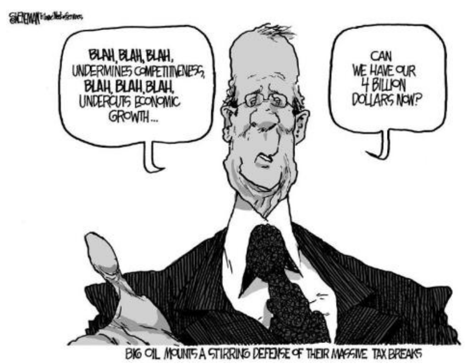
P-BOb HATES OIL COMPANIES *(OR SO IT SEEMS!)*

Stephen L. Bakke – May 15, 2011

(P-BOb is my “sometimes” nickname for President Barack Obama.)

Subsidy, Subsidy, Subsidy … Say It Fast, and as Many Times as You Can!

I was watching ESPN as Senate Finance Committee democrats grilled the CEOs of the top 5 U.S. oil companies. For the record, it was a “set up” from the start, and there was no way the executives could either avoid the contentious hearings, nor could they look good by appearing amidst such hostility from the democratic senate majority - a no-win situation. And the press took their direction from Chairman Baucus et al, by portraying these men as greedy buffoons.



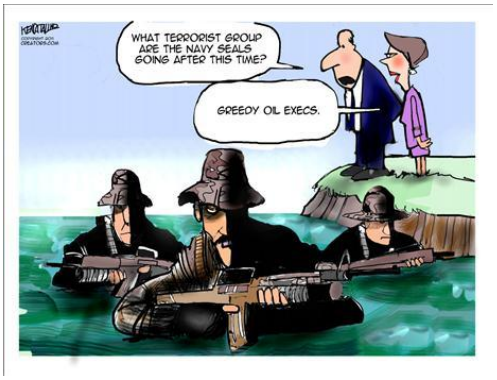
Actually the CEOs came across as respectful, informed, reasonable … and doing their job!! The talking points have been drilled in, practiced and learned well. **Even Louisiana democrat Sen. Mary Landrieu** called on fellow democrats to “stop introducing gimmicks like this that might get you a few political points in the short run, but it is not leading us in the right direction.”

The “democrat litigators turned legislators” (D-LTLs) are on the march – “shoulder to shoulder and bolder and bolder.” They are determined to “burn” that evil “S” word into the minds of voters – average citizens **“S”**ubsidizing big oil! The disdain which they use to deliver their venomous message is troubling. They are doing it for the cameras! ***(OR SO IT SEEMS!)***

Why? …… Can You Spell Demagogue?

You spell it D-E-M-A-G-O-G-U-E, but it’s pronounced “di-ˈstrak-shən”! The administration and the democrats are desperate to find and take a bold stand on some issue to distract citizen/consumers from various concerns which include the deficit, growing national debt, unemployment, housing prices, and (here it gets a little uncomfortable for them) the utter **absence** of an energy policy! They have developed no effective way of making energy cheaper soon, or in the long term. To say nothing of our continued economic and national security imperative that the U.S. be energy independent – and ASAP. This doesn’t mean we should ignore energy source and delivery alternatives – but alternatives truly only have uncertain potential for payoff, and then only in the VERY long term. We need action now!

For now, it is convenient to use the oil companies and executives as philosophical and human shields against the growing unrest about all things $$$$$. If the wind starts to blow from another direction, they will quietly fade into the woodwork with their concerns, and go on to the next fashionable "objet d'blam." But for the time being, it's easy to blame the oil companies for the gas prices, even when their own energy policies (or lack thereof) are very much more to blame!



So, we are destined to witness the workings of a desperate group – the machinery of shame, blame and actions by demagogues. The cameras are rolling, and since when has anyone who admitted incompetence been reelected? So … the evil and greedy oil companies have been "assigned" to "take a fall" and shoulder the blame for all the failings of the marketplace and even many regretable **political** misjudgements. ***(OR SO IT SEEMS!)***

You Make Your Own Decision

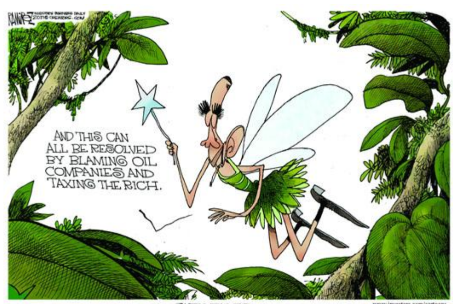
However you feel about the oil companies is your business. All I ask is that you consider some relevant facts as you evaluate the situation. For example:

- The "subsidies" being referred to are deductions for normal business expenditures and development costs. Some (not all) of these costs are deferred over a number of years. Requiring capitalization of certain costs and writing them off over a number of years is not what is normally thought of as a subsidy.
- Oil companies' profits are about 6 to 7 cents on each dollar sold. Federal, state and local governments collect **7 to 10 times** that amount of taxes on each dollar sold. **Which would have the largest impact on the price of gas – oil profits or tax charges?**
- Compare the "6 to 7 cents" in the prior item to the combined U.S. manufacturing segment, which earned 8.6 cents for every dollar of sales in a recent 2010 quarter.
- Gas prices have very little to do with domestic oil company policies and prices. The true culprit is the price of crude which is determined by producing countries and the international marketplace. Whether you like that fact or not – **it's TRUE!**
- If gas prices were rolled back by just 10%, and if that reduction was imposed entirely on the oil companies, virtually all corporate profits would disappear. **So, the bulk of the problem DOES NOT reside there!**
- Let's look at the first quarter of 2011 for Exxon, Apple and P&G:

	Exxon	*Apple*	*P&G*
Income b/4 Tax	*$ 18.5 Billion*	*$ 7.9 Billion*	*$ 3.64 Billion*
Taxes & Duties	*$ 8.0 Billion*	*$ 1.9 Billion*	*$ 0.77 Billion*
Net Income After Tax	*$ 10.9 Billion*	*$ 6.0 Billion*	*$ 2.87 Billion*
Net Income as % of Revenue	*9.6 %*	*24.3 %*	*14.2 %*
Taxes as % of Taxable Income	*42.3 %*	*24.1 %*	*21.2 %*

While these comparisons don't represent all companies and industries, **compare the 42.3% tax rate above to the 26% rate for all other businesses in the S&P 500.**

- Don't forget the billions (often over $10 billion) annually paid by oil companies for royalties, rents and bonuses. Paid to whom? **The Federal Government!**
- For comparison to current amounts, I recently analyzed some older financial statements of Exxon Mobil Corp. During the 4 year period '04 through '07, reinvestment in property plant and equipment was $57 billion compared to net profits of $140 billion – i.e. 40% of net profit was invested in the Company's future, and this excludes much of the exploration investments which, for the industry as a whole, amounted to a large majority of combined net profits. If this has slowed recently, it is probably because they have been slowed in their normal development endeavors.
- Is it just the "big wigs" and top management that own the oil companies? Recent data shows that less than 1% of Exxon Mobil is held by the "very wealthy". There are a few million additional shareholders of various wealth levels who hold the stock directly. Yet, a vast majority of the remaining stock is held by pensions, 401k plans, etc. **The majority of "beneficiaries" of oil profits are definitely, and provably, "the little guy".**



This sort of information is found in official records and in research presented by non-mainstream writers. It is ignored "in absolutism" by the mainstream media and most certainly the D-LTLs. It is purposely buried! ***(OR SO IT SEEMS!)***

Just Doing Their Job

Consider the comments and points made by the 5 oil company executives grilled by the D-LTLs on the Senate Commerce Committee (paraphrasing):

- Allowing deductions for legitimate business expenses is NOT a subsidy.
- We don't want special tax breaks. We only ask for fair and equitable treatment compared to other companies and industries!
- Don't blame us for the high cost of oil because we are just one part of a distribution system spread over international markets.

- Treating one industry less favorably than others is not the America way.
- The oil companies should not be "punished/penalized" for operating effectively and returning healthy profits to pension plans for the "little guys"; reinvestment in resource development and equipment; and contributing HUGE tax revenue.
- Eliminating the deductibility of these expenses would have a marginally negative, though not huge, on the incentives for oil and gas exploration and production. It would have a minor, if any, impact on the price "at the pump." But shouldn't our goal be to reach a point of energy independence for the U.S.?

What part of that is patently untrue? And can you imagine the outcry from individual shareholders and pension plans if these CEOs had NOT stood up for their companies and the industry? In spite of the **relatively small amounts involved**, these executives would have been summarily removed from their positions for lack of leadership and acting in a manner contrary to their companies' **legitimate** rights and best interests. The D-LTLs would prefer to have them throw their employees and stockholders "under the bus." ***(OR SO IT SEEMS!)***

Much Ado About Not Very Much

The amounts involved really are not very large "in the scheme of things." And as I stated before, most of what is being argued about is the "timing" of when legitimate business expenses can be offset again revenue to arrive at taxable income. Some of the terms are unique to the oil industry, but certainly NOT the concept of deducting legitimate business expenses. The D-LTLs are trying to create a "cows ear from a silk purse!"

Some examples of these expenses: intangible drilling cost (a question of when these are deducted, and by whom); oil depletion allowance (this is merely deducting, at some point in time, certain "development costs"; and foreign tax credits (the question is whether companies should have to pay taxes twice on the same income). These tax treatments, or equivalent ones, are available to corporations in all industries. Sometimes there are sematic differences, but the concept of deducting legitimate business expenses is the same. Once again, the argument isn't over huge special favors for the oil industry. They aren't asking for it! There certainly are more examples to be sited – but you get the point!

And don't forget, the national debt is about $14 trillion. The deductions in question result in about $4 billion in lost revenue annually. That's .0286% of the total debt and about .267% of just our ANNUAL deficit. They're just playing it up for the cameras! ***(OR SO IT SEEMS!)***

This administration and the D-LTLs really don't want the oil companies to contribute to lower prices at the pump or national energy independence. They seek to cause the entire oil/coal/gas industry to fail and get out of the way! ***(OR SO IT SEEMS!)***