TAXPAYERS for COMMON SENSE

O & G REPORT

December 2020

Bad Bet: Oil & Gas Troubles Predate Pandemic Despite a Century of Subsidies

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The COVID-19 pandemic has infected the entire economy, leading to a recession of historic proportions. Congress, the Federal Reserve, and the administration created multiple programs to provide emergency support and reduce collapses of otherwise healthy businesses. The oil and gas industry has sought to participate and capitalize on these programs, like every other sector. However, the oil and gas industry faced an existential crisis long before the COVID-19 pandemic, despite a long history of subsidies and taxpayer giveaways.

For more than a century, the oil and gas industry received substantial federal support in the form of preferential tax treatment, below market rates for federal minerals, access to sensitive lands and waters, and low royalty rates. These taxpayer-financed market advantages helped make the industry the darling of Wall Street for decades. But financial markets are forward-looking, and competition is leaving oil and gas behind. Piling on more subsidies to bail out the industry is a waste of tax dollars. To illustrate general trends in the industry and the effect of subsidies, Taxpayers for Common Sense analyzed the annual financial filings of 20 of the largest U.S. exploration and production companies over the last five years. The filings demonstrate producers' financial decline in recent years despite generous support from federal taxpayers.

- The Federal Reserve infused companies in the oil and gas sector with more than $1 billion in financing through its COVID-19 relief bond and loan buying programs.
- The 2017 Tax Act provided a windfall to the oil and gas industry that had been deferring taxes with bespoke tax breaks for decades. Twenty of the top U.S. oil and gas producers reported $15.5 billion in book gains because of the bill.
- The boost to the industry was largely due to remeasurement of deferred tax liabilities. The Tax Act erased more than 30 percent of the net deferred tax liabilities on the books of top producers.
- The deficit-financed subsidies were not enough to reverse the sector's structural decline. During the five years from 2015 through 2019, this group of companies reported massive losses — with total U.S. pre-tax income of *negative* $120.6 billion, or an average combined loss of $24.1 billion per year.
- When companies did report U.S. profits, their accumulated losses and tax advantages made their current tax rates negative. In 2018, the group posted nearly $30 billion in U.S. earnings before tax, but incurred negative $171 million in current-year taxes on those earnings.

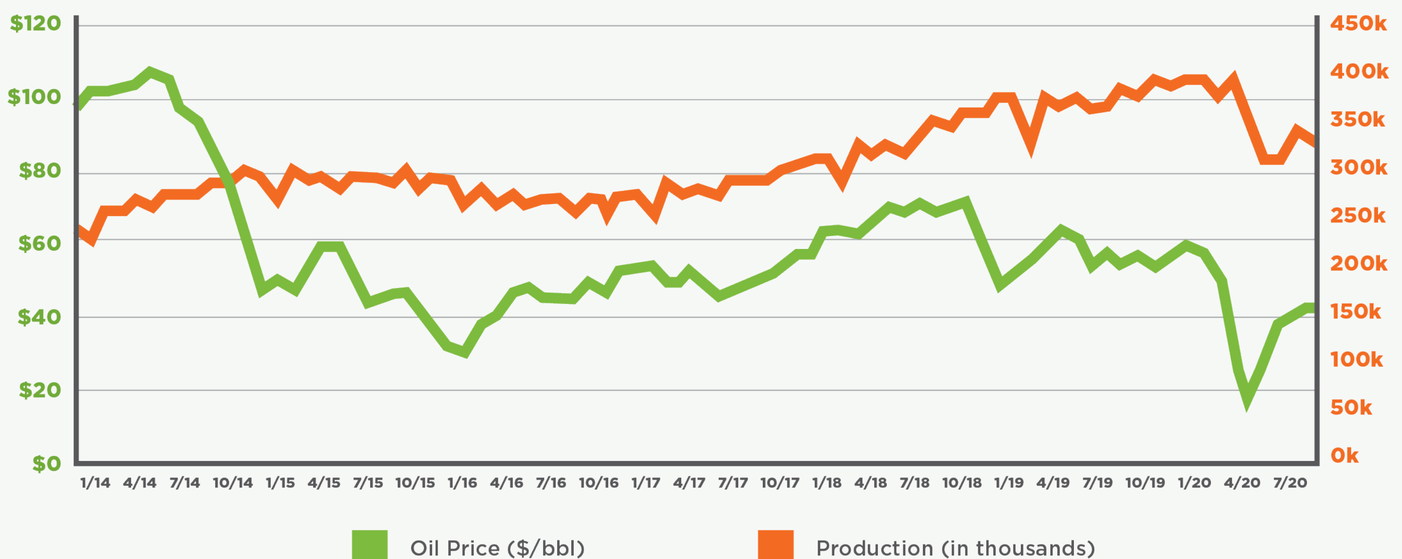
- ExxonMobil reported $4.4 billion in pre-tax domestic earnings over the last three years, more than any other producer, yet reported total federal taxes of negative $8 billion. Largely due to the Tax Act, the company ran up relatively low tax bills in the present and gained the ability overall to reduce its taxes later by $8 billion.

Special tax code carveouts for oil and gas companies have buoyed their balance sheets for decades. Deductions for developing wells let the industry write off drilling costs up front and led to the build-up of billions of dollars in deferred taxes. When Congress passed the 2017 Tax Act, the backlog of taxes were suddenly due at bargain prices; Congress amplified the industry's tax advantages by handing producers a big payoff for putting off their tax payments for decades. In 2020, amidst the economic upheaval from the COVID-19 pandemic, the Trump Administration rushed to aid oil and gas producers. But the industry was ailing well before the virus came. Subsidies at scale and the recent tax cut payout have not stopped the industry slide. Instead, they may have propped up production and kept prices low, accelerating the decline.

An Industry Long in Decline

Over the course of a century of profits, the oil and gas industry has enjoyed federal support in the form of subsidies, tax breaks, and below-market access to both capital and to taxpayer-owned lands. So, it should come as no surprise that the industry was first in line for support in the wake of COVID-19. Unlike many other businesses and industries, the oil and gas industry was already on the downside of a steady decline when the pandemic hit last spring. Providing the oil and gas industry with a bailout in the context of COVID-19 relief is an affront to taxpayers and the healthy businesses who are suffering as a direct result of the pandemic.

Thousands of businesses previously in good financial health sought temporary assistance from the federal government to survive the pandemic. Transportation stoppages and lockdowns drastically reduced demand for oil in the spring, leading to a collapse in prices. But the decline of the oil and gas industry reflects its fundamental shift in global energy markets, not COIVD-19. Investors around the world are moving on from the oil and gas industry. Taxpayers should not bail out this industry again.



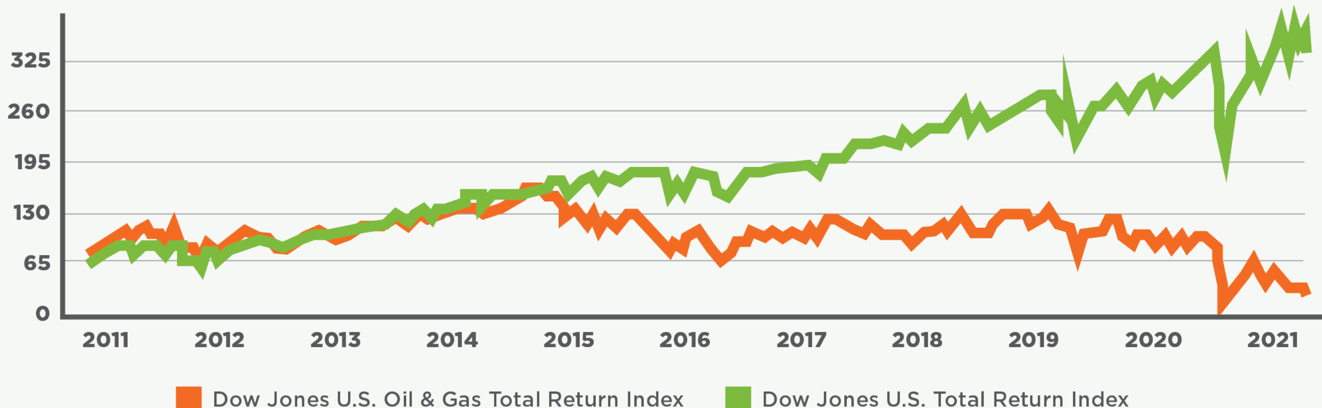
Over the last decade the fracking boom led to a rapid increase in oil and gas production, creating a supply that has outpaced demand. Even in the pandemic, production remains near record levels.In July, the US produced 11 million barrels of oil per day, a pace that had never been seen before 2018. **Crude oil production** from U.S. oil fields has increased from less than 160 million barrels per month in 2008 to more than 350 million barrels per month in 2020. During the same period, the **spot price** for crude fell from $133.88 per barrel to $39.40 per barrel. The Organization of Petroleum Exporting Countries (OPEC) cut production to keep prices stable, but even this has not stopped a steady decline.

Unlike the price shocks of the Great Recession or the dramatic, short term collapse earlier in the pandemic, the trajectory of oil prices reflects a systemic change in the industry. Fracking technology has pushed fuel production up and increased supply, but global demand is **shrinking**. Competition from cheaper renewable energy sources, including for transportation, the phase out of **single-use plastics** in countries across the globe and other trends are driving the decline in demand for petrochemicals. These are **permanent changes** in the oil and gas market that predate the COVID-19 pandemic, and they will limit how high oil prices will rebound after the current recession ends.

The performance of oil and gas stocks mirrors the decline in oil prices. Oil and gas returns tracked the Dow Jones average from the beginning of the decade until late-2014, when they began to decline. Since the beginning of 2015 through August 31, 2020, at least 233 oilfield services companies filed for bankruptcy protection with aggregate debt of nearly $100 billion on their balance sheets, according to one tracking firm. **50 energy companies** filed for bankruptcy in the first nine months of 2019 alone, making energy the worst performing sector in the S&P 500 — well before the emergence of COVID-19.

The likelihood of low oil prices, potentially for years, led some of the largest oil and gas companies to record **massive write-downs** of their assets. ExxonMobil, Occidental Petroleum, and Royal Dutch Shell have all received **credit downgrades**. In a report from 2019, a Citigroup **equity strategist** said: “We along with others struggle to perceive which catalysts encourage the Street to step back into the sector, short of a major supply disruption.” The industry’s decline is not new and will continue after the pandemic ends.

Ironically, the industry’s fortunes have declined so precipitously thanks in part to the loosening of environmental regulations, which has encouraged drilling of wells without adequate returns. Most drilling in the U.S. occurs in **difficult formations** like shale, where extraction is highly capital-intensive. In 2019, domestic exploration and development companies’ debt topped $200 billion. British Petroleum is now **selling** its London headquarters because of its heavy debt load and low returns. Perversely, the Trump Administration’s race to **expand drilling on federal lands** since taking office may ultimately contribute to the industry’s demise.



OIL & GAS TAX SUBSIDIES	
Tax Code Provision	**2020-2024 Cost to Taxpayers**
LIFO*	**$4.8 billion**
Percentage depletion	$2.9 billion
Expensing of exploration and development	**$2.3 billion**
Amortization of O&G geological + geophysical expenditures	$0.4 billion
Master Limited Partnerships**	**$1.8 billion**
15-year MACRS for natural gas distribution line	$0.3 billion
TOTAL	**$12.5 billion**
de minimis tax expenditures	
Credit for enhanced oil recovery costs	**<$50 million**
Credit for producing oil and gas from marginal wells	<$50 million
Expensing of tertiary injectants	**<$50 million**
Credit for producing fuels from a nonconventional source	<$50 million
Quantification not available	
Fossil fuel capital gains treatment	

* total reflects revenue loss from LIFO used by all industries
**MLPs are predominantly formed by O&G companies, but can be formed by select other sectors.

Source: Joint Committee on Taxation: JCX-23-20

A History of Taxpayer Subsidies/ Giveaways for Wealthy, Established Industry

Legacy subsidies in the tax code

The oil and gas industry likes to claim it pays more than other industries in taxes, but thanks to a variety of special tax breaks, many U.S. oil and gas companies pay a much lower federal tax rate than the standard corporate rate and can defer large portions of their tax liabilities.

Subsidies for oil and natural gas began in 1916 when the federal government created its first tax breaks for oil and gas production. A century of taxpayer-funded subsidies helped the oil and gas industries to flourish but taxpayers are still contributing billions annually to the energy sector.

The longstanding tax preferences that benefit oil and gas companies cost taxpayers billions. Last In-First Out accounting — a practice oil and gas companies use solely for preparation of US taxes — is projected to cost taxpayers $4.8 billion in the period between 2020-2024. Similarly, the percentage depletion allowance enables oil and gas operators to deduct a flat percent of resource sales revenue that may be in excess of the underlying investment in a particular operation. Over a five-year period, taxpayers will provide oil and gas operators with a $2.9 billion benefit through the deduction.

Other preferences include the century-old intangible drilling cost (IDC) deduction, which allows companies to write-off expenses for drilling wells including fuel, labor, and all contracting as if they are research and development investments; and the more recent effort to evade taxes through Master Limited Partnerships, which allow entities that are effectively corporations to be taxed as partnerships, thus avoiding corporate taxes altogether.

Preferences like IDC deductions and others that let oil and gas companies write off costs ahead of schedule lead to the accounting practice of tax deferral — a practice where a liability is recorded on a balance sheet for tax on income already earned and recognized for accounting, but not tax, purposes. It is a recognition that future income will incur more tax because the costs normally deducted against it have already been used for tax purposes. U.S. oil and gas companies collectively have hundreds of billions of dollars of deferred taxes on their balance sheets, much of which will never be paid.

Enhanced preferences in the 2017 tax bill

The 2017 tax bill added approximately $1.9 trillion to the national debt[1] — and the oil and gas sector emerged as a big winner. The oil and gas industry maintained all of its legacy tax preferences and reaped the benefits of newly created tax breaks.

To assess the effect of the 2017 Tax Act, and the overall state of the industry, Taxpayers for Common Sense collected data from the annual securities filings of 20 of the largest U.S. exploration and production (E&P) companies for the five-year period from 2015 to 2019. The 20 companies were chosen based on market capitalization reported in 2019 year-end filings, which reflected the market value of their shares

at the end of Q2 2019.[2] Together, the companies produce 35 percent of all U.S. oil, 19 percent of all gas, and 24 percent of all natural gas liquids.

Following the collapse of the price of oil in 2014 and 2015, the companies reported U.S. losses before tax of $41.6 billion in 2016. The drillers' total debt also peaked at $217 billion at the end of 2016. Small increases in the price of oil at the end of the year and the Tax Act's passage brightened the companies' books in 2017. In fact, seven of the 20 companies we analyzed were then able to report positive pretax domestic earnings for the year. And thanks to the U.S. federal tax preferences, including those in the new tax bill, six more were pushed into the black for 2017.

The ability to defer tax payments was especially advantageous for oil and gas industry after the passage of the massive 2017 tax cuts. Congress lowered the corporate tax rate from 35 percent to 21 percent in 2017: this rate drop allowed many oil and gas companies to recalculate the billions in taxes they had been deferring — at the new lower rate. The 20 oil and gas companies erased more than 30 percent of their total net deferred tax liabilities after the tax cuts passed and realized an instant tax savings of more than $15 billion.

The 2017 tax bill also allowed for accelerated recovery of capital costs through multiple provisions[3] expanding expensing rules. Like other businesses, oil and gas companies can now expense 100% of costs for tangible assets through 2024. When all costs for developing an oil or gas well can be written off through bonus depreciation and the intangible drilling costs deduction — surplus production is a reasonable result.

The reported net effect of the 2017 Tax Act for each company is presented below. Because Congress enacted the measure at the end of December 2017, the companies revised their initial estimates in their annual filings for subsequent years. The table below includes all effects reported in filings for 2017 through 2019.

REPORTED NET BENEFIT (EXPENSE) OF 2017 TAX ACT BY COMPANY

Company	Effect of Tax Act, 2017-2019 ($ millions)
Anadarko Petroleum	1,073
Apache	0
Cabot Oil & Gas	254
Chesapeake Energy	0
Chevron	2,020
Cimarex Energy	61
Concho Resources	405
ConocoPhillips	862
Continental Resources	714
Devon Energy	(372)
Diamondback Energy	68
EOG Resources	2,255
Exxon Mobil	6,233
Hess	4
Marathon Oil	35
Murphy Oil	(138)
Noble Energy	634
Occidental Petroleum	608
Pioneer Natural Resources	625
WPX Energy	149
TOTAL	**15,490**

Sweetheart access and royalty deals

In addition to the tax preferences the industry enjoys, oil and gas operators benefit from lands management policies that allow operators to extract taxpayer-owned oil and gas at below market prices. From leasing, to royalty payment, to waste and bonding requirements, oil and gas operators come out ahead of taxpayers. The leasing system is based on an auction system, where the highest bid should result in the taxpayers getting fairly compensated. But the industry has gamed the system for decades — rental rates have not increased in 30 years, operators routinely pick the parcels they wish to lease to their own advantage, and more than 20

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percent of leases in recent years have garnered only one bid — the $2/acre minimum set in 1987. Royalty rates on taxpayer-owned lands are below the rates state and private landowners charge. If the onshore royalty rate had been set at 18.75 percent, in parity with offshore oil and gas, onshore production could have generated up to $12.4 billion in additional royalty revenue from 2010 to 2019. Operators can also vent, flare, and use methane — one of the most harmful greenhouse gases — often without paying any royalties at all.

Taxpayers have lost more than $12.4 billion of dollars from 2009-2019 as a result of the broken oil and gas leasing system.

The COVID Bailout

The Trump Administration has given special attention to the oil and gas industry and economic relief for it without recognizing the deeper causes of drillers' current distress or targeting the industry support to pandemic-related challenges.

As discussed earlier, the oil and gas sector's balance sheets were in trouble long before the coronavirus pandemic began — well beyond the industry's usual boom and bust cycle. This is important context for gauging the White House's string of suggestions to assist, as are the market fundamentals. The recent record low oil prices are a direct result of over-supply met with dropping demand. Subsidies and supports that reduce the costs of extraction will only stimulate increased overproduction and exacerbate the problem.

The primary mechanisms of support from the administration come from the Federal Reserve, the Department of the Interior, and the Department of Energy. The two programs implemented by the Federal Reserve are below-market lending through the Main Street Lending Program and acquisition of high-risk debt through the Secondary Markets Corporate Credit Facility. Both of the Fed's programs provide cash infusions for the industry regardless of their financial health prior to the pandemic — and despite downgrades in credit ratings. The Department of the Interior lowered already below-market royalty rates for oil and gas operators on federal lands. The program administered by the Department of Energy provided cheap access to storage to oil companies through the Strategic Petroleum Reserve, further reducing economic pressures that would ordinarily discourage overproduction.

Below is a list of federal actions to date, and a brief assessment of their merits and potential costs to taxpayers.

CARES Act Tax Relief

At the end of March 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act made a number of changes to existing tax law. One of these changes modified how companies can use Net Operating Losses (NOLs). A company records an NOL when its business deductions for things like wages, employees' pensions, bad debt write-offs, and charitable contributions exceed its gross income during a tax year. Before the CARES Act, companies could carry this loss forward and deduct it from taxable income in future years, but not backward. This deduction was also limited to 80 percent of taxable income. The CARES Act suspended the application of the 80-percent taxable income limitation for NOLs occurring in 2018, 2019, and 2020. It also allows companies to carry NOLs from the qualifying years back in time — to the five preceding years.

In response to the changes, companies have applied to the IRS for refunds after using the expanded NOLs to reduce the taxes they had to pay in past tax years. Oil and gas producers' ability to take advantage of the CARES Act changes is limited by the scant taxes they have historically paid, but certain companies have reported refunds in their 2020 filings. Of the 20 E&P companies studied above, Devon Energy reported a benefit of $105 million because of the NOL changes, Diamondback Energy reported a $25 million benefit, and Occidental petroleum reported a $195 million benefit from the combined effect of all CARES Act tax provisions.

Expansion of the Fed's 'Main Street' lending program

One the first COVID-19 relief programs proposed by the Federal Reserve was the Main Street Lending program, designed to provide fast, low and no cost loans ***to small and medium size businesses that were in strong financial condition before the pandemic***. The Trump Administration proposed to modify the programs administered by the Federal Reserve to accommodate oil and gas companies' poor financial condition. On April 30, the Fed announced it was loosening the eligibility criteria for its Main Street Lending Program, after lobbying from the White House and industry supporters in Congress.

The program's initial criteria required that a borrower's total debt, including the new loan, could not exceed four times its income — a bar many in the oil and gas industry could not meet. This was relaxed to allow companies to borrow up to six times their income. Loans are also now available for companies with up to 15,000 employees or $5 billion in revenue in 2019, up from being available only for those with up to 10,000 employees and $2.5 billion in revenue. Crucially, the terms of the "Main Street Priority Loan Facility" now allow companies to use the Fed-backed loans to refinance pre-existing debt. Lastly, the maximum loan size was increased from $150 million to $200 million per company. Under the Federal Reserve Act, the Fed is prohibited from creating emergency lending

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programs designed to help specific industries or companies that are insolvent (12 U.S.C. 343(3)). While the Fed's announcement of the expansion of the Main Street Lending Program omitted mentioning the oil and gas industry or any other by name, press reports suggest the move was motivated by a desire to help drillers.

By the end of October, a few dozen companies representing every aspect of the oil and gas industry, including producers, insurers, tank makers, general service contractors, equipment renters, and pipeline operators had received loans through the program. The principal on these loans totaled roughly $600 million.

The Secondary Market Corporate Credit Facility

Early in the pandemic, the Fed proposed to buy corporate bonds for the first time and the CARES Act included more than $400 billion to allow the Department of the Treasury to absorb losses the Fed might incur as a result of this intervention. This program, while sold as another vehicle that could help businesses of all sizes, disproportionately benefits large corporations with growing debt portfolios and sinking credit ratings.

Oil and gas companies, already burdened by debt because of the price drops resulting from over supply, were well positioned to take advantage of the program. Through the end of October, the Fed had bought bonds issued by companies in the oil and gas sector with par value of more than $400 million. Most were issued by pipeline or other midstream companies, but exploration and production companies were propped up by Fed purchases of more than $130 million in bonds. Through the program, the 20 E&P companies in the tax analysis above received more than $81.5 million in financing.

Lowering Federal Royalty Rates

Early in the pandemic, oil and gas industry executives and their congressional supporters were clamoring for blanket royalty relief on federal leases. But reducing the percentage companies pay taxpayers for the sale of oil and gas extracted from federal lands is the most illogical. The fact is that federal taxpayers already lose billions every year because federal onshore royalty rates lag those on state and private leases. The last thing the industry needs is more subsidized production costing both the states where production resides and federal taxpayers valuable revenue when budgets were already stretched thin. While President Trump did dismiss the idea of blanket relief, which may not have been legally possible, Secretary of the Interior David Bernhardt provided royalty relief to operators of onshore leases for months over the summer costing both federal and state taxpayers more than $10 million.

Using the Strategic Petroleum Reserve (SPR) to Reduce Costs for Oil and Gas Producers

One of the administration's first ideas (March 13) after the price of oil dropped in early March was to increase oil stocks in the SPR. Buying oil for the SPR when prices are low is generally the right approach, but at the time SPR inventory already made up roughly 60 percent of ALL U.S. crude oil stocks. Filling up the Reserve's remaining capacity — from 635 million barrels to 714 million barrels — would have accomplished little to mitigate the surge in private inventories.

While the outright purchase of excess inventory for the SPR did not go forward, the administration then proposed l easing space in the SPR — which would cost taxpayers less, but accomplish no more than buying the oil would have. The administration moved forward with the idea, nevertheless. On April 14, The Department of Energy announced it was negotiating nine separate leases with oil and gas companies to store 23 million barrels of private oil in the Strategic Petroleum Reserve. Reports indicate the nine leases, offered to Chevron Corp, Exxon Mobil Corp, Alon USA Inc, Atlantic Trading, Energy Transfer, Equinor Marketing & Trading (US) Inc, Mercuria Energy America, MVP Holdings, LLC and Vitol, Inc., were signed on April 29. After promising to find storage space above and beyond the SPR's capacity, the administration floated the idea around April 15 that rocks and basins where oil currently sits could serve as storage. That is, the administration briefly considered paying producers not to produce.

Credit: Bureau of Safety and Environmental Enforcement via Flickr Creative Commons

Company Profiles

To demonstrate the impact of federal subsidies and the recent decline in the industry, financial data for a cross-section of the top exploration and production companies operating in the Intermountain West were collected and analyzed.

Anadarko Petroleum/Occidental

At the end of 2018, Anadarko Petroleum Corporation (APC) boasted extensive holdings in the region, including the operation of 5,100 wells in the DJ Basin in Colorado, 2,850 wells in the Greater Natural Buttes area of Utah, and the right to develop on 445,000 acres leased in the Powder River Basin in Wyoming. From its properties in the DJ Basin alone, the company sold 95 million barrels of oil equivalent in 2018, or nearly 40 percent of its global sales total. This regional production helped APC to report its first profitable year since 2013, but its balance sheet was far from healthy.

Like many companies across the sector, APC had taken on more debt while persistently low resource prices reduced future earning potential and thus its stockholder equity. In just three years, the company's debt to equity ratio had degraded from a very high 122% in 2015 to an even worse 193% by the end of 2018, despite significant subsidies from federal taxpayers.

For example, two of APC's consolidated subsidiaries — Western Gas Partners, LP and Western Gas Equity Partners, LP — were structured as publicly-traded limited partnerships that could attract more investors and obtain higher leverage because of their preferred status in the tax code. In addition, the reduction of the corporate tax rate in the 2017 tax bill allowed APC to reduce the deferred tax liabilities it had amassed using the intangible drilling costs deduction from $5 billion in 2016 to $2.6 billion in 2016. On net, the company reported a tax benefit of $1.1 billion due to the tax bill. These benefits could not rescue the company, however, and in August 2019, APC was acquired by Occidental Petroleum.

EOG Resources Inc.

In its 2019 annual report, EOG put its lease holdings in the Rocky Mountain region at 1.26 million acres. From its wells in the Powder River Basin and DJ Basin and elsewhere in the region, EOG reported production of approximately 109 thousand barrels of oil equivalent per day in 2019, driving up its U.S. total for the year. The company's strong U.S. production paired with consistent costs enabled EOG to fare better financially than other operators in the U.S. Over the three years 2017-2019, the company reported $8.2 billion in domestic pretax income. Yet because of the tax breaks afforded to the industry, EOG incurred negative $438 million in taxes on that income. That is, the company accrued enough credits and other benefits to not only minimize taxes in current years, but also to reduce its taxes in future years by $438 million.

While nearly all U.S. oil and gas companies benefited from the 2017 tax bill, EOG gains were standouts. Between remeasurement of deferred tax liabilities, the preservation of credits through the use of net operating losses, and less-than-expected tax on repatriated earnings, the company recorded net benefits of $2.3 billion from the tax bill in 2017 and 2018. The company's success relative to competitors attracted significant investment since the tax bill was passed, leading to a one-third increase in stockholders equity and a healthy debt to equity ratio of 24% by the end of 2019. The company's relatively strong balance sheet did not prevent it from benefiting from federal COVID-19 support. As part of the Secondary Market Corporate Credit Facility, the Federal Reserve bought EOG bonds with par value of $3 million.

Noble Energy, Inc./Chevron

In recent years, Noble Energy invested heavily in its operations in the Mountain West. In addition to acquiring 181,000 acres for exploration in the Green River and Powder River Basins in Wyoming, the company relied on production from 336,000 acres in the DJ Basin in Colorado. In 2019, sales from the DJ Basin accounted for more than half of Noble's U.S. total and roughly two of every five barrels of oil equivalent it sold worldwide. But payments to address the impact of the company's operations in the region reduced its earnings. As part of a consent decree with the U.S. EPA, U.S. DOJ, and the State of Colorado, Noble paid $5 million in civil penalties, $8 million for mitigation, and $84 million for immediate remedies in connection with uncontrolled emissions from its condensate storage tanks in the DJ Basin. The company has also begun to address the many unplugged wells Noble abandoned in the region.

In the five complete years since the drop in global oil prices starting in 2014, Noble has failed to post a profit. Subsidies from U.S. taxpayers, however, have helped the company maintain a moderately healthy balance sheet. In 2017 and 2018, the company recorded $634 million in benefits from the 2017 tax bill, mostly from remeasurement of its tax liabilities at the lower corporate rate. In 2020, the U.S. Federal Reserve also bought Noble Energy bonds with a par value of $4 million. The support is likely appreciated by Chevron Corporation, which acquired Noble Energy in October 2020.

TOP 6 PRIVATE OIL & GAS COMPANIES' PROFITS ($, BILLIONS)

	2019	1990-2019 ($-nominal)	1990-2019 ($-2019)
ExxonMobil Corp.	$14	$613	$775
Royal Dutch Shell PLC	16	411	524
BP P.L.C.	4	258	332
Chevron Corp.	3	291	361
Total S.A.	11	229	278
ConocoPhillips	7	114	146
Top 6 Total	**$56**	**$1,917**	**$2,415**

Conclusion

The perpetual subsidy system enjoyed by oil and gas industry has distorted the marketplace and weakened competition. These subsidies enabled a mass accumulation of wealth and helped secure the market dominance for the industry. The six largest oil and gas companies reported in excess of $55 billion in combined profits in 2019. Just these six companies have generated $2.4 trillion in profits since 1990 (see table below). For more than a century, the oil and gas industry has been among the most profitable in the world. Despite this profitability, companies have maintained and increased generous subsidies.

The decline in the oil and gas industry dates back to 2005 or earlier. In the last 15 years, oil and gas sector average stock returns have dropped to below 3%, compared to the average return of 9%. Even before COVID-19, global demand growth was outpaced by economic and population growth. The COVID-19-related collapse in demand in prices was the third major collapse in a dozen years. These industry ailments are not a result of the pandemic — rather they reflect shifts in technology and global market conditions.

Despite their enormous profitability, oil and gas companies managed to maintain and secure generous subsidies from the U.S. federal government time after time. At a time when so many American businesses are struggling to survive COVID-19, taxpayers should not be propping up an already troubled mature industry.

Endnotes

[1] Congressional Budget Office, "The Budget and Economic Outlook: 2018 to 2028," April 2018, Appendix B, Table B-3. cbo.gov/publication/53651

[2] Newfield Exploration was acquired by Encana Corporation in February 2019, which was then based in Canada. Encana did not reorganize and relocate its headquarters to the U.S. as Ovintiv until January, 2020. Because neither Newfield nor Ovintiv were U.S. companies at the end of Q2 2019, both were excluded from the analysis.

[3] 26 USC 179, 168(k)

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