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## Skip the gas profit tinkering

By H. Sterling Burnett/Christy G. Black

Congress is on the verge doing something stupid -- enacting a windfall profit tax (WPT) on oil industry profits. Even though pump prices for gasoline and the per-barrel price of oil are receding almost as fast as Katrina's floodwaters, it is popular to castigate "big oil" for daring to make a profit.

Though many Americans seem to feel low gasoline and oil prices are their birthright, price controls are disingenuous and counterproductive, leading to reduced investment in oil and gas exploration and possibly gasoline shortages -- the exact opposite of what consumers and the country need.

The WPT is a bad idea for any number of reasons. First, it places U.S. oil companies at a competitive disadvantage in the global energy marketplace. The federal government cannot tax the profits of foreign corporations, so only U.S. companies would be affected. The result: Oil companies in Venezuela, the European Union, Russia and Mexico would receive relatively higher profits than U.S. firms whose stock prices would fall. Millions of individual Americans and large

institutional investors holding shares of American oil companies would suffer as dividend income and portfolio values decline.

In addition, the WPT discourages investment in domestic oil production. The tax tells potential investors their development dollars would be better invested overseas. In addition, profits siphoned by taxing domestic oil companies will be unavailable for new production and refining capacity investments.

History supports concern about the negative effects of windfall profit taxes. According to a 1990 Congressional Research Service report, between 1980 and 1987, "The WPT reduced domestic oil production between 3 and 6 percent and increased oil imports between 8 and 16 percent."

According to Daniel Yergin of Cambridge Energy Research Associates investment prompted by higher oil prices in 2001-2003 (compared to the lower prices of the 1990s) should increase oil production capacity 20 percent by 2010. Indeed, in response to higher prices the number of oil and gas

wells operating in the U.S. has tripled since 2000. The WPT would likely slow or reverse that trend. Does anybody really think hindering domestic exploration, production and refining activities will result in more oil and gas at lower prices?

Instituting price controls is even more disastrous. Consumers might pay less for gasoline, but it would be hard to find. Lower prices raise demand but sharply cut supply. In a global oil market, foreign governments and a large oil cartel -- not U.S. companies -- dictate supply. If the federal government sets an artificially low gasoline price, oil and gas producers and marketers will ship their product to higher bidders elsewhere. Oil that could have gone to the U.S. will be sold at higher prices elsewhere, such as China or India.

Federal meddling in energy markets does not benefit consumers or oil companies. Remember the long gas station lines and shortages of the 1970s? Our economy suffered as energy shortages contributed to record inflation and high unemployment rates.

Rather than try to scapegoat oil companies, Congress should look to its own role in oil and gasoline prices. Tens of billions of barrels of oil are locked up on public lands in Alaska, including the Arctic National Wildlife Refuge, the Western U.S. and on the Outer Continental Shelf.

Yet there has been a moratorium on new oil and gas

development and production off the coasts of California, the East Coast and much of Florida since 1990.

These shortsighted policies faced relatively little opposition when put into effect because few politicians were willing to fight a vocal environmental lobby when supplies seemed abundant and prices relatively low. But that's no longer the case; today, the policies are foolish.

There are a number of reasons for the spike in oil and gasoline prices after Katrina, but market manipulation by U.S. oil companies is not one.

Congressional investigations of "price gouging" or "immoral profiteering" will only make matters worse, much worse. It's time for Congress to go back to school. We recommend Economics 101, paying particular attention to lectures about the laws of supply and demand.

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