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Petroleum Group Fears New Tax to Fund Popular Home Heating Program

By Ben Evans, CQ Staff

The White House may urge Congress to impose a tax or fee on oil companies as a way to expand funding for a low-income heating program, according to an internal memo from the American Petroleum Institute (API), but the White House denied it is considering such a plan.

“We are considering lots of different options to help consumers cope with high energy prices, but this is not one of them,” said Michelle St. Martin, spokeswoman for the White House Council on Environmental Quality.

But Red Cavaney, API’s president, said in an interview Tuesday that after talking with multiple sources on Capitol Hill, his organization remains concerned.

“It’s really the equivalent of a windfall profits tax,” Cavaney said. “We heard enough different people . . . talking about it that we wanted to make sure people knew that it wasn’t a fanciful long shot out there.”

In an Oct. 21 association e-mail sent to the heads of several major oil companies, Cavaney warned that “the administration is extremely close to decisions on a package of energy recommendations to move to the Hill for legislative action.”

“While we do not know the full extent of the proposals under consideration, two appear to have the inside track on being approved: a fee/tax on the oil and natural gas industry to fully fund LIHEAP [Low Income Home Energy Assistance Program] . . . and adoption of 5-Day Regional Reserves for Petroleum Products to cover gasoline, diesel and jet fuel,” the message said.

Profits and Pressure

The API memo comes as the industry and GOP leaders in Congress brace for a new round of calls by voters to rein in company profits when fuel costs remain high. BP PLC reported Tuesday that compared to a year ago, its adjusted profits for the third quarter rose 16 percent, to \$4.41 billion. Royal Dutch Shell PLC and Exxon Mobil Corp. are also expected to reveal robust earnings later this week.

With the Energy Department predicting that heating bills are likely to jump by nearly 50 percent this winter, House Republican leaders want to appease consumers without alienating a key source of campaign contributions.

At a Capitol Hill press conference Tuesday, Speaker J. Dennis Hastert, R-Ill., called on energy companies to invest some of their profits in rebuilding the nation’s energy infrastructure, including refineries and pipelines.

“Oil and gas companies are enjoying record profits. That is fine. This is America,” he said. “However . . . our oil companies need to do more to inform the American people about what they are doing to bring down the cost of oil and natural gas. When are new refineries going to be built?”

Hastert stopped short of calling for any mandatory measures or further legislation. But he

also did not rule out a tax, either.

“I would hope that we don’t have to do a windfall profits tax,” Hastert said.

Calling for Action

Congressional Democratic leaders said GOP leaders were not taking charge of a situation Congress could easily fix.

“We should repeal the excessive tax breaks and subsidies for Republicans’ big oil and gas company cronies and instead direct that money to lower the price of gas at the pump and home heating costs now,” House Minority Leader Nancy Pelosi, D-Calif., said in a prepared statement.

Sen. Byron L. Dorgan, D-N.D., meanwhile renewed his call for taxing profits unless companies plow a portion of their earnings into expansion of refineries and domestic production.

In the memo, Cavaney wrote the LIHEAP proposal “appears to be close to a slam-dunk and arguments made against it in this environment fall on deaf ears.”

Industry lobbyists and congressional aides said <API> has good reason to be worried.

It remains unclear whether Congress will approve a new government fuel stockpile, but there is momentum to expand the low-income heating program, GOP aides said.

The House has voted to spend \$2 billion on the LIHEAP program in fiscal 2006, while the Senate Appropriations Committee would nearly match the fiscal 2005 level of \$2.2 billion.

And while a bipartisan group of senators failed earlier this month to boost program totals by another \$3.1 billion, lawmakers from the energy-starved Northeast, including fiscal conservatives, appear determined to expand the program, budget constraints or not.

Budget hawk Sen. Judd Gregg, R-N.H., for example offered an amendment Tuesday to the Labor-HHS-Education spending bill (HR 3010) that would increase LIHEAP spending by \$1.3 billion. The House Energy and Commerce Committee also has proposed adding \$1 billion through the budget reconciliation process.

API says it supports the LIHEAP program but opposes funding it through a new tax on industry; it also rejects the idea of a government-run gasoline stockpile program.

Cavaney said a new tax would have harmful consequences for consumers and the industry, which he emphasized is still recovering from hurricanes Katrina and Rita.

“I do understand why they’re frustrated . . . I understand why people would point their finger at us,” Cavaney said. “But the logic just escapes us. Prices are high because we’re paying record prices for crude oil and taxes are high.”