

## Energy Insider by William Engdahl

### Crude oil tax fight surfaces

*A group of conservative, pro-energy Democrats could hold the key to Reagan's tax package.*

A little-publicized fight is shaping up in the corridors of the Congress that promises to have a possible swing effect on passage of President Reagan's overall tax bill this month.

At issue is the President's campaign pledge to repeal or substantially lessen the impact of the so-called crude-oil Windfall Profits Tax of 1980. For those who may have forgotten, that piece of Carter administration legislation was devised by Deputy Energy Secretary John Sawhill, in cahoots with his friends at Robert O. Anderson's Atlantic Richfield Company.

The Winfall Profits Tax would ensure that the aggressive exploration by some 12,000 independent producers in the United States was sharply restricted while prices were raised. Had that succeeded, Carter zero-growth strategists would have moved closer to stopping energy growth and imposing economic "deindustrialization" (OMB's whiz kid David Stockman prefers to call it "postindustrialization") on the domestic economy, using energy as the weapon. The law mandates leeching \$227.3 billions away from productive energy production into the Treasury over the next decade.

The tax most severely affects the very sector of the industry that plays the most vital high-risk role, namely, the independents who, because of the structure of the industry, do most of the so-called "wild-cat" (drilling in untested fields) ex-

ploration. Last year, for example, independents drilled 88 percent of all oil and gas wells in the U.S.

This sets the stage for the present congressional fight. Ironically, the members of Congress playing the most constructive role in delivering on the President's campaign pledge are members of the House's new "swing bloc," the Conservative Democratic Forum, led by Charles Stenholm, a Roscoe, Texas Democrat. They are the backbone behind the amendment proposed by Kent Hance, another West Texas Democrat.

The Hance amendment, H.R. 2451, would give exemption to independent producers for the first 1,000 barrels per day of production. A similar bill, sponsored by Sen. Lloyd Bentsen (D-Tex.), passed the Senate last year, only to lose in the House, at a time when it was far more liberal. Hance has been quietly gathering cosponsors and by press time, may have a full House majority in support of his bill. However, one of Hance's cosponsors is "conservative" Texas Democrat Phil Gramm, who despite his pretense of supporting the Hance bill, has begun to lobby against it, saying the U.S. can't afford the exemption.

This has posed an interesting dilemma for the President. Knowledgeable sources report his personal inclination is to back the independents. But OMB axe-man Stockman, Treasury head Regan,

and their agents like Gramm have insisted that the Hance-Bentsen bill will "upset" the President's budget. Stockman, who posed in Congress as the champion opponent to the Windfall Profits Tax, is on record opposing both the Hance bill and oil depletion—his true Harvard anti-industry colors are showing. It's causing a good many independent oil producers who believed Stockman was "one of us" to do some rethinking.

Treasury Secretary Donald Regan last week called the Hance bill "a real budget buster" that would knock out \$4 billion. The Joint Tax Committee calculates it will cost \$1.7 billion the first year if restricted to independents.

I made an informal poll of some leading spokesmen for the independent producers. Most are Republicans who went all-out to get Reagan into the White House. All back the Hance 1,000-barrel exemption. They are rightly worried that, with ongoing high interest rates and soaring inflation in drilling costs, doubling the amount of drilling needed to open up significant new energy reserves over the next decade will never happen.

Bud Stewart, president of the Energy Consumers and Producers Association in Seminole, Oklahoma, pointed to the negative impact of the recent drop in the price of crude, which deprives independents of that much more exploration capital. "Now is the time" to move against the Windfall Profits Tax, Stewart emphasized.

I have a constructive suggestion for the President: repeal the entire confiscatory tax, and make up the deficit by forcing the Federal Reserve to bring interest rates down below 10 percent.