

Big Oil Bailout: Fact or Fiction?

Lukas Ross
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Oil, Gas, and COVID-19



- The decline of the oil and gas industry began long before March 2020
- Trends endogenous to the energy sector that were damaging for oil and gas have now collided with the exogenous shock of Covid-19.
- Even as it faces economic decline, do emergency economic measures present an opportunity to arrest or reverse these trends?





The 100 year Bailout

- Government support for the oil and gas industry did not begin in March 2020
- There is no such thing as a free market in energy
- The tax incentives that have been so essential to the industry are nearly as old as the industry itself.
- The percentage depletion allowance dates from 1926
- The deduction for intangible drilling costs dates from 1916





The Anatomy of a Bailout

- The Strategic Petroleum Reserve?
- Royalty Relief?
- Tax Cuts?
- Federal Reserve Programs?





Tax Policy

The Coronavirus Aid, Relief and Economic Security (CARES) Act included \$300 billion in largely overlooked corporate tax breaks.

- The largest single area of oil and gas intervention was tax provisions of the CARES Act—and it shows.
- Although the Trump tax cuts of 2017 were overall massively beneficial to oil and gas, two issues were flagged at the time as uniquely concerning:
 - Net Operating Losses (NOLs) carryback
 - The deduction for interest
 - The Alternative Minimum Tax (AMT) Credit
- The CARES Act temporarily reversed those problem tax provisions

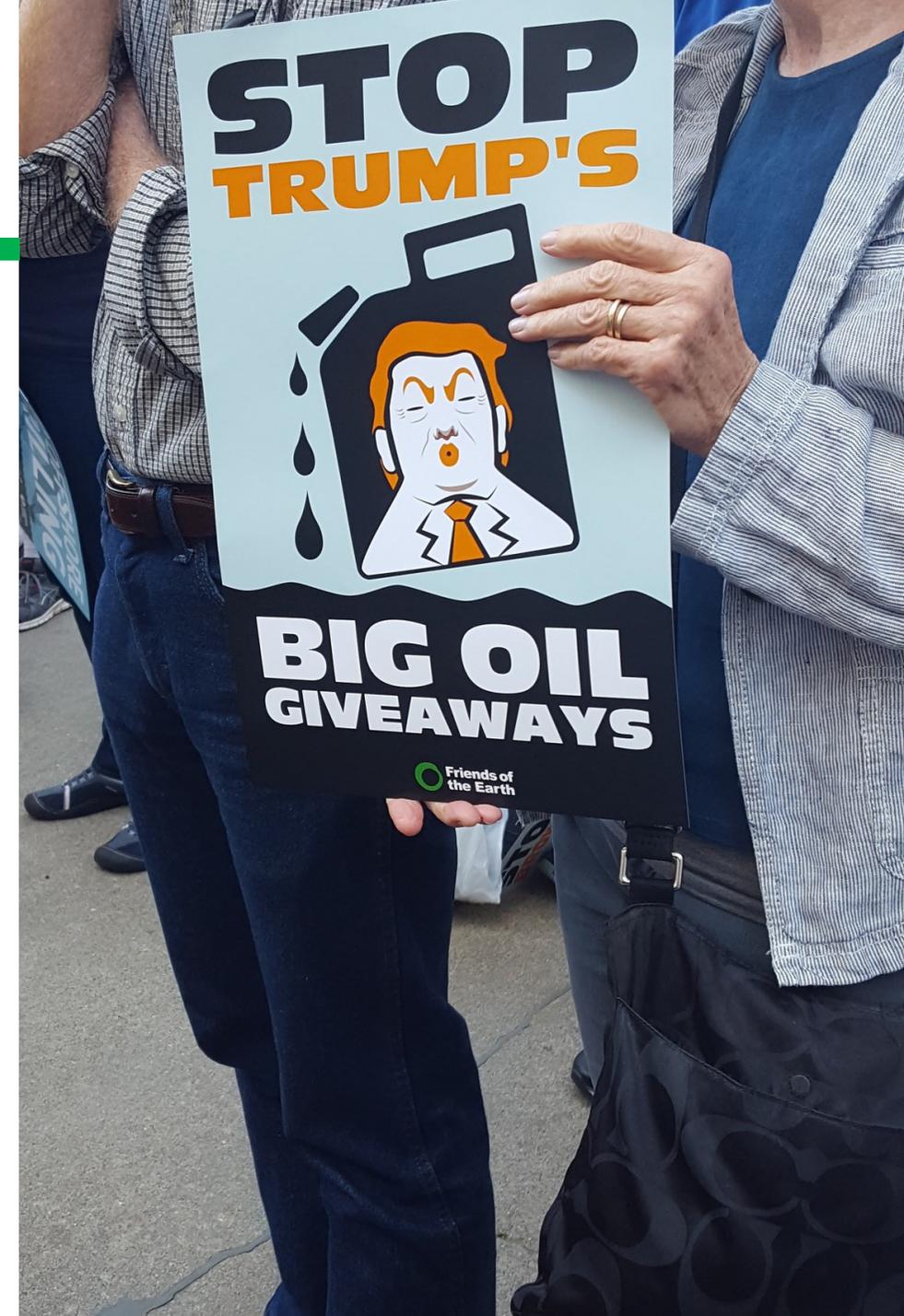




The Federal Reserve

The biggest single intervention in the history of the US economy occurred on March 23, 2020.

- Ever since The Fed has stepped in to backstop corporate debt markets, Big Oil has gone on a borrowing bender
- The level of the Fed's stimulus has made other emergency lending programs redundant.
- With \$50 billion in bankruptcies, how helpful really is access to the fixed income market?



What's Next?



- The emergency Federal Reserve programs are scheduled to expire in December.
- Another coronavirus relief bill could include substantial fossil energy provisions.





Questions?

Lukas Ross
Program Manager
lross@foe.org

