Oil and Gas Industry Tax Incentives: How do they Compare ?

By Michael J. Economides

Federal politicians mislead the public when they preach about the need to revoke the "special subsidies" given to US oil and natural gas firms. In contrast to these overused sound bites, consider the following graph -- an excerpt from a July 2010 Tax Foundation's report, "Who Benefits Most from Targeted Corporate Tax Incentives?" It shows that the US oil and gas industry receives far fewer targeted tax credits than many other sectors and industries.Beltway speechwriters and spin masters can talk ad nauseum about Big Oil's "special" treatment, but the facts show it's not special at all. If anything, the traditional fuel industry is practically ignored relative to the attention given others; state and local governments enjoy almost $13 billion in corporate tax credits, followed closely by renewable energy firms with $11.3 billion (the largest share of which comes from the ethanol subsidies). Companies involved with these en vogue energy sources receive more than three times as much targeted tax credit as those producing fossil fuels.

Moreover, most of the targeted credits allotted to our oil and gas sector directly relate to changes to depreciation rules. Depreciation permits are just corporate finance-speak for the ability of firms to write off a portion of the annual wear and tear of equipment. Lawmakers have come to see depreciation allowances as valuable job-promoting credits received by all industries, not just those in oil and gas.These distinctions are important because some members of Congress would like voters to think that the oil and natural gas industry receives special treatment. Lawmakers want to leverage that confusion to levy tax hikes on US producers through the repeal of the Section 199 credit that encourages US manufacturers to create jobs and compete internationally.Don't be fooled by the rhetoric. Eliminating these tax credits would be the closest thing to special treatment for the oil and gas industry by singling them out for extra tax revenue. This type of government pickpocket would be detrimental to the national economy; resulting in higher energy prices, lost jobs for industry employees, and further reliance on foreign energy. We all should oppose this proposed "special treatment" for the oil and gas industry.

South Korea's thirst for oil

KNOC comes knocking

A South Korean state firm joins the scramble for oil

From The Economist

IN THE clubby world of Korean commerce, hostile takeovers are rare. The idea of a state-owned firm attempting one seemed unthinkable until recently. But when the board of a British target rejected a friendly offer, the Korea National Oil Corporation (KNOC) took off its gloves.

KNOC is offering £1.9 billion ($2.9 billion) for Dana Petroleum, an Aberdeen-based oil explorer with a knack of finding new fields. At £18 a share, that is a 59% premium to Dana's closing price on June 30th, the day before the first approach was made. The offer now looks likely to be accepted: KNOC has won over shareholders who own nearly half of Dana's stock.

This is probably not a sign that South Korean capitalism is growing less clubby. However, it does suggest that South Korea is joining the stampede by resource-poor Asian countries to secure future supplies of oil. Last year, KNOC made a more timid approach for Addax, a Swiss explorer, but was outbid by another state-owned entity, China's Sinopec.

This time there is a greater sense of urgency. President Lee Myung-bak has made energy policy a priority. Negotiations over American-led sanctions against Iran may hasten matters. America is unlikely to try too hard to stop South Korea buying Iranian oil, which accounts for a tenth of its consumption.

It is not clear what kind of a slap he had in mind. But still, the Koreans are anxious to find less politically volatile sources of supply. They consume more than 2m barrels a day, practically all of it imported. KNOC aims to more than double production, to 300,000 barrels, by 2012. Friendly mergers with Canada's Harvest Energy, as well as smaller companies in America, Peru and Kazakhstan, will help. Yet KNOC's hard-charging boss, Kang Young-won, wants more. And his unwillingness to take "no" for an answer suggests that he is prepared to break with tradition to get it.Oil-scarce Asian nations are so afraid of running out of fuel one day that their governments will pay far more for oil firms than anyone else thinks they are worth. The Koreans cannot hope to rival China's size and muscle, as they saw when KNOC failed to bag Addax. But South Korea has one advantage: other countries view it with less suspicion than they do China, since it is neither huge nor a dictatorship. A bid by CNOOC, a Chinese state-owned oil firm, for Unocal, an American oil firm, was withdrawn in 2005 after angry American congressmen denounced it as a threat to national security. KNOC will face no such storm of protest in Aberdeen.

Russia Unable to Retake Stakes in European Gas Market

Russia significantly increased its gas production in the first half of 2010, but the country was unable to retake lost market shares in Europe.

According to the Russian Ministry of Economic Development, Russia in the first six months of 2010 increased its gas exports with 27.7 percent year-on-year to a total of 100.1 billion cubic meters. However, the lion's share of this increase was in former Soviet Republics. When it comes to the EU market, Russia increased its exports only with 4.3 percent to a total of 62.9 billion cubic meters.Figures also show a major drop in export to the EU starting from May. In June, the drop amounted to as much as 44 percent, Oilru.com reports.

The export figures is unhappy reading for the Russian gas industry, which in 2009 experienced a significant drop in exports to the EU market.

Meanwhile, Russia in the its gas production. According to Oilru.com, the country's gas production in the first half of 2010 amounted to 379 billion cubic meters, which is a 19.3 percent increase year-on-year. Russia in the period exported 26.4 percent of the its total gas production, an increase of 1.7 percent point compared with the same period last year.

Iraq will abide by OPEC quotas in 2-3 years - minister

Iraq's oil minister has put off further discussions with OPEC about the country's quota until production ramps up to at least four million barrels a day.

Associated Press reported that Hussain Ali Shahristani had said that this could take two to three years.

"The current production 2.5 million barrels is no match to our potential," Al Shahristani told the news agency.

"Nobody is really in a rush to discuss (quotas) yet, but once we pass 3.5 or even 4 million barrels a day in two to three years time, we should enter into a very constructive discussion about new market shares."

After years of neglect, Iraq is starting to rebuild its oil infrastructure and awarded 12 contracts to develop 14 fields last year.

The country has the world's third-largest proven reserves of oil, and Al Shahristani has previously said that Iraq could boost production capacity to 12m barrels a day.

The oil minister also told AP that the country had no interest in boosting output to lower crude prices, a concern expressed by other members of OPEC."Our policy is not to maximise our production, but to maximise our revenues," Al-Shahristani said. "We are not going to produce more oil than the market can absorb and therefore force the price of oil down."

OPEC facing dilemma over oil prices: CGES consultancy

LONDON: OPEC is happy with oil prices at the current level of $70-80 per barrel but this will hamper the global economic recovery and energy demand, consultancy Centre for Global Energy Studies (CGES) warned on Monday.

The Organization of Petroleum Exporting Countries (OPEC), whose 12 member nations pump about 40 percent of the world's crude, meets periodically to set output levels with a view to maintaining revenues and investment levels. "At present, OPEC is in a position to keep oil prices where it would like to see them but this comes at a cost," the

Centre for Global Energy Studies (CGES) said in a monthly market report on Monday. "The cost is that the global economy will recover more slowly and the oil market will not grow as fast as it would have done with more moderate prices." Traders are fearful that the oil market could be derailed by faltering global economic growth in the second half of 2010. "Oil demand is rising with economic recovery but fears are growing that the economic rebound is losing momentum in the developed countries," the influential research group said. The market has gyrated around the $70-80 level for some time as traders have reacted to data on the outlook for the global economic recovery. "Since early October 2009, benchmark crude oil prices have been trading in a range between $70 and $80 per barrel, showing no sign of breaking decisively in either direction and receiving few signals from market fundamentals," the report said.

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