FUEL FREEDOM FOUNDATION

What subsidies do oil companies receive?

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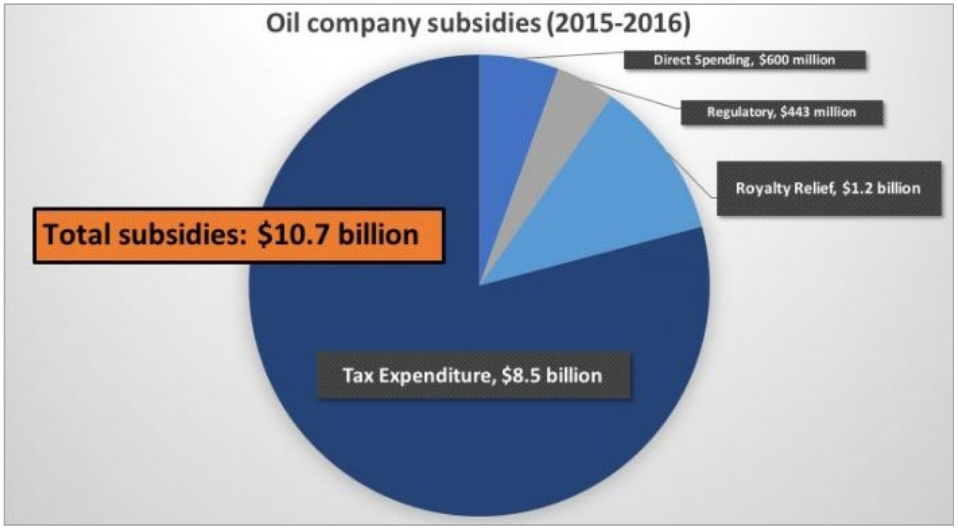
It seems like every day there's a new think piece out there decrying the subsidies that renewable energy, alternative fuels, and the vehicles that can run them receive. Yet when it comes to the substantial government assistance for oil companies, those same critics are conspicuously silent.

This silence becomes all the more questionable when you consider that many such freebies have been on the books for more than a century. It's one thing to offer support to a fledgling industry that's in the national interest, it's quite another to continue to prop up an industry that owns a whopping 92% market share of the transportation fuels marketplace, decade after decade.,

Congress and the ethanol industry understood that subsidies should be appropriately phased out for established industries when they eliminated the ethanol subsidy in 2011. Similarly, wind and solar power subsidies are set to phase out in 2019 and 2022, respectively. However, oil companies continue to be subsidized at a rate of 7-1 compared to permanent tax breaks that go to renewable energy.

This is not to claim that other energy interests do not receive any favored treatment. However, it is notable that an industry so dominant in its market continues to receive such substantial taxpayer support.

In the past, we've outlined how much a gallon of gasoline actually costs when you factor all the hidden costs that come with our overwhelming dependence on oil. Today, however, we'd like to focus specifically on the direct support the virtual oil monopoly in the United States receives from the federal government.



Direct subsidies to the oil industry can be broken down into four distinct categories:

There are **tax expenditures**, in which the federal government allows oil companies to deduct taxes during the oil-well development process. A prime example of this is the $2.3 billion Intangible Drilling Oil & Gas Deduction subsidy that allows producers to deduct 100 percent of expenses that aren't directly linked to the final operation of an oil well. Another notable example in action is the Last-In, First Our Accounting for Fossil Fuel Companies subsidy that allows oil companies to undervalue their inventory, reducing their amount of taxable income on the books and taking $1.5 billion out of federal coffers each year.

Then there are the **direct spending** subsidies, such as the $229 million Inland Waters Transport for Petroleum Subsidy. Usually, the federal government taxes shipping company using waterways a fee proportionate to the tonnage of what they ship. Not so with oil companies. Similar to this is the $107 million Inadequate Administrative Fees for Onshore Drilling Management subsidy that leaves taxpayers holding the bag for Bureau of Land Management costs associated with drilling that would otherwise be covered by the industry.

Next up are **royalty relief** subsidies, where oil companies carve out exemptions for themselves—usually with the help of lawmakers—to pay significantly lower royalties rates on the oil and gas they extract. For example, the Lost Royalties on Offshore Drilling for Leases Issued from 1996 through 2000 subsidy came as a result of the 1995 "Outer Continental Shelf Deep Water Royalty Relief Act," something that to this day deprives taxpayers of $1.1 billion each year.

The final type are known as **regulatory** subsidies. These apply when oil companies are given leniency in fulfilling their regulatory commitments. The most prominent, recent example is the $334 million BP Deduction for Oil Spill Legal Settlement subsidy, where BP was permitted to deduct from its tax bill nearly all the damages they paid to the federal government as a result of the infamous Deepwater Horizon spill.

The scope and specifics of these subsidies may vary widely, but the bottom line is always the same: Oil companies are given favorable tax treatment and subsidized with public dollars. By continuing this practice year after year, decade after decade, it makes breaking oil's virtual monopoly even harder, and forces us to continue suffering from all the terrible trapping that come with our overwhelming oil dependency.

So the next time someone starts criticizing subsidies going to alternative fuels and vehicles, or renewable energy, keep these oil subsidies in mind. Indeed, as many will claim, the playing field is not level, but not in the way that many imagine. Subsidies to oil companies are one of the reasons that—despite being cheaper, cleaner, and American-made—alternative fuels haven't more widely replaced oil in the transportation sector. If Americans want to achieve fuel choice and end the oil monopoly, we're going to have to take a hard look at all the market distortions, including subsidies and tax breaks, that effectively lock in the status quo.