth paying that price to boost federal revenue—particularly if the purpose of the fee is to replace the revenue lost from lowering personal income tax rates by a greater amount and increasing corporate taxes by a smaller amount than proposed in the House-passed tax revision bill pending before the committee.

Moreover, such a fee does not seem to be the first choice of many economists because it would raise business costs and make American products less competitive on world markets.

Many economists also see falling oil prices as a special boon this year when the inflationary impact of the declining value of the U.S. dollar on foreign exchange markets is expected to be felt. Some analysts fear that the Federal Reserve Board could decide to tighten credit conditions and slow economic growth if inflation begins to accelerate. The oil price decline is seen as reducing that possibility.

Perhaps surprisingly, most segments of the oil industry oppose such a fee. Not only are major companies such as Exxon Corp., Mobil Corp. and Chevron Corp. against it, but so is the Independent Petroleum Association of America, whose members are small drilling and producing companies. "... Taxes, tariffs, fees or quotas on imported crude oil or petroleum products would be counterproductive to the national interest at this time," a recent IPAA policy statement said.

A $5-a-barrel fee, the most commonly mentioned figure, would be equal to about 12 cents a gallon and raise about $8 billion a year if imports of crude oil and refined products remained at last year's levels.

Imports account for less than 30 percent of U.S. petroleum use. If their cost were raised by a fee, the price of domestically produced crude oil and natural gas liquids also would go up, and the U.S. oil industry's revenue would increase by about $20 billion.

A portion of that increase would be taxed away through the federal crude oil windfall profits tax as the price of oil rose, and through the corporate and personal income taxes as well. How much additional federal revenue those taxes might yield would depend on a number of things, including how higher oil prices affected the overall economy, economists say.

There also could be some increase in natural gas and coal prices—or at least less of a decline than otherwise would occur—if oil prices are propped up by an import fee.

Altogether, the direct increase in the cost of petroleum products, if passed through entirely to users, would approach $30 billion and be equal to about 0.7 percent of this year's gross national product, which is expected to be about $4.2 trillion.

It probably would take about two years for the higher prices to work their way through the economy, according to economists who have studied the situation.

At the moment, oil prices are falling while the import fee is still only a proposal, albeit apparently a serious possibility, according to Senate Finance Committee Chairman Bob Packwood (R-Ore.). That timing difference led economist Alan Greenspan of Townsend-Greenspan & C[o.] to caution the committee last week. "Ther[e] is somehow an assumption it is politicall[y] easy" to impose a fee, Greenspan sai[d]. "There is almost never a way to time such tax so that prices don't fall and then ris[e] again when it is put on."

Greenspan's point was that whatever re[s]training influence falling oil prices ma[y] have on various price indexes will have oc[]curred already by the time an import fe[e] could be imposed. Then, when the higher o[il] prices begin to show up in the indexes, th[e] additional inflation will be highly visible, b[e] predicted.

The Finance Committee is considerin[g] the fee for several reasons, including pro[]viding some price support for the saggin[g] domestic oil industry and for bankers wh[o] have risky loans to it. But the principal con[]cern is to find added revenue to offset othe[r]

See OIL TAX, F8, Col. 1

Oil Import Fee Questioned

OIL TAX, From F1

tax cuts that President Reagan and members of the committee want to make as part of the massive tax revision bill passed late last year by the House of Representatives.

Several committee members are backing legislation to enact a fee. Sen. Malcolm Wallop (R-Wyo.) wants a sliding fee to capture any decline in crude prices below $22 a barrel. Sen. David L. Boren (D-Okla.) is pushing a $5-a-barrel fee that would begin to phase out if the price rose above $25 a barrel and would disappear after the price reached $30 a barrel.

Both proposals include a higher fee on imported refined products to provide additional protection for U.S. refiners. Wallop would add $3 a barrel; Boren, $10 a barrel. Sen. Lloyd Bentsen (D-Tex.) is a cosponsor of both bills. Senate Majority Leader Robert J. Dole (R-Kan.) also favors an import fee, as does ranking committee Democrat Russell B. Long (D-La.).

All the sponsors are from oil-producing states. Committee members from other parts of the country generally oppose the idea. For example, Sen. George Mitchell (D-Maine) said, "It's an incredible windfall for the domestic oil producers. I don't see what benefit there is to the nation in that. And it would be extremely inflationary."

This split mirrors the different economic impact a fee would have in various regions. Areas such as New England that are heavy users of oil products would pay higher prices but get little of the benefits flowing to the domestic oil industry. Oil-producing areas in the Southwest also are heavy oil consumers, but they would share in the gains of the domestic producers.

Greenspan, a former chairman of the Council of Economic Advisers, noted that a fee on oil imports would raise the cost of chemical products made from oil, of which the United States is a substantial exporter. Higher oil prices could have a significant impact on many lower-cost products, he said.

Nevertheless, Greenspan believes that the fee ought to be looked at as a possible revenue source. "It is the least worst of the available political decisions," he declared. "Whether it's desirable is another question."

Another former CEA chairman, Murray L. Weidenbaum of Washington University, who also testified before the Finance Committee last week, said he would not impose an oil import fee because it would worsen the U.S. competitive position.

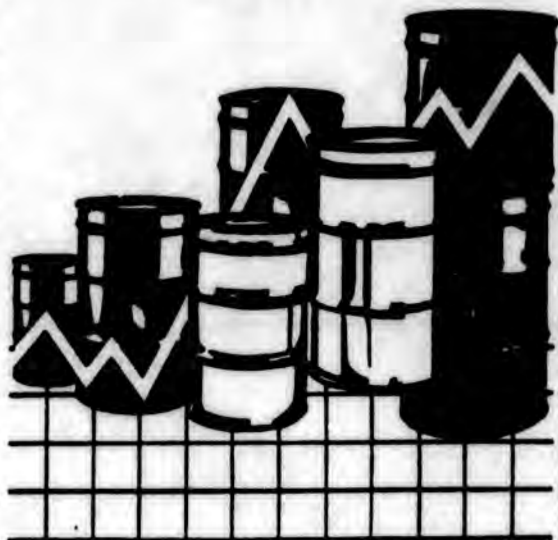
John Makin, a tax economist at the American Enterprise Institute, opposes the proposal. "I really think the energy tax is just a habit of thought," he said. "There was a lot of talk about it in the late 1970s. People have reports and studies, and they dust them off. I don't think that's a good way to go."

Charles L. Schultze of the Brookings Institution, Weidenbaum's predecessor at the CEA, flatly opposes an oil import fee. Falling oil prices "will take some or all of the sting out of the falling dollar," he said. Putting on a fee "would undo some of the good things" that lower prices will produce.

A $5-a-barrel fee would generate about $10 billion in additional revenue, Schultze estimated. "If that was the last $10 billion needed for a decent budget package [to reduce the deficit], I'd hold my nose and buy it, but I would not advocate it," he said.

However, the Senate Finance Committee is looking at a fee primarily as a way of making Reagan-backed changes such as reducing the top personal income tax rate from a proposed 38 percent to 35 percent—it is now 50 percent—and increasing the current $1,080 personal exemption to $2,000 for all but the highest-income taxpayers.

Other changes Reagan is seeking include a corporate income tax rate of 33 percent instead of the 36 percent in the House bill. The president and some committee



members also want to reduce depreciation allowances on business investments in new plants and equipment significantly less than did the House.

Harvard University economist Martin Feldstein, another former CEA chairman, strongly advocates reducing investment incentives by less than what the House has proposed. In order to do that, while still keeping the tax revision measure from generally neither raising more or less revenue than current law, Feldstein would use the fee. "It's a good tradeoff," he said, adding, "It would be better still to have a combination of an oil import fee and a gasoline tax, with heavier weight on the gasoline tax." Feldstein is much less enthusiastic about using part of the revenue from an import fee to offset revenue lost by reducing the top marginal rate for individuals from 38 percent to 35 percent.

Most of the discussion in recent months about an oil import fee has been in the context of raising revenue to reduce the large continuing federal budget deficits. It was in that vein that President Reagan included a $5-a-barrel fee on both imported and domestic oil in a contingency tax package he proposed in early 1983. That package—which he later let be known he did not want to have passed—would have gone into effect only if several conditions were met, including prior enactment of major spending cuts.

Recent public statements by some of the major oil companies, including a Mobil Corp. advertisement in today's Washington Post, generally oppose the fee as a way of cutting deficits. Mobil calls the fee "a dud" because of its inflationary and competitive consequences for the American economy.

An Exxon Corp. statement declares, "These additional fees, which are in effect taxes, would increase consumer prices, increase inflation and reduce real gross national product. In addition, they would distort competition among fuels, place energy-intensive U.S. manufacturing industries at a competitive disadvantage against foreign competition and fall inequitably on different regions of the country . . .

"If it is determined that tax increases are necessary, however, they should be as broad-based as possible."

Former Treasury tax economist Harvey Galper has been invited by the Finance Committee to testify this week on the impact of taxes on international competition and capital formation. Galper said he plans to tell the committee that the most solid way to improve America's competitive position and to increase capital formation is not by providing larger investment incentives through the tax code—especially if the price is imposition of an oil import fee—but rather to increase national saving. And he said that the best way to increase the amount of savings available for investment is to reduce federal budget deficits.

Oil Levies Were a Bad Idea, Anyway

By Charles W. Kadlec
And Arthur B. Laffer

The combination of weakening oil prices and Congress's failure to restrain its profligacy has quickened the pulses of those who wish to protect U.S. oil producers from "cheap" foreign competition and those who want to buy their way out of the budget impasses at the expense of the American taxpayer.

An oil-import fee offers an obvious way to please both groups under the guise of fiscal responsibility. A tax on imported crude and refined products that matches a world oil-price decline, for example, would leave oil and refined-product prices in the U.S. unchanged. Thus, it is argued, such a tax will have little effect on U.S. economic activity. It merely represents a transfer of funds from foreign oil producers to the U.S. Treasury. Moreover, it would provide some price relief to struggling U.S. refineries and encourage the production of U.S. oil. Finally, at the current level of imports, a $5-a-barrel tax on foreign crude and a separate tax of $10 per barrel-equivalent on refined products would raise more than $11.5 billion a year.

A Specious Argument

This analysis, seductive as it might have seemed in Washington until President Reagan tossed cold water on the idea yesterday, ignores the fact the U.S. economy competes with the rest of the world, which will be enjoying the benefits of lower oil prices. It is therefore specious to argue that foreign suppliers of petroleum products would bear the full burden of the import fees. The same failure to recognize full U.S. integration with world markets led most experts to forecast significantly higher gasoline and heating-oil prices here when domestic oil prices were decontrolled in 1981. Indeed, in some respects, the imposition of crude-oil import fees alone would have the opposite effects of the wellhead price controls that were repealed.

U.S. refineries compete directly with foreign counterparts in pricing products to distributors of gasoline, heating oil and diesel fuel. This competition assures that U.S. wholesale prices are equilibrated with world prices, without direct reference to U.S. crude-oil prices. If domestic refineries were to raise their prices above world prices, they would quickly lose their customers to refineries operated in the Caribbean, Canada and Europe.

Evidence is plentiful supporting this view of a global refined-product market operating virtually independently from the domestic crude-oil markets. During the entire period of price controls, heating oil prices in New York and Rotterdam (the major refining center in northwestern Europe) were within the per-gallon shipping cost of three cents to 6.5 cents between the two markets. Virtually identical observations were made by Rand Corp. economists Charles E. Phelps and Rodney T. Smith in their 1977 study of pricing regulations on domestic energy markets.

Moreover, the spot prices in the two markets were left essentially unchanged by decontrol. On Jan. 12, 1981, a gallon of heating oil sold for 97 cents in Rotterdam and $1.02 in New York. Oil prices were decontrolled on Jan. 28, and on Feb. 2, a gallon of heating oil again sold for 97 cents in Rotterdam and $1.02 in New York.

More to the case at hand is the impact on domestic prices of the lifting of a $2-a-barrel import fee on crude oil in January 1976. The effect was washed out in integrated world markets, and heating-oil and gasoline prices were largely unaffected.

The integration of U.S. and world refined-product markets makes the point at which any oil tax is levied as important as the tax itself in determining the effect of the tax on the economy.

If the tax were levied solely on foreign crude oil, then the burden of the tax would be borne by domestic refineries. A $5 import fee would allow domestic oil producers to raise their prices an equivalent amount. However, the import fee leaves unchanged the world price of refined products. As a result, domestic refineries would be able to pass on little if any of the now higher cost of crude oil to their customers. In general, refinery margins would be narrowed by the amount of the tax.

The impact of a tax on foreign crude oil would be to increase revenues to the U.S. Treasury and the profitability of domestic oil producers at the expense of reduced profitability of domestic refineries, both absolutely and relative to foreign-based refineries. In the aftermath of such a tax, imports of refined products would be expected to rise while imports of crude oil and ... utilization of domestic-refinery capacity would be expected to decline. This result is just the reverse of what happened when the oil-import fee was lifted in 1976. As then, wholesale prices of refined products would be left virtually unchanged.

They would most hurt those industries that use energy most intensively and that also face foreign competition. Domestic steel, aluminum and petrochemicals come to mind.

If, as proposed, a $10-a-barrel tax were levied on imported refined products, domestic refined-product prices would be elevated above the world level by $10 a barrel compared with just $5 a barrel for crude oil. In such a case, distributors of refined products would have no choice but to pay a price equal to the world price plus the tax for their supplies. This approach would widen profit margins for U.S.-located refineries and shift the mix of imports toward crude oil and away from refined products. Before-tax profit margins within the domestic oil industry would rise by the amount of the tax.

But since many users of refined products compete directly or indirectly with foreign suppliers of goods and services, profit margins throughout the rest of the economy would be squeezed. The process of arbitrage does not stop at refined-product markets. Domestically based production facilities that face foreign competition will find it difficult if not impossible to pass on higher energy prices to their customers. Such an overall energy tax would thus hurt those industries the most that are most intensive in the use of energy and that also face foreign competition. The domestic steel, aluminum and petrochemical industries are just three examples that immediately come to mind. To the extent that recently negotiated steel-import quotas protect that industry, then those industries intensive in the use of steel, including autos, also would be affected.

To put it differently, to the extent possible, the American consumer will try to obtain the cheaper foreign oil in whatever form possible. If the imports of crude oil at the world price are blocked, then foreign crude oil will be displaced by imports of refined products. If in a similar fashion the price of imported refined products are elevated above the world level, then energy in "fabricated form"—whether it be foreign-sourced steel, automobiles, plastics or fertilizer—will be sought.

Additional Revenue Isn't Warranted

The least damaging of the above taxes would be a fee solely on foreign oil, though it could sound a death knell for many domestic refiners, who would bear the burden of this tax. Broadening the tax to include imports of refined products would increase profits in the domestic oil industry, but impose yet another competitive disadvantage on American industry. Slower economic growth and intensified pressure for more trade restrictions would be the inevitable result. The cost of such an expanded fee is likely to exceed by far any perceived short-run benefits.

Additional revenue is not warranted. If the members of Congress are serious about balancing the budget, they will cheer the stimulative effects of lower oil prices on the American economy and get back to work on reducing the deficit solely through spending cuts.

Messrs. Kadlec and Laffer are Los Angeles-area economic consultants.

WATCHING WASHINGTON

with Patrick Crow

New import fee approach

Fresh ideas are a scarcity on Capitol Hill.

Most bills have an aura of deja vu because some congressmen introduced a similar bill in the past—or even the current—session.

Among the most frequently filed energy bills are ones calling for an oil import fee, which the industry generally opposes.

The American Petroleum Institute and Independent Petroleum Association of America have come out against an import fee on crude and products. Small refiners, however, have been pressing for protection from imported products.

Last summer, senators considered tacking a $5/bbl oil import fee onto a budget bill until the antitax Reagan administration threatened to veto it (OGJ, Aug. 5, 1985, p. 40).

The Senate voted on a $10/bbl crude and products import fee last November, rejecting it 78-18.

Sen. Gary Hart (D-Colo.) offered the proposal as an amendment to a budget bill, saying it would protect the nation when world oil prices rise again, help reduce the federal deficit, and spur U.S. exploration.

Critics responded that the amendment had less to do with eliminating the federal deficit than it did propping up the oil and gas industry.

And propping up the industry is the unvarnished goal of a bill Sens. Malcolm Wallop (R-Wyo.) and Lloyd Bentsen (D-Tex.) filed last month.

Adding a new wrinkle to an old issue, they proposed an "imported energy excise tax" which would set a $22/bbl "minimum survival value" that a barrel of crude or equivalent products should bring on the domestic market.

If the price of imported oil or products fell below $22, the tax would make up the difference, ensuring a $22/bbl floor for U.S. oil production.

Unlike some other oil import tariff bills, the Wallop-Bentsen measure will at least get an airing. Wallop, chairman of the Senate finance committee's energy and agriculture taxation subpanel, plans hearings soon.

Wallop said passage of the bill would protect domestic producers and refiners from large fluctuations in price and supply. The fee would not apply to home heating oil and feedstocks used to make exported goods.

Bentsen said if world crude prices continue to decline, they will trigger an increase in U.S. demand, thus shoring up prices again.

He said, "Under this bill, that won't happen. When world oil prices fall below $22, that decline will not be felt in this country.

"That could mean world prices could continue to decline instead of being firmed up by an increase in demand, and that could spell further trouble for the Organization of Petroleum Exporting Countries."

With the administration opposed to new taxes and Congress favoring low energy prices, prospects for the Wallop-Bensten bill appear slim.

But it does have a chance. It would raise several billion dollars at a time Congress will be scrambling for ways to reduce the federal budget deficit under mandates of the Gramm-Rudman Act.

WATCHING WASHINGTON

with Patrick Crow

Import fee still alive

Momentum continues to build for passage of an oil import fee as Congress comes to grips with the budget deficit.

Although a fee could raise billions of dollars a year, legislators have been reluctant to increase their constituents' energy costs.

Falling oil prices have removed that problem. Consumers would not feel the bite of the tax.

It's difficult to gauge support for an import fee in the populist House of Representatives. But support clearly is building in the Senate, which twice rejected a fee in the last 6 months (OGJ, Jan. 13, p. 31).

True, President Reagan continues to oppose in principle any new tax—and an oil import fee is undisguisably that. Sen. Robert Packwood (R-Ore.), finance committee chairman, recently discussed new taxes with Reagan and later related, "On a scale of one to 10, he was minus five."

But senators discount that because Reagan's top advisers privately are telling them a 10¢/gal gasoline tax or a $4/bbl oil import fee could generate $50 billion during 5 years. Senators also recall that 4 years ago the administration proposed a $5/bbl fee to resolve a budget problem.

There are two possible avenues for a fee: in budget or in tax reform legislation. Both seem open.

Pete Domenici (R-N.M.), Senate budget committee chairman, supports a fee. Committee member Ernest Hollings (D-S.C.) flatly predicts Congress will vote a fee in the 1987 budget.

On the Senate finance committee, which is working on the tax reform bill, David Boren (D-Okla.), Malcolm Wallop (R-Wyo.), and Lloyd Bentsen (D-Tex.) are pressing for a fee. They reason that a fee would shore up U.S. oil prices and the suffering oil industry in their home states.

Wallop chairs an energy taxation subcommittee that will conduct hearings Feb. 27-28 on an import fee.

Even senators not on the finance or budget committees sense the momentum. Don Nickles (R-Okla.) recently told Reagan that for the sake of fairness an import fee should be levied equal to the "windfall profits" tax oilmen pay.

Nickles said, "My guess is that you probably will see an oil import fee some time this year."

James McClure, energy committee chairman, opposes a fee. "I don't know of any way you can levy one without creating competitive distortions in the energy market," he says.

But he concedes, "There will be a great deal of pressure and the possibility of some movement in that direction."

A recent finance committee decision may make it easier for oil state senators to try to substitute an import fee for higher oil industry taxes in the tax reform bill.

Rather than work from the House-passed bill or Reagan's proposal, the committee asked Packwood to draft a "starting point" bill for it to use when markups begin.

That puts tax reform on an even slower track. A bill won't go to the Senate floor before June, and any ensuing House-Senate conference committee will take much more time.

Energy Experts Say Reagan's Tax Plan Favors Oil and Gas Over Other Sources

6/18/85

By Robert E. Taylor
Staff Reporter of The Wall Street Journal

WASHINGTON – President Reagan's tax proposal would give a competitive advantage to oil and gas over competing energy sources.

The president's plan would preserve a major tax subsidy for oil and gas drilling while eliminating tax incentives to develop plentiful coal and renewable energy sources, including wind and solar power. In effect, the proposal would set a national energy policy of relying more heavily on America's dwindling oil and gas reserves, draining them faster.

The administration says it decided to retain some controversial oil and gas tax incentives largely because dropping them would "increase U.S. dependence on foreign energy, exacerbate the problem of the trade deficit, and again make the U.S. vulnerable" to an oil embargo.

But some energy experts, as well as Mr. Reagan's own Treasury Department, say that oil and gas tax breaks eventually could undermine the president's goal of reducing reliance on fuel imports.

The oil and gas tax breaks are likely to be the focus of hearings today as the House Ways and Means Committee looks into the energy aspects of the president's tax proposal.

Reducing U.S. Vulnerability

The Treasury said last November that eliminating oil and gas tax subsidies would "reduce vulnerability to foreign supply disruptions" in the long-run by encouraging conservation and slower depletion of U.S. reserves. In addition, many economists say the oil and gas tax breaks would attract investment away from other enterprises, including competing energy industries such as coal and wind power. Short-term strength in oil production, they say, will be offset by weaker development of these other energy sources.

Some experts say the U.S. should shepherd its remaining petroleum reserves and develop lasting alternatives. "We probably shouldn't continue to rely so totally on oil and gas," says Michael Blum, a Merrill Lynch & Co. investment banker who formerly directed the Energy Department's research and development projects.

If the goal is to reduce energy imports, adds Robert Stobaugh, an editor of the book "Energy Future" and a Harvard Business School professor, "you could make as big a case for tax incentives for solar, coal and conservation as you do for oil."

The oil tax breaks have their defenders. Mr. Stobaugh says any slowing of U.S. oil production would be hard to reverse if the need arose. "Once the industry falls below a certain level of activity," he says, "it takes a long time to get it started up again."

Little Incentive in Reagan Plan

Independent oil producers, in fact, insist that the Reagan plan provides too little tax incentive to sustain current production. While major oil companies can generate funds internally, independents rely on the tax breaks "to produce money to drill other wells," argues Michel Halbouty, a Houston oilman and a Reagan administration energy adviser.

Mr. Stobaugh argues that write-offs of drilling costs can be justified as research and development expenses. Also, he says, coal and other energy sources are imperfect substitutes for oil and gas.

The administration has been ambivalent about energy self-reliance. It wants to lower fuel-efficiency requirements for cars and stop stockpiling oil in the U.S. strategic reserve during the current glut. Still, the administration argues that the nation needs to extend some oil industry tax incentives to encourage risky drilling ventures. Otherwise, it says, oil and gas production would drop by the energy equivalent of one million barrels a day. The White House argues that this is a national security issue and, thus, an exception to its view that the tax code shouldn't promote economic or social goals.

Environmental Action, a group often critical of the administration, calculates that the Reagan plan would preserve annual oil and gas industry tax breaks of $8 billion to $12 billion—about $4 billion less than current levels. In contrast, the group figures that the plan would eliminate all $1 billion in breaks for renewable energy and conservation and three-quarters of about $42 billion in tax incentives for coal.

Under the president's proposal, the oil industry would lose most percentage depletion, which allows write-offs of 15% of the value of oil produced. But percentage depletion already had been scaled back by Congress.

'Intangible' Write-Offs

More important, the president would let oil and gas drillers continue to write off in one year, instead of for the life of the well, all of their "intangible," or, non-equipment, drilling expenses.

Last year, Treasury concluded that the intangible-drilling cost write-off undermines tax equity, diverts investment from more productive activities, promotes "excessive reliance upon drilling" compared with other exploration techniques, and mostly benefits the rich.

Yet, the industry's political and economic clout played a role in reversing Treasury's view within the White House, administration aides concede. Democrats also are likely to find it difficult to resist the industry's political strength. Many large coal companies, moreover, are owned by oil giants. Rather than criticize the oil tax breaks, they seek comparable incentives.

The major loss for coal companies stems from the proposal's five-year phase-out of their 10% depletion allowance for coal mined. Carl Bagge, president of the National Coal Association, calls this allowance coal's "equivalent to oil and gas's intangible drilling costs."

Merrill Lynch's Mr. Blum contends that the proposed tax changes could trigger a "depression" in the Appalachian states.

The loss of tax breaks, Mr. Blum says, also would slow the research and development of renewable energy sources, including solar, wind and alcohol fuels.

Oil Import Fee Faces Trouble in Congress

Disadvantages Said To Outweigh Gains

—By Pamela Fessler

Despite signals from President Reagan that he could accept an oil import fee as part of an overhaul of the federal tax system, the proposal appears to have only a slim chance of enactment.

Members of the Senate Finance Committee, in the preliminary stages of drafting a tax-revision bill, are unlikely to include the fee as part of their plan because of a host of regional and economic problems, according to aides.

Three economists told the panel Feb. 6 that the fee would raise relatively little revenue, would erase some of the economic benefits of declining oil prices and would be an inefficient way to help domestic oil and related industries.

"I think they just nailed the coffin shut," remarked John Heinz, R-Pa., when the witnesses concluded. Heinz and five other committee members from the energy-consuming Northeast have said they are fiercely opposed to the fee.

In addition, senators who generally favor an import levy are split over whether it should be used to reduce the deficit or as part of a "revenue-neutral" rewrite of federal tax law.

As the tax comes under more scrutiny, others are questioning its impact on trade and the overall prospects for economic growth.

Still, budgetary pressures could emerge later this year that might force consideration of a revenue-raising import fee as Congress struggles to meet the demands of the deficit. *(Budget pressures, p. 299)*

Committee aides note that the fee has a formidable array of backers, led by Finance Chairman Bob Packwood, R-Ore., and ranking committee Democrat Russell B. Long of Louisiana. It also has been promoted by Senate Majority Leader Robert Dole, R-Kan., and Senate Budget Committee Chairman Pete V. Domenici, R-N.M., for use in a deficit-reduction bill.

Packwood, however, has said his committee will not consider any tax increase to lower the deficit unless Reagan takes the lead — something the president reaffirmed in a Feb. 11 press conference that he would not do. *(News conference text, p. 317)*

"It [the fee] might come out of committee," said Finance Committee Chief of Staff Bill Diefenderfer. "But it would be after a terrible struggle."

Tax Bill's Problems

The difficulty of enacting an import fee illustrates the Finance Committee's predicament as it tries to reshape the House-passed tax bill (HR 3838) to restore a number of tax breaks and make other changes favored by members and the administration. *(House bill, 1985 Weekly Report p. 2705)*

Some members of Congress are pushing an oil import fee in hopes it will help bolster the domestic oil industry.

The committee is tentatively scheduled to begin marking up a bill by the middle of March.

Besides a number of business-related tax advantages that members would like restored, Reagan has called for a lower top tax rate and a higher personal exemption than were included in the House bill. *(Weekly Report p. 142)*

Packwood has said the panel might need as much as $130 billion over the next five years to produce a measure that raises the same amount of revenue as the existing tax system, a standard the committee has tentatively agreed to meet.

But Senate tax aides, who have been meeting almost daily as the committee staff tries to incorporate members' concerns into a draft plan, say that few areas of agreement on how to pay for the changes have emerged.

"We're just going through each provision of the [House] bill and seeing where the land mines are," said one Democratic aide, adding that they appeared to be "everywhere."

The Treasury Department has sent the committee a 26-page list of possible revenue-raising options, but almost every one is rife with controversy. They include a broad-based consumption tax, which Reagan has said he opposes, and limits on deductions for state and local tax payments. The list also includes an oil import fee, a gasoline tax and an across-the-board energy tax.

The Treasury document estimates that it will cost as much as $125 billion over five years just to make changes favored by Reagan, not to mention changes committee members would like to see.

Door Open on Oil Fee?

The import fee was given a boost during the week of Feb. 3, when Reagan and several administration officials said the president was willing to look at the levy as part of the tax-overhaul bill. This was in contrast to

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Oil Import Fee Revenues

Following are the Treasury Department's estimated revenues from imposition of an oil import fee starting Jan. 1, 1986:

Fee	Revenue in Billions of Dollars					
	1986	1987	1988	1989	1990	Total, 1986-90
$4 a barrel	$ 6.2	$ 8.4	$ 8.7	$ 9.2	$ 9.9	$ 42.4
$8 a barrel	13.0	16.8	16.3	17.0	18.3	81.4
$4 a barrel with an additional tax on domestic "windfall" profits	7.5	10.1	10.4	11.0	11.7	50.7
$8 a barrel with an additional tax on domestic "windfall" profits	14.8	19.6	19.6	20.4	21.8	96.2

previous statements by Reagan that he would not consider any new taxes for either the tax rewrite or to help reduce the federal deficit. *(Weekly Report pp. 143, 259)*

But with world oil prices dropping at a rapid pace, the oil fee has attracted considerable interest on Capitol Hill as members search for a way out of their fiscal dilemmas.

In fact, Packwood made little secret of the fact that he wanted to use the fee as part of his tax-overhaul bill before Budget Committee Chairman Domenici could lay claim to it to help reduce the federal deficit.

The fee has been promoted mainly by oil-state members who hope it would bolster the domestic oil industry, which has been stunned in recent weeks by a dramatic plunge in world prices to below $20 a barrel.

They argue that an excise tax on imports would provide much-needed protection for domestic producers against the world price decline and prevent a resurgence of U.S. dependence on foreign energy sources. Presumably, the price of domestic oil would be set at a level at or near the level of oil imports, after the fee has been attached.

Among the two proposals that have received the most attention in the Senate are bills introduced last year by Finance Committee members David L. Boren, D-Okla. (S 1507), and Malcolm Wallop, R-Wyo. (S 1997). Both measures are cosponsored by Lloyd Bentsen, D-Texas, who is also a committee member.

Boren's bill would impose a $5-a-barrel import fee on crude oil and a $10 fee on refined products, to provide additional protection for domestic refiners. Wallop's measure calls for whatever import fee would be necessary to keep the price of crude oil from falling below $22 per barrel. Both measures will be the subject of hearings by Wallop's Subcommittee on Energy and Agricultural Taxation on Feb. 27-28.

Boren and Wallop argue that the fee is needed not only to help cushion producers against the impact of the world price drop, but to protect businesses closely tied to the oil industry. In Oklahoma, for example, banks with extensive outstanding loans to producers are already feeling the pinch as the value of collateral put up by borrowers has eroded with the drop in prices. A wave of small- and mid-sized bank collapses in the state this year is feared.

"If the price drops to $15 or $12 a barrel, it will cause chaos," said Boren. "And it won't stop in Houston or Dallas, but will extend all the way to New York."

In addition, local economies and state government coffers are expected to be hurt. Texas State Comptroller Bob Bullock announced Feb. 13 that his state expected about $1.3 billion less in revenue for its fiscal 1986-87 budget as a result of the oil price decline.

Eroding Support

But promoters of the fee realize they face an uphill battle, as new questions arise about the promised revenue and other benefits of a fee.

"There are so many problems with an import fee," acknowledged a Wallop aide, "that it's difficult to see how it will get off the Hill in a form that will have the support of the original sponsors."

In order to attract broad congressional backing, Boren and others have stressed that the fee would be an easy way to raise much-needed revenue for the federal government at a time when consumer prices are likely to ease.

The Treasury Department has estimated that a $4-per-barrel fee would raise about $42.4 billion over the next five years and that an $8 fee would raise about twice that amount. *(Revenue estimates, box, this page)*

But the budgetary impact of a fee is not that simple. In promoting the administration's budget the week of Feb. 3, Beryl W. Sprinkel, chairman of the president's Council of Economic Advisers (CEA), listed a number of economic advantages from the drop in oil prices that could be wiped out by a new tax on imports.

A $10 drop in the price of oil could be expected to translate into a 1 percentage point increase in the rate of economic growth, he said, adding that declining prices would also lead to lower inflation.

Such economic results, he noted, translate into budget savings. For example, the administration estimated in its budget that each percentage point increase in the growth rate would mean a $78 billion reduction in the deficit over the next five years.

The question that some on Capitol Hill and in the administration are asking is whether the revenues raised by the fee are worth the negative impact the fee could have on the overall economy and the political struggle the proposal is likely to entail.

A 1985 study by the Congressional Research Service (CRS), done in conjunction with the econometric forecasting firm of Data Resources Inc., showed that under certain circumstances a $5-a-barrel oil fee could actually increase the deficit in the initial years.

"It's clear that with the oil import fee, what you see is not what you get," said CRS economist Lawrence Kumins.

Regional Rifts

A potentially more difficult problem for promoters of the oil import fee is the opposition it arouses from members from the Northeast and some

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parts of the Midwest, who say their constituents would bear the brunt of higher oil prices.

They argue that while a $4 or $5 import fee might raise $8 billion a year for the federal government, consumers would pay as much as $30 billion a year more for energy as domestic producers jack up their prices.

"Why tax home heating oil in places that get the 30 or 40 below zero weather in order to finance ... this long list of corporations?" asked Finance Committee member Dave Durenberger, R-Minn. Durenberger said he told Packwood he was "96 percent" against the import fee.

Outside the committee, regional objections also are strong.

Claiborne Pell, D-R.I., along with 13 other senators, introduced a "sense of the Senate" resolution (S Res 335) Feb. 6 opposing a fee.

"The truth is that it is not a good idea and it would not be painless," said Pell. "An oil import fee would impose heavy new costs on all who use oil and oil products in manufacturing and production. It would impose higher costs on all those who heat their homes with oil or use oil-generated electricity."

In the House, the fee might face its strongest Northeastern opponent. Speaker Thomas P. O'Neill Jr., D-Mass., has said he is "absolutely opposed to it.... No way would I support an oil import fee."

Boren and other proponents have said they could accommodate such regional concerns by exempting home heating oil from the fee. But opponents argue that such exemptions will only make the fee complex to administer and put pressure on legislators to exempt others, such as farmers and manufacturers, who might be hurt by the fee.

To accommodate some of the regional disparities, former CEA Chairman Martin S. Feldstein has suggested that Congress impose a gasoline tax along with an import fee. The burden of higher gas taxes, he notes, would be greater in the South and West, where consumers drive longer distances than in the Northeast.

But there are divisions even within the oil industry and within oil-producing states over whether an import fee is a good idea.

The American Petroleum Institute and the Independent Petroleum Association of America, two of the industry's largest trade groups in Washington, have come out against the fee, at odds with many oil producers.

The associations argue that Congress is unlikely to allow domestic producers to reap large financial benefits from an import fee without imposing a new domestic oil tax.

In fact, among the revenue-raising options outlined by the Treasury Department are two that would include an expanded windfall profits tax.

The current windfall profits tax would capture only a small amount of domestic oil income resulting from the fee because the tax is based on profits in excess of per-barrel oil prices that were set several years ago and are now above or at current levels. *(Congress and the Nation Vol. V, p. 530)*

Other energy-related businesses are also wary of an import fee.

Rep. Bill Archer, R-Texas, for example, has complained that the petrochemical industry would be severely burdened by the fee because its energy costs would be much higher than those of its foreign competitors, who could purchase oil outside the United States at a lower price.

Others warn that the already precarious trade position of farmers and manufacturers, who also use large amounts of energy, would be further damaged. "It would raise production costs for every single business in this country — no exceptions," economist Norman Ture told the Finance Committee Feb. 6. ▮

ECONOMIC AFFAIRS NOTES

Rostenkowski Opposes Tax Bill Delay

House Ways and Means Committee Chairman Dan Rostenkowski, D-Ill., said Feb. 10 he will not agree to a wholesale delay in effective dates in the tax-overhaul bill (HR 3838) passed by the House late last year.

In a speech to the Bond Club of New York, Rostenkowski said such a change could encourage some tax abuses to continue as well as cost the federal government lost revenues.

Most of the provisions in the House bill, which lowers tax rates and restricts a number of existing tax breaks, would take effect Jan. 1, 1986. But since the Senate is unlikely to act on the measure until later this year, it is assumed many of the effective dates will be revised before the bill becomes law.

Businesses and others have complained that the uncertainty has stymied many activities covered by the tax bill. For example, sales of tax-exempt bonds, which would be severely restricted under HR 3838, have virtually come to a standstill. *(House bill, 1985 Weekly Report p. 2705)*

The House and the Senate have passed non-binding resolutions (H Res 335, S Res 281) backing a change in the effective dates until Jan. 1, 1987. Senate Finance Committee members have asked Chairman Bob Packwood, R-Ore., and ranking Democrat Russell B. Long, La., to meet with Rostenkowski, ranking Ways and Means Republican John J. Duncan, Tenn., and Treasury Secretary James A. Baker III, to draw up a statement outlining their intention to back a Jan. 1, 1987, effective date for the bill. Rostenkowski said he would meet with Packwood, but warned he would agree only to "selective" changes. ▮

PAC Gifts to Tax-Writers Double

According to a new study by Common Cause, the debate over tax revision continues to prove a boon for the campaign coffers of members on the congressional tax-writing committees. The citizens' lobbying group reported Feb. 11 that 1985 political contributions to the 56 members of the House Ways and Means and Senate Finance committees were twice what they had been two years before.

The members received $6.7 million from political action committees and $19.8 million in total receipts last year, compared with $2.7 million and $9.9 million, respectively, in 1983.

While most committee members deny that contributions influence their votes on tax law, many recognize the financial benefits they have reaped from the tax debate. When the tax bill was on the verge of being blocked from consideration on the House floor last December, one Democrat was overheard suggesting to another that the party prevent a final vote so the bill would remain in limbo for a few more months. "Why kill the goose that laid the golden egg?" he asked. *(Background, 1985 Weekly Report pp. 1806, 2613)* ▮

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Falling Oil Prices Spur Inflation Optimism

Forecasts Vary, Tend Toward Low Rate

By LINDLEY H. CLARK JR.
Staff Reporter of THE WALL STREET JOURNAL

In the mid-1970s, economists were trying desperately to predict the impact of sharply rising oil prices. Many of the forecasts, which ranged all the way to international financial disaster, proved to be far too pessimistic.

In the mid-1980s, economists are trying to predict the impact of collapsing oil prices. Their forecasts once again vary widely, but on average they tend to be quite optimistic. Indeed, in the stock market, the optimism has bordered on euphoria, as the Dow Jones Industrial Average has climbed more than 100 points in recent weeks largely on the strength of the oil-price drop.

"Lower oil prices will help restrain inflation and lift U.S. economic growth," says John M. Godfrey, chief economist of Barnett Banks of Florida. "The benefits to consumers and businesses of falling oil prices far outweigh any possible damages to oil producers and energy lenders."

Some of the most ebullient forecasters envision the oil-price decline as carving nearly two percentage points off this year's inflation rate and adding a percentage point or more to the growth in output.

A close look at the forecasts, however, discloses that there's a lot of guesswork involved. The average cost of crude oil used in U.S. refineries has tumbled $10 a 42-gallon barrel since last November, to about $20 a barrel. But no one is sure how that drop will be reflected in petroleum-product prices, and how much the prices of natural gas, coal and other competing energy sources will fall as a result. Moreover, it's anybody's guess how much oil prices will continue to drop, if at all.

Indeed, some economists, such as Robert Jones of Money Market Services Inc., Belmont, Calif., and Michael K. Evans, a Washington-based economic consultant, expect oil prices to rise later this year. Mr. Evans says that once the Organization of Petroleum Exporting Countries "and their partners in crime realize that reducing total production by about 3% will generate a $10-a-barrel increase in prices, they will come to their senses."

To be sure, economists generally feel they have a better handle on the impact of oil-price changes than they did a decade ago. "After all," says Jerry L. Jordan, an economist at First Interstate Bank of Los Angeles, oil prices can't fall forever."

But the general climate of uncertainty has analysts playing a lot of "what if" games.

Burton Zwick, an economist at the brokerage firm of Kidder, Peabody & Co., says that if oil prices average $20 a barrel this year and then fall to $15 by the end of 1987, the consumer price index over three years will fall 5 percentage points more than it otherwise would have. Over the same period, he says, real gross national product—the total value of the nation's output of goods and services, adjusted for inflation, will rise to 1½ percentage points higher than it would have.

What if oil prices average $15 this year and then fall to $10 in 1987? "That would be even better," Mr. Zwick says. "Prices would be about seven percentage points lower and real GNP would be 1½ to 2 percentage points higher than otherwise."

Mr. Zwick and other economists emphasize that such estimates are largely guesses. When it comes to assessing price impact, moreover, a continuing effect on the inflation rate requires a continuing decline in prices.

Declining Importance

Another fact is that, dollar for dollar, the price decline can't help the U.S. economy as much as the price rise hurt it in the 1970s. "Energy—particularly oil—is less important to the U.S. economy than only a decade ago," says Richard Berner of the investment firm of Salomon Brothers Inc. "The price hikes of the 1970s spurred energy conservation that kept demand flat while the economy expanded. As a result, oil consumption per dollar of real gross national product plunged by about a third since 1974."

Mr. Berner is less optimistic than Mr. Zwick about the impact on inflation of declining oil prices, at least for this year. Mr. Zwick estimates that $20-a-barrel oil this year would cut about 1½ percentage points off the consumer price index, while Mr. Berner thinks the cut would be only about ½ percentage point.

Assuming that prices don't go back up to where they were three months ago, Americans in effect have had a significant tax cut. Mr. Berner's arithmetic indicates that a $10-a-barrel cut in oil prices would lower U.S. energy costs by roughly $60 billion annually—a sizable tax reduction.

"Will there be a rise in consumption or a rise in savings and investment?" asks Mr. Jordan of First Interstate. "The guy who fills his gas tank finds that he has more money left over. We have no way of knowing what he will do with it."

More Large Cars?

Some auto companies are hoping that some Americans will decide that now is the time to invest in a larger car, since the extra gasoline it will use won't be as much of a burden. General Motors Corp.'s Cadillac division recently has been advertising that it offers the largest production model made in the U.S.

While some effects of cheaper oil are showing up in gasoline and fuel-oil prices, the full effects will take time to work their way through the economy. Cheaper oil, many analysts comment, will help to hold down prices of competing forms of energy, but even that won't have a major effect on overall prices, since all forms of energy account for only 7% of the consumer price index.

Broader effects will show up as cheaper energy reduces costs for many forms of business. Lower costs "will allow businesses to either increase profits or to lower selling prices," says Ray Worseck, manager of economic research for the brokerage firm A.G. Edwards & Sons Inc. in St. Louis.

No one can be sure just what proportion of businesses will take which route, but Mr. Worseck believes many firms will cut prices, so that "the oil-price cuts will be at least partially passed through to consumers."

Lower Inflation Expectations

The drop in oil prices already has had a favorable effect on inflation expectations. Edward Yardeni of Prudential-Bache Securities Inc. is one of the most optimistic. "The collapse in oil prices," he says, "virtually locks in a zero inflation rate for the year."

Most economists are less optimistic, but the lower expectations have helped to bring down interest rates, especially in the long-term market. If oil prices continue to drop or at least stay at current low levels, lower inflation expectations could affect future business pricing decisions and union wage demands, helping to turn the expectations into reality.

Such hopes, however, would be affected—possibly crushed—if Congress decides to impose an oil-import fee an idea that is under discussion. Such a fee would lift the market price of imported oil and thus would help to support the price of domestically produced oil.

Many Fervent Supporters

Many congressmen and quite a few economists are fervent supporters of the proposal. The tax, they note, would help the domestic oil industry and thus the banks that have lent money to the industry. "An oil-import tax should be met with enthusiasm by economists and politicians as a relatively painless solution to growing budget deficits and a strained financial community," says Michael Englund of Money Market Services.

Actually, however, much of the domestic industry has been less than enthusiastic. Big U.S. oil companies are also heavy importers. Smaller companies fear that Congress might eventually siphon off any gains through some form of windfall tax.

"Imposing any form of general tax on petroleum will only be politically easy if it can be done before declining crude oil prices affect the price of refined products, and this appears to be highly unlikely," an analysis by the consulting firm of Townsend-Greenspan & Co. said late last month.

Official raps oil tax proposal, but says keep it alive

WASHINGTON (AP)—Raising taxes on imported oil would cost the average family up to $365 a year, penalize the poor, hurt key allies and damage the nation's trade balance, the Reagan administration told Congress today.

But the proposal should be kept alive in case it is needed to finance President Reagan's plan for overhauling the income tax system, J. Roger Mentz, acting assistant secretary of the treasury for tax policy, told the Senate Finance subcommittee on energy taxation.

After describing the oil tax as extremely regressive and estimating that for most families it would wipe out any benefit from the tax revision plan, Mentz said, "The president has not ruled it out. We suggest you keep it on the table."

Sen. Malcolm Wallop, R-Wyo., chairman of the subcommittee, described the administration's position as "sitting on a fence with both ears to the ground."

The tax is being pushed by oil-state lawmakers to help a domestic oil industry being squeezed by plunging prices on the world market. Prices are dropping because Saudi Arabia is trying to whip other members of the Organization of Petroleum Exporting Countries into line, said Sen. Lloyd Bentsen, D-Texas.

"Are our memories so short that we're going to once again put ourselves at the mercy of OPEC?" asked Bentsen, recalling the oil embargo of the early 1970s. "We ought . . . to be able to look backward far enough and recall the last time we were hooked on foreign oil, then take rational steps to prevent that from happening again."

Sen. David Boren, D-Okla., said a higher tax on imported oil would "place a safety net under the price of domestic oil that would also protect the financial system against the shock of further decreases in the price of oil." He noted that billions of dollars worth of loans to domestic producers are secured by the value of oil reserves—a value that declines with the world price of oil.

"The stability of the banking and financial system in oil-producing regions of the country will be threatened" if the world price continues to plunge and the United States does nothing to react, Boren said.

But Sen. George Mitchell, D-Maine, countered: "If national security, energy independence and bank safety and soundness are issues that need to be addressed, Congress can, and should, deal with these problems directly—not indirectly through an oil-import fee," said Sen. George Mitchell, D-Maine.

The Treasury Department estimates the oil industry would get $1.75 benefit for each $1 that the tax brought to the government.

Treasury's Mentz said an oil tax proposed by Bentsen and Boren would boost the average family's energy expenditures by $288 a year. A second plan, by Wallop and Bentsen, would cost the family $365 a year, he said.

Leonard P. Steuart II, representing distributors who sell oil to 8 million homes and businesses, and Carl Bolch Jr., speaking for the Society of Independent Gasoline Marketers of America, opposed the tax.

James W. Hunt, speaking for Texas Independent Producers and Royalty Owners Association, endorsed an import tax.

BILL SHEFFIELD
GOVERNOR

State of Alaska
OFFICE OF THE GOVERNOR
WASHINGTON, D.C.

February 21, 1986

MEMORANDUM

TO: DISTRIBUTION LIST

FROM: JOHN W. KATZ, Director of State/Federal Relations and Special Counsel to the Governor

SUBJECT: FEDERAL ISSUES PENDING IN WASHINGTON, D.C.

Oil Import Fee - The international decline in the world price of crude oil has created some Congressional interest in an oil import fee. The fee is being considered in two contexts: first, as a means of adding revenue to the budget to apply to the reduction of the Federal deficit; and second, as a means of generating monies to be included as part of the revenue-neutral tax reform effort being promoted by the Administration.

Two bills will be the subject of hearings before the Senate Finance Committee on February 27 and 28. One bill would essentially establish a $22 per barrel price for oil, with an elastic import fee in an amount equal to the difference between the world price (if lower) and $22. The other bill would levy a fixed import fee per barrel for crude oil ($5 per barrel) and on refined products ($10 per barrel).

A resolution has been introduced in the Senate expressing opposition to an import fee. At last report, as of February 18, there were 18 Senators who had signed on to cosponsor the resolution. Recently, the Reagan Administration has expressed opposition to an import fee on economic and geo-political grounds. How the Administration will react if confronted with a specific proposal passed by Congress is a matter for speculation.

The Alaska Department of Revenue is analyzing the bills that have been introduced. This analysis will become the premise for any future advocacy necessary to effectuate State objectives.

WATCHING WASHINGTON

with Patrick Crow

Another 'windfall' tax?

Faced with the harsh reality of falling oil prices, some U.S. producers have been ambivalent about or have advocated an oil import fee.

They reason that an oil import fee would prop up domestic prices. A $5/bbl fee on imported crude, for example, would increase domestic postings by the same amount.

Oil lobbyists, familiar with the track record of Congress, have been less sanguine about that.

Now the Reagan administration has confirmed their fears. Among options it sent the Senate finance committee for additional revenues for the tax simplification bill was an "alternative 'windfall profits' tax."

If Congress enacts an oil import fee and the Reagan proposal, producers would have to calculate their windfall profits tax liability and then their alternative windfall profits tax and pay whichever was higher.

In essence, the government would use the oil import fee not only to raise general revenues but also to revive its sagging windfall profits tax collections.

Treasury told the committee a $4/bbl oil import fee would raise $42.4 billion during fiscal 1986-90, an $8/bbl fee $81.4 billion, a $4/bbl fee with a 50% alternative windfall profits tax $50.7 billion, and an $8/bbl fee with a 50% alternative tax $96.2 billion.

Treasury said Congress could increase excise taxes on gasoline and diesel fuel 21¢/gal to glean $92 billion for the 5 year period or set a 6% tax on the value of all energy products, on a BTU basis, to net $102.2 billion.

In addition, Treasury noted that the House tax reform bill calls for a 3 year phaseout of the percentage depletion allowance except for independents and royalty owner stripper oil. Including royalty stripper oil in the phaseout would glean $100 million for the government.

There are many uncertainties about the alternative windfall profits tax proposal at this point. But even with a $5 oil import fee it could result in windfall profits taxes being reimposed on some Tier 3 crude (newly discovered, heavy oil, and incremental tertiary).

And if the alternative windfall profits tax does not provide a deduction for severance and royalty payments, its bite could be deeper than the 50% proposed.

At this point there is no guarantee that Congress will approve such a tax. But it is likely to be considered if an oil import fee is.

Congress also could consider a different tax to offset producers' gains from an import fee, such as eliminating expensing of intangible drilling costs.

An import fee also would be likely to have numerous exemptions for classes of products users and would entail new regulations and new regulators for the oil industry.

Sen. Robert Dole (R-Kan.) said last week he is undecided about an oil import fee. "I thought it might be a good idea because it would raise domestic prices."

But many Kansas producers have told Dole they oppose an oil import fee even though prices are falling.

"They can live with that better than they can live with a new federal bureaucracy," Dole explained.

WATCHING WASHINGTON

with Patrick Crow

Dealing with the cycle

Plunging crude oil prices dramatize the cyclical nature of the oil business.

Charles DiBona, president of the American Petroleum Institute, says the U.S. government should be considering policies that look beyond that cycle.

He points out that today's market is an outgrowth of the oil price shocks of the 1970s, when rising prices prompted conservation by industrial and residential consumers and spurred exploration/ development by producers.

"As a result, world production capacity, which could not keep up with demand in the 1970s, has far exceeded it in the 1980s," DiBona says.

He warns that although declining oil prices will stimulate the economy, if they fall significantly and stay low awhile they will rebound to higher levels more rapidly than they would have otherwise.

With shrinking wellhead revenues, operators have diminished ability to invest in productive capacity. Thus today's U.S. active rig count is only one third of the 1981 peak.

But petroleum demand is increasing. Gasoline use rose more than 1%/year during the past 3 years, and the slump in residual oil use by electric utilities seems to have bottomed out.

API figures that if real oil prices stayed at $15/bbl during 1986-95, U.S. oil consumption would increase markedly—an average of 1 million b/d/year.

World increases in consumption, combined with price induced decreases in production, very quickly would absorb most of the Organization of Petroleum Exporting Countries' excess capacity, perhaps within 3-4 years, and cause prices to rise precipitously.

DiBona argues that an oil import fee would not protect U.S. consumers from the supply/demand roller coaster.

For one thing, higher oil prices would place exports of U.S. manufacturers at a disadvantage. For another, Congress would riddle an oil import fee with a "myriad of exceptions" for home heating oil users, farmers, and perhaps even for small refiners.

Thirteen senators from the Northeast have filed a resolution warning that any import fee should exempt home heating oil.

DiBona says raising the gasoline tax also would be an inefficient way to encourage U.S. production. But government can do something to spur drilling at a time when prices are declining.

"It would be far more rational to approach this goal directly by abolishing an existing tax, the 'windfall profits' tax, which discourages oil production, and by avoiding the imposition of new, discriminatory treatment of the oil industry such as that contained in the tax reform bill recently produced by the House of Representatives," the API executive says.

The Independent Petroleum Association of America agrees with API on that.

At a recent meeting, IPAA directors voted to reassert their long standing position against a crude or products import fee.

New York Times - 2/23/86

Tax Oil to Save Oil

As surely as rising oil prices taught Americans to conserve energy, lower prices will lead them to forget. That would be a national tragedy, and a foolish security risk. Prices are falling because we conserved. Now that the price is not incentive enough to save, add a tax.

No new oil price shock is in sight. But the world's affordable supplies are still being depleted, and the risk of upheaval in the Middle East is ever present. As long as they last, lower prices mean greater consumption the world over.

Homeowners won't tear out insulation bought when heating costs soared; new energy-efficient buildings won't be razed. But the pressure to spend money for more conservation is being lost.

Just think about automobiles, which burn more than half the oil we consume. At less than $1 a gallon, drivers lose their incentive to slow down and tune up, and they stop caring about mileage ratings on new cars. They drift back into larger models, and Government can't resist relaxing the regulations that made the biggest '86 cars more efficient than the smallest in 1973.

America consumed 17.5 million barrels of oil a day in 1973. Today, in an economy one-third larger, consumption has fallen below 16 million. Dependence on foreign oil has also declined, from 36 percent of consumption in 1973 to 30 percent, and, significantly, the decline is much sharper for Persian Gulf oil.

The Reagan Administration wants only to reap the disinflation benefits. It favors more off-shore domestic drilling and, rightly, more deregulation of natural gas. But it is blindly rushing past this chance to build up the Strategic Petroleum Reserve at bargain prices. For transient budget benefit, it would even sell off three naval reserve fields. And it has unwisely relaxed the pressure on Detroit's car designers.

Federal fuel standards and other regulation would be less necessary if we turned to a tax to encourage more conservation. With prices falling, we could conserve by paying ourselves instead of Middle East potentates.

What's the best form of tax? On alternate days, President Reagan offers to consider a tax on oil imports — provided it's called a "fee" and is used to finance tax-law revisions. Congress, too, seems to prefer an import fee to a tax on gasoline or all energy. An all-energy tax, in any case, would have no special impact on oil consumption. The choice comes down to taxing imported oil and refined products or taxing gasoline at the pump.

An import fee would reduce dependence on foreign sources and encourage domestic production. The oil patch likes the idea because raising the price of foreign oil would let American producers charge more for domestic oil. The consuming states of the Northeast and West Coast and Florida balk at the idea and would, at the least, insist on taxing away the domestic producers' windfall. So taxing imports would lead to taxing all oil.

That would raise the cost of living, retard growth and damage friendly suppliers, like Mexico and Canada, which might need exemptions. The petrochemical industry, too, would want exemption, and who knows who else. The administrative complexity is offset by the political attraction: the public wouldn't much notice an import fee.

A gasoline tax would be highly visible even if it only held prices at prior levels. But it would be simple to administer atop the existing Federal tax of 9 cents a gallon. And it would not discriminate against any region.

Either tax could be shaped to yield as much as $100 billion over five years — $8 a barrel on imports combined with a 50 percent "windfall" profits tax, or 20 to 25 cents a gallon on gasoline. The revenue could help balance the Federal budget and thus improve the economy.

The main and lasting benefit of either tax would be in conservation and national security. An oil conservation tax is good policy any time. It is more easily achieved now that prices are down.

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : ________

REQUEST

Bill/Resolution No. : HJR 66
Title : Relating to a Federal tax on imported oil

Sponsor : Reps. Pignalberi & Gruenberg
Requestor : Rep. Pignalberi
Date of Request : 2-26-86

FISCAL DETAIL

Agency Affected : ________
BRU : ________

Components : ________

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING						

CAPITAL						

REVENUE						

FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY		807,800	653,422	634,443	592,890	528,121

ANALYSIS : Attach a separate page if necessary

See attached.

Prepared by : Charles L. Logsdon *Vincent Wright for C.L.*
Division : Research
Phone : 276-5364
Date : March 4, 1986

Approved by Commissioner : *[signature]*
Date : *3/17/86*
Agency : ________

Distribution (by Agency preparing fiscal note):
- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

HJR 66 Fiscal Note Analysis

Current legislation to tax imported oil amounts to an approximate $5/bbl charge based on current oil prices. This fiscal note assumes that this tax results in a dollar for dollar increase of $5/bbl in the price of Alaskan oil over what it would have been in the absence of the tax. The revenue impacts are based on March projections of Alaska North Slope production and include only the impact on royalties and severance tax.

The import tax on petroleum and petroleum products would without a doubt help prevent what could be an abrupt and severe dislocation in the Alaskan economy due to the tax base erosion, devaluation of State royalties, and decline in oil industry activity which may result from the recent oil price plunge. However, a clear majority of economists feel such a tax is on balance not a good idea for the nation as a whole. This Department cannot evaluate the short and long term effects on Alaska which may result from political considerations rising out of economic consequences on the national scene.