History 101: Increase imports & lower domestic energy production

Lessons learned from the 1980 Windfall Profits Tax

While some in government favor Windfall Profits Taxes because they redistribute wealth, the Congressional Research Service determined that the 1980 Windfall Profits Tax generated only 20 percent of the revenues expected and increased imports of foreign oil by 20 to 40 percent. The decline in domestic oil production *and* increase in imports were primary reasons for its repeal.* A windfall profits tax on natural gas will have the same result.

The U.S. is the world's largest consumer of natural gas and the second largest natural gas producer. Today, 98 percent of the natural gas consumed in the U.S. is produced in North America. Only about 2 percent of natural gas is imported as liquefied natural gas (LNG) from other countries. A windfall profits tax would increase U.S. dependence on imported natural gas, and force the U.S. to compete for natural gas on price in the world market. Estimated January 2009 world landed LNG prices are shown below.

Increased dependency on imports occurs because taxes on profits, regardless of the size, create a disin- centive for capital investment necessary to continue the recent 9 percent growth of domestic natural gas supplies. This is especially true today with the growing reliance on unconventional natural gas resources. Unconventional resources can result in production being brought to market within months after the initial investment and continue for decades. A windfall profits tax would not only have a detrimental long-term effect, it would limit production near-term supply opportunities as well.

Although U.S. imports of LNG are relatively low, the ability to import natural gas supplies provides the U.S. with an alternative supply source when market conditions support an increase in imports.

The Windfall Profit Tax was a bad idea in the 1980s, and it is an even worse idea today given the role that natural gas will play in furthering U.S. climate change objectives and government interest in energy independence.

A windfall profits tax would force the U.S. to compete on price in the global LNG market.

Source: http://www.ferc.gov/market-oversight/othr-mkts/lng/othr-lng-wld-pr-est.pdf

Data in $US/MMBtu

*"The Windfall Profits Tax on Crude Oil: Overview of the Issues." Congressional Research Service Report for Congress. September 12, 1990.