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Big Oil: record profit, record taxes

Op-ed by Donald L. Luskin

The world isn't exactly running out of oil. But the black gold that fuels the global economy is getting harder to find every day. As other countries become more prosperous, international competition for oil is intensifying. And some of the countries that produce the most of it are politically unstable.

Our nation should be doing everything it can to encourage the American companies that are discovering, extracting and refining oil. Their job is not easy. Today a typical new rig has to drop through 2 miles of ocean water, drill vertically through four miles of rock, and then sideways through another six miles of rock to get at oil deposits. Don't even think about the amazing technology required to figure out that the oil was hidden there to begin with.

But instead of encouraging the oil companies that work miracles like this, the Congress is currently contemplating legislation that will slap them with a new tax that will cost them \$4 billion to \$5 billion this year.

With oil prices so high, it's a natural impulse to think about capturing some of those "windfall profits" with a new tax. But let's think carefully before we make life more difficult for the companies that work so hard to put gasoline in our tanks.

We want these companies to risk billions to explore for new oil, don't we? Then why do we want to take billions away from them?

And we want lower prices at the pump, don't we? Then why do we want to add a new tax which, like all taxes, can only make prices higher?

Our goal should be to ensure that there's as much oil as possible, selling at the lowest possible price. It's hard to think of worse way to pursue that goal than by taking capital away from oil producers, and adding to the taxes that already contribute to the high cost of gas at the pump.

For all that, if it still irks you that "greedy" oil companies are making windfall profits, then just remember this: Every oil company in America already pays a windfall-profits tax. The corporate income-tax rate is 35 percent of profit. That means that over a third of any windfall profits are already being taxed. And that's just at the federal level, not even considering corporate tax obligations to individual states.

Legislators pushing the new tax on oil companies will tell you it's not really a windfall-profits

tax at all. They'll tell you it's just a technical rule change that affects the way oil companies value their inventories for accounting purposes.

Don't believe them. A tax is anything that takes your money away from you and gives it to the government. And this one takes \$4 billion to \$5 billion. And Congress wouldn't even be considering it if the lawmakers didn't think they could exploit public resentment of record oil industry profits.

What the politicians don't tell you is that the oil industry is paying record taxes, too.

We want plentiful oil, we want reliable supplies, we want independence from foreign sources, and we want low prices. Only our nation's oil companies can give us those things. Let's let them do their job for us, and not punish them by demanding they pay even more taxes than they already are.

About the Author

Mr. Luskin is chief investment officer of Trend Macrolytics LLC, and former vice chairman of Barclays Global Investors.