



ATR ENERGY TAX HIKE SERIES

OBAMA 2011 BUDGET ANALYSIS

“Use It or Lose It”

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Current Law

Considering the federal government owns around 30% of all land in the United States, many of the nation’s minerals reserves lay in government owned territory. When oil reserves are discovered on federal land, oil companies bid for government leases in order to develop newly found oil deposits. Generally, these leases are for ten year periods.

Obama 2011 Budget

The proposed “use it or lose it” policy looks to tax oil companies that have leased federal land but have not begun, or are not mining enough, oil. The “use it or lose it” tax is to be levied and administered by the Department of the Interior and will **raise taxes by \$1.2 billion during the 2010-2020 period.**

ATR Analysis

There are numerous problems with the proposed “use it or lose it” policy. Under the 1992 Comprehensive Energy Policy Act (CEPA) oil companies are already required to use government leased land in a timely manner or they risk forfeiting their lease. Without punitive punishments, CEPA and its threat of lease termination has proved to be an adequate means of encouraging expedient development of oil reserves, the rationale behind the “use it or lose it” tax hike.

Secondly, the “use it or lose it” tax disregards the complex oil mining process. Companies purchase leases knowing very little about the land they are renting, “only 1 in 3 onshore wells finds enough oil or gas to produce profitably; in deep water, only 1 in 5 wells is commercial. Thus, only a small percentage of the leased acres end up producing oil.”¹ The Obama budget furthers the misconception that every lease contains oil when less than 30% of all leases are ever developed.

Taxing oil companies for running the complex, expensive, and necessary geological tests used to determine the profitability of leased land makes little sense and can only lead to wasteful spending. In order to avoid “use it or lose it” penalties, oil companies may prematurely develop unprofitable oil wells effectively relocating capital to substandard wells.

¹ <http://www.aei.org/article/28463>