Institute for Energy Research Launches "Save Oil Tax Breaks" Offensive

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In late March, Senate Republicans torpedoed an effort by Democrats to repeal the $4 billion a year that is flowing to the oil companies in the form of subsidies. The Obama Administration had proposed ending the subsidies so that this unnecessary money for the oil industry could instead be directed towards renewable energy projects and emission reduction in the United States. But in Washington, big oil has paid off the right people and organizations to make sure that their subsidies and tax breaks never disappear.

One organization that is flush with cash from the oil industry is the Institute for Energy Research (IER.) While their name might have you believe otherwise, the group is little more than an industry-funded propaganda machine, hell-bent on insuring that the desires of the dirty energy industry continue to be fulfilled within the halls of Congress. "Energy research" has almost nothing to do with the group's activities.

Last week, after the Senate's vote to block the subsidy repeal, IER compiled a report attempting to dissect and disprove the Administration's proposal, point by point. But like most information put out by these corporate-funded think tanks, IER's analysis is riddled with falsehoods and inaccurate information.

The entire argument made by IER is built around one concept: President Obama wants to raise taxes on the oil industry. As a whole, this concept is inaccurate. The President and Democrats are looking to repeal subsidies, not the big oil tax breaks that are doled out every year. And there is a difference between the two. While the $4 billion a year figure is generally the accepted figure on oil industry subsidies, it does not include the additional money granted the industry by way of actual tax breaks. When factored together, the grand total comes to an estimated $40 billion a year. So if we only subtract $4 billion, the industry is still enjoying a $36 billion gift each year from the American public.

The Christian Science Monitor explains the process of determining the true cost of dirty energy industry giveaways:

Finding and tallying federal energy subsidies, however, can be fiendishly difficult. Doug Koplow of the energy-consulting firm Earth Track in Cambridge, Mass., is considered one of the nation's leading experts on the topic.

He estimates that the US spent between $49 billion and $100 billion on energy subsidies in 2007 – numbers Mr. Koplow says are still accurate if adjusted for inflation. The handouts cover a broad range of activities, from federal loan guarantees and funding for energy research and development to special tax exemptions.

The $40 billion to oil and gas companies makes up 52% of the total yearly giveaway. Here is where that money is going: $9 billion a year to nuclear; $8 billion a year to coal; $6 billion to ethanol; and $6 billion to renewable energy.

Now that the basics are out of the way, let's look at what IER tells us about the President's attempt to repeal oil subsidies:

He is claiming that imposing a tax hike on the oil sector won't affect its output. We will have to file this claim away, the next time the president or his allies suggest that a carbon tax would provide an incentive for industry to shift out of fossil fuels and into alternative energy sources.

Actually, we don't have to wait long for the opportunity. The White House's own official analysis of its 2013 budget proposal states:

Oil and gas subsidies are costly to the American taxpayer and do little to incentivize production or reduce energy prices…Removing these lower-priority subsidies would reduce greenhouse gas emissions and generate $38.6 billion of additional revenue over the next 10 years…

President Obama’s speech in the Rose Garden is directly contradicted by the White House’s budget, while the budget document contradicts itself too. On the one hand, the Administration is claiming that extracting billions more in taxes from the oil industry wouldn’t affect its incentives to produce oil. On the other hand, the budget document claims that the reducing “subsidies” would result in lower greenhouse gas emissions that only occur if less oil is produced. Regardless of one’s views on the tax code, these statements can’t both be true at the same time.

Through clever editing, IER managed to make it appear that the President contradicted himself. However, they omitted the middle portion of the speech where the president told us that the money taken away from the oil industry would be invested in renewable energy, and THAT is what would lead to lower emissions. IER wants us to believe that the “higher taxes” would cause a drop in output.

And that’s actually the next point they bring up:

Putting the rhetoric aside, the basic economic fact is that when you tax something, you get less of it. That’s why government officials like the idea of taxing liquor and cigarettes, after all: to get people to drink and smoke less. It’s why environmentalists favor carbon taxes: to get people to use less carbon-intensive goods.

Regardless of other considerations, the simple reality is that raising taxes on the oil industry will lead to less oil brought to market, than would otherwise be the case. That means higher oil prices, which in turn mean higher gasoline prices for motorists.

This point is slightly more tricky to tackle, but not impossible. In a typical situation, IER would be correct. For example, taxing a TV manufacturer at a higher rate would result in a higher price for consumers. This, in turn, leads to fewer purchases and therefore, less production.

However, this economic concept mainly applies only to luxury goods. Oil, unfortunately, is a necessity, and demand will not drop for the industry, meaning that supply *should* remain the same. IER accuses the Obama Administration of ignoring the concepts of “Econ 101,” while they ignore the basic law of supply and demand.

Furthermore, their argument that the increase in taxes will be reflected in the price of oil also demonstrates their lack of knowledge (or more likely honesty) about how the price of oil is set. As we've discussed before, oil prices are set on a world market, not the U.S. market. Repealing American subsidies will not affect the global price of oil, and if the companies were honest, it would also not raise the price of gasoline.

The final point brought up by IER is that these subsidies are completely necessary and justified:

Beyond the dubious economic analysis of the impact on gasoline prices, the Administration's rhetoric is also wrong for suggesting that these are "giveaways" or special "loopholes" enjoyed by "Big Oil." We'll analyze three of the biggest proposed changes: The repeal of the domestic manufacturing deduction for oil and gas companies (which would bring in an estimated $11.6bn over 10 years), the repeal of percentage depletion allowances for oil and natural gas wells ($11.5bn), and the repeal of expensing of "intangible drilling costs" ($13.9bn).

As pointed out above, their subsidy numbers are completely bogus. Ignoring that, they are trying to make the case that the American taxpayers should be the ones to pay for the cost of doing business for the oil company. The average small business in America receives meager tax write offs for the depreciation of equipment or land, up to a certain point. But no other industry, even those operating close to the same profit margins as the oil industry, receives such a high rate of return on depreciation. Those are risks that the industry is aware of, and just a part of the business.

So why is the Institute for Energy Research working so hard to defend subsidies and tax breaks for companies like Exxon who make an estimated $4.7 million an hour? Because they were founded and are currently funded by those same oil companies.

The group was founded by Robert Bradley, who was the Director of Public Policy Analysis for Enron. He was also the speechwriter for Ken Lay. He's also affiliated with the oil-funded groups the Cato Institute and the Competitive Enterprise Institute.

Media Matters points out that one of their main funders is the Claude R.

Lambe Charitable Foundation:

The Institute's funders include the Claude R. Lambe Charitable Foundation, the president of which is an executive vice president of Koch Industries, whose subsidiaries "have been in the petroleum business since 1940." Further, Reuters previously reported that Exxon Mobil Corp. has funded the group. Indeed, according to a September 14, 2008, Washington Post article, the Institute is "funded by the oil industry."

According to Internal Revenue Service data compiled by mediatransparency.org — a website recently acquired by Media Matters Action Network — the Claude R. Lambe Charitable Foundation donated $85,000 in grants to the Institute between 1997 and 2005. According to its IRS Form 990 for 2006 (accessed from the GuideStar database), the foundation donated an additional $25,000 to the Institute that year. According to his bio page on the website of the Charles G. Koch Charitable Foundation, of which he is president, Richard Fink is president and serves on the board of directors of the Claude R. Lambe Charitable Foundation. The bio also states that Fink is "an executive vice president and member of the board of directors of Koch Industries, Inc., where he leads the legal, government, community relations and communication capabilities for Koch Industries." Fink is listed as "President/Director" of the Claude R. Lambe Charitable Foundation on the group's 2004, 2005, and 2006 IRS Form 990.

Meanwhile, ExxonSecrets reports that the group received $307,000 from Exxon between 2003 – 2007.

Previous reports on DeSmogBlog have pointed out that the IER was behind an abomination of a “study” that downplayed the benefits of wind energy.

The fight over ending oil subsidies – and sending them towards the renewable energy industry that desperately needs them – is far from over. The Obama Administration has made it clear that they will continue to press the issue, and Democratic Senator Richard Blumenthal (CT) announced this week that he is still willing to fight. The American public is on their side, with 10 to 1 supporting a repeal of subsidies.

With the way gas and oil are making their way into this election cycle, don't be surprised if subsidies become a major campaign issue this year.

Source: Desmogblog (http://s.tt/19gXY)