



AMERICAN PETROLEUM INSTITUTE
Washington, DC – Federal Update

THE WOODLANDS, TX

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API – AT A GLANCE

The American Petroleum Institute (API) is the only national trade association that represents all aspects of America's oil and natural gas industry.

Our almost 500 corporate members, from the largest major oil company to the smallest of independents, come from all segments of the industry.

2011: A YEAR OF TOUGH CHALLENGES

The Washington Post
The New York Times
Los Angeles Times



FEDERAL DEFICIT



2011: DEFINING THE DEBATE

America's choice

increase

oil & natural gas
development

2020

raise

oil & natural gas
taxes

jobs

+ 1,100,000 jobs



jobs

- 48,000 jobs

government revenue

+ \$127 billion



government revenue

- \$29 billion

energy production

+ 4 million barrels'
worth of oil and
natural gas per day



energy production

- 700,000 barrels'
worth of oil and
natural gas per day

Source: WoodMacKenzie Energy Consulting, http://www.api.org/Newsroom/upload/API-UB_Supply_Economic_Forecast.pdf,
and http://www.api.org/policy/tax/recentstudiesandresearch/upload/GOAE_Wood_Mackenzie_Access_vs_Taxes.pdf

2012 API CRITICAL ISSUES - MATRIX

Mission Critical

Taxes

Hydraulic fracturing

Access & development / E&P environmental issues

Oil spill prevention, response & liability

Oil sands

Fuels

Safety

Work

Air/NAAQS

Climate change

Financial reform & transparency implementation

Energy markets

Water

Endangered species / marine mammal protection

Natural gas markets

Work/monitor

Health and product stewardship

International

Waste and remediation

Security

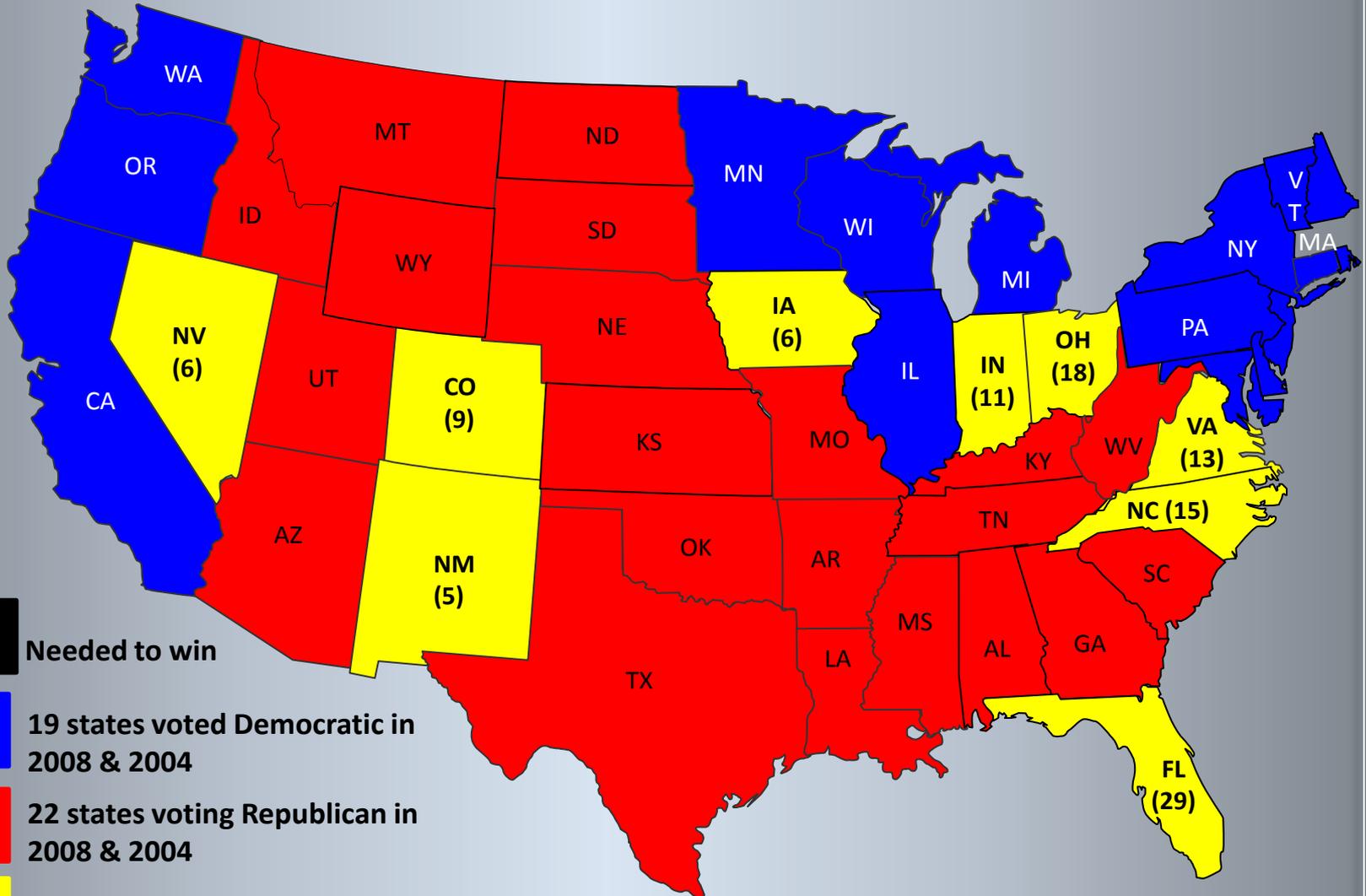
Tort reform

Pipeline safety



2013 Political Outlook

2012 – Presidential Battlefield; Key States



270

Needed to win

246

19 states voted Democratic in 2008 & 2004

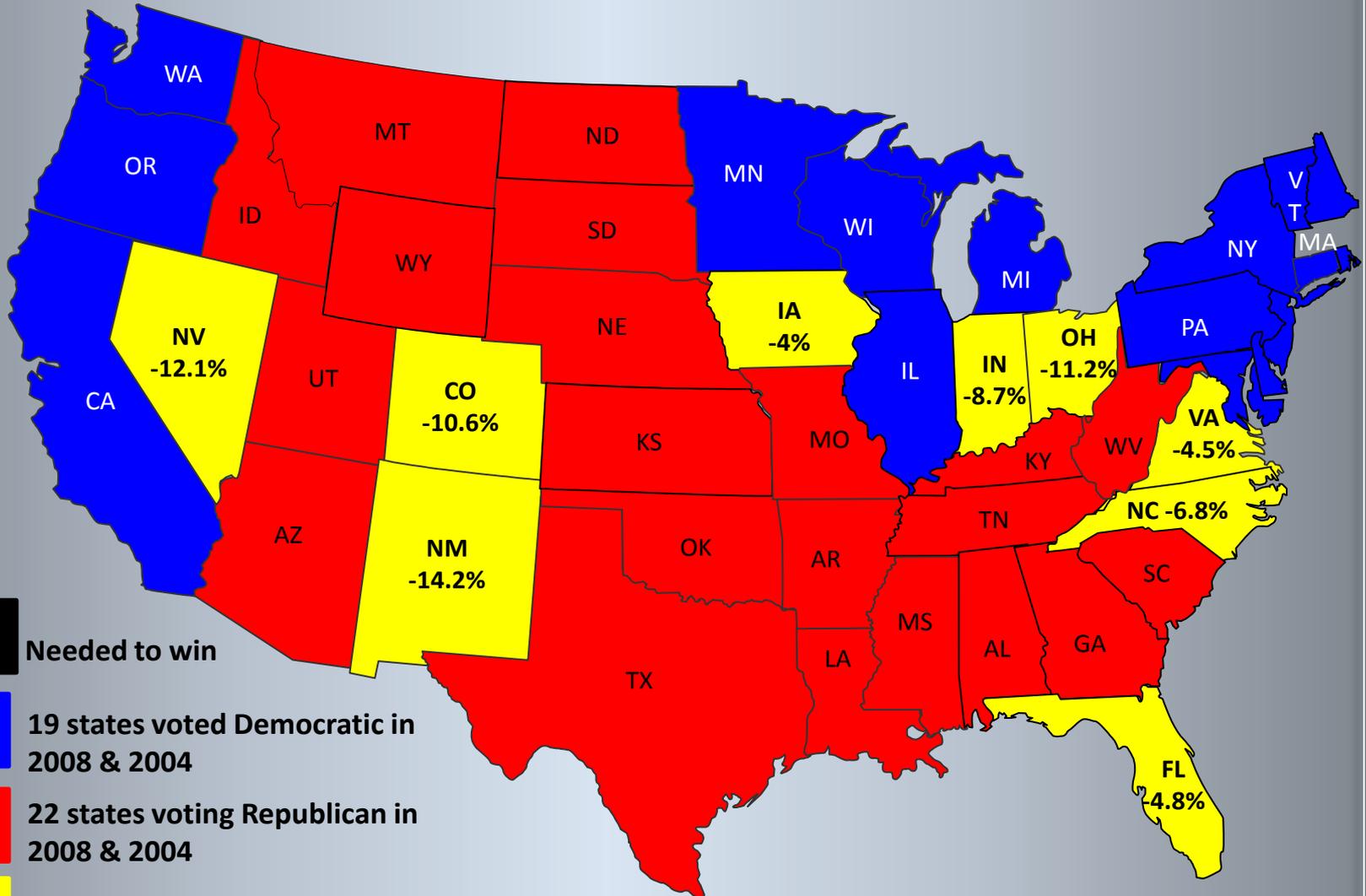
180

22 states voting Republican in 2008 & 2004

112

Electoral votes in play

2012 – Change in Obama Approval 2010-2011



270

Needed to win

246

19 states voted Democratic in 2008 & 2004

180

22 states voting Republican in 2008 & 2004

112

Electoral votes in play

2012 - Senate Projections

RACE RATINGS ▼

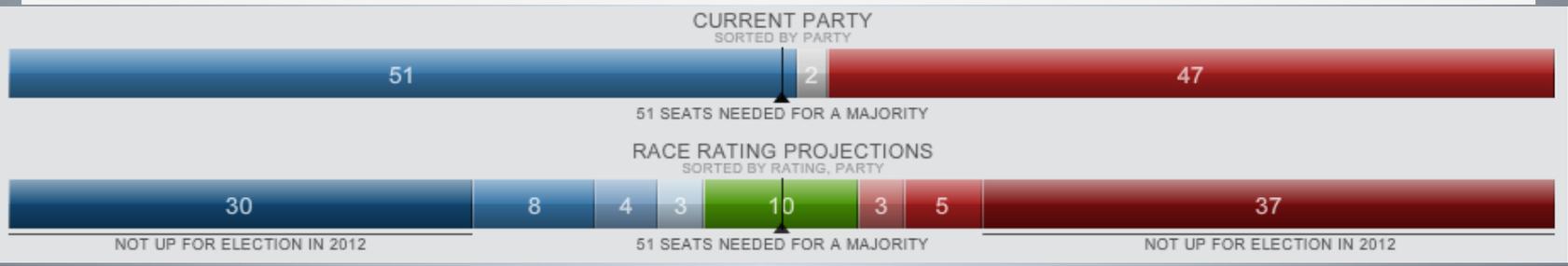
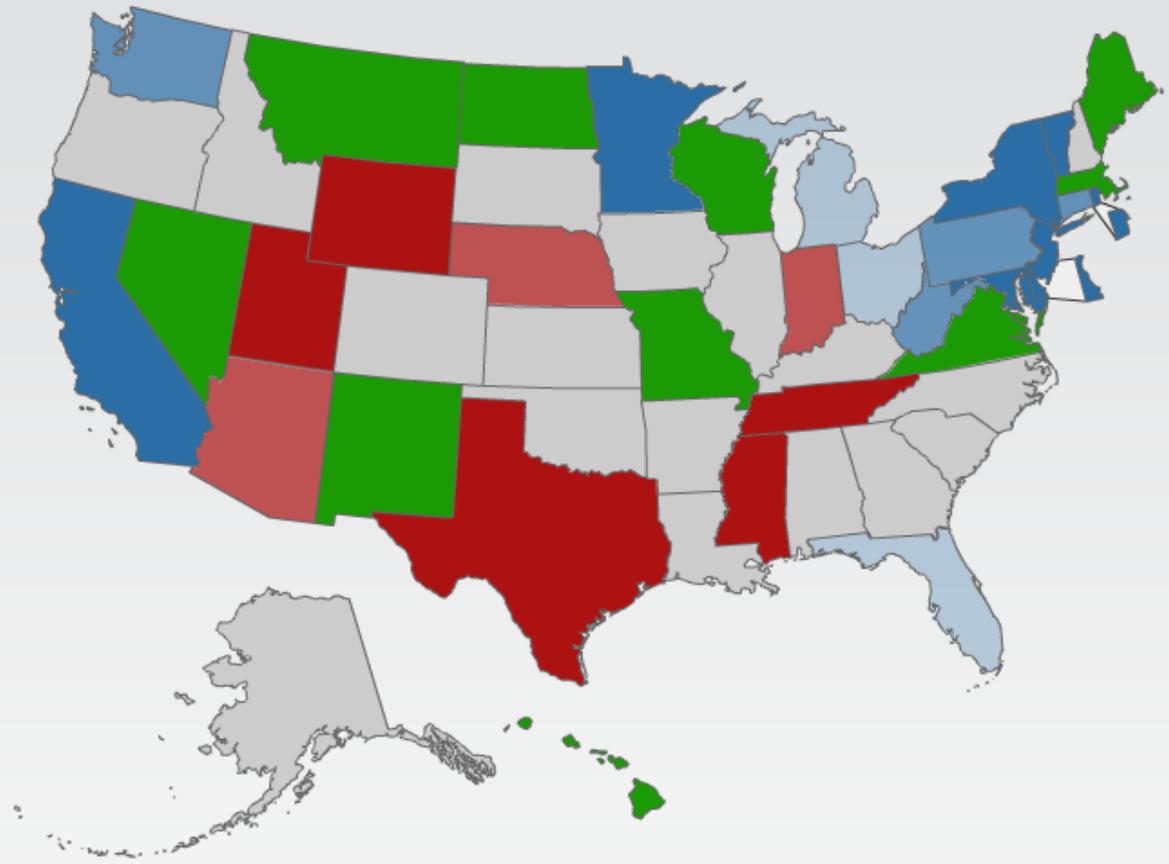
- ★ Solid D (8)
- ★ Likely D (4)
- ★ Lean D (3)
- ★ Toss Up (10)
- ★ Lean R
- ★ Likely R (3)
- ★ Solid R (5)
- ★ Two Races

OPEN SEATS ▶

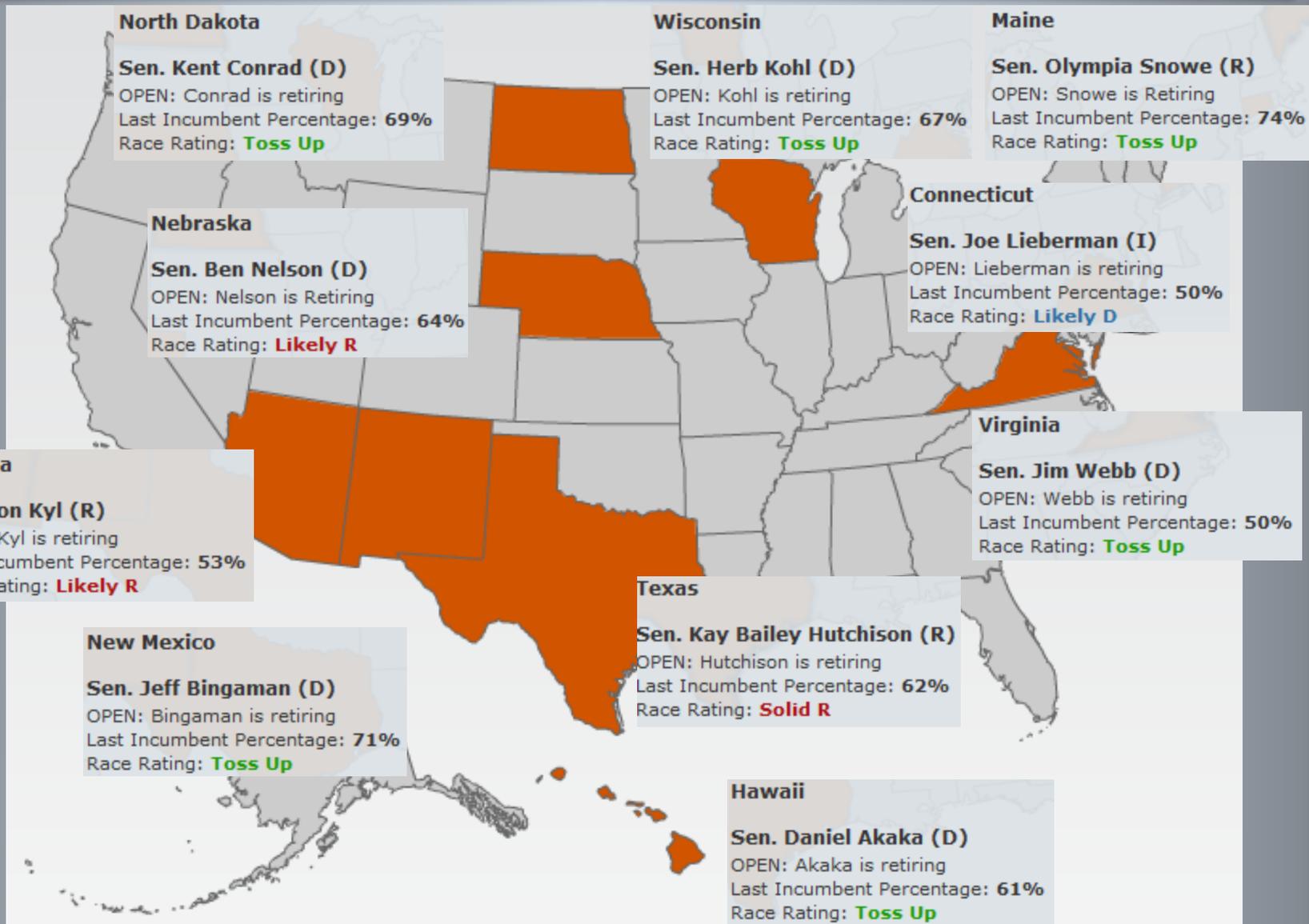
INCUMBENT PARTY ▶

PRESIDENTIAL RESULTS ▶

Data: 2012 election cycle

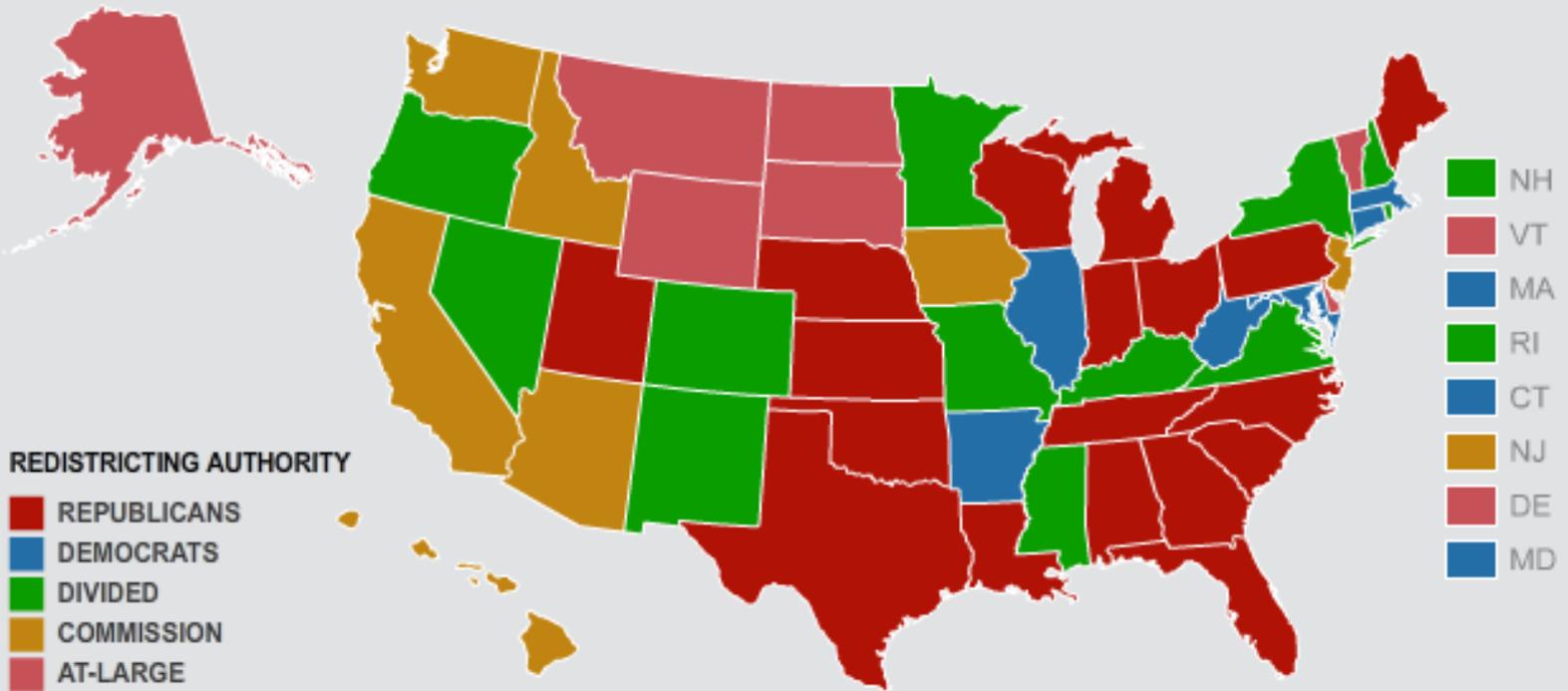


2012 – Open Seats



2012 - House Projections

2012 REDISTRICTING OUTLOOK AT-A-GLANCE



* Source: U.S. Census Bureau and National Conference on State Legislatures



The President's FYI 2013 Budget

2012 – President's FY2013 Budget - Spending

How \$3.7 Trillion Is Spent

Mr. Obama's budget proposal includes \$3.7 trillion in spending in 2013, and forecasts a \$901 billion deficit.

SOCIAL SECURITY ADMINISTRATION

Social Security Administration
Mandatory spending

\$875.5 billion +6.7%

TREASURY

Interest on the Public Debt
Net interest

\$472.0 billion +4.8%

HEALTH AND HUMAN SERVICES

Centers for Medicare and Medicaid
Services
Mandatory spending

\$1.18 trillion +8.4%

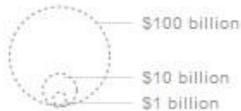
DEFENSE - MILITARY

Operation and Maintenance
Discretionary spending

\$272.7 billion -4.0%

The proposal forecasts a \$901 billion deficit.

Circles are sized according to the proposed spending.



Color shows amount of cut or increase from 2012.

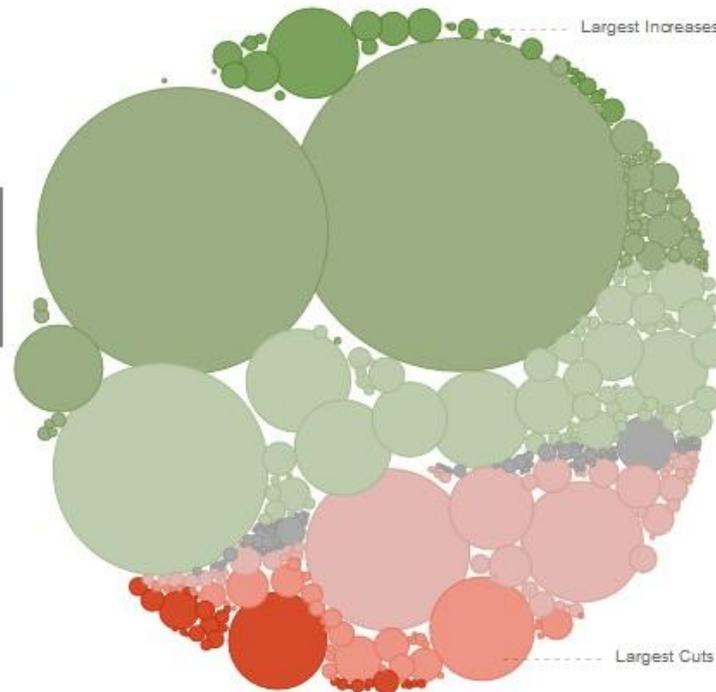
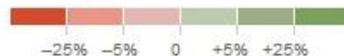


Chart shows \$3.7 trillion authorized to be spent in 2013. (Total spending is estimated to be \$3.8 trillion, including funds authorized in other years). Negative budget authority, which results from fees or other collections, is shown only on the department totals tab, but is included in other totals.

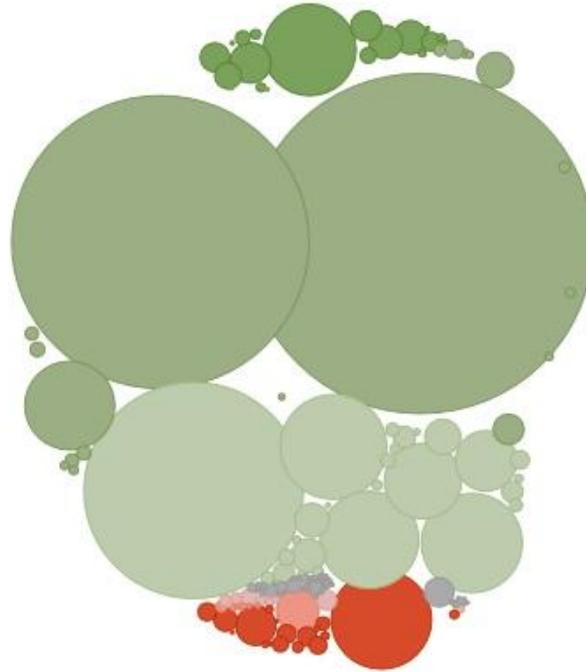
By SHAN CARTER

Office of Management and Budget

2012 – President's FY2013 Budget - Spending

Mandatory \$2.5 trillion

About 70 percent of budgetary spending is controlled by existing laws, including entitlements like Medicare, Medicaid and Social Security.



Discretionary \$1.1 trillion

Only about 30 percent of the budget is controlled by the annual budget process. Last August, the White House and Congress agreed to a cap on this spending.

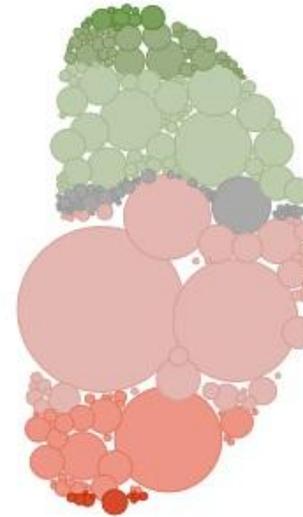


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By SHAN CARTER

Office of Management and Budget

2012 – President's FY2013 Budget – Oil and Gas

Issue	FY 2010 Budget OMB Score (10 year)	FY 2011 Budget OMB Score (10 year)	FY 2012 Budget OMB Score (10 year)	FY 2013 Budget OMB Score (10 year)
Reinstate Superfund taxes (approx. industry share)	(\$8,379)	(\$9,463)	(\$10,500)	(\$10,479)
Repeal LIFO (approx. industry share)	(\$25,948)	(\$25,111)	(\$22,500)	(\$25,824)
Modify tax rules for dual capacity taxpayers**	(\$4,490)	(\$8,549)	(\$10,758)	(\$10,700)
Repeal EOR credit***	\$0	\$0	\$0	\$0
Repeal marginal well credit***	\$0	\$0	\$0	\$0
Repeal expensing intangible drilling costs	(\$3,349)	(\$7,839)	(\$12,447)	(\$13,902)
Repeal deduction for tertiary injectants	(\$62)	(\$67)	(\$92)	(\$100)
Repeal passive loss exemption	(\$49)	(\$180)	(\$203)	(\$82)
Repeal percentage depletion	(\$8,251)	(\$10,026)	(\$11,202)	(\$11,465)
Repeal section 199 for oil and gas activities	(\$13,292)	(\$17,314)	(\$18,260)	(\$11,610)
Increase G&G amortization period	(\$1,189)	(\$1,110)	(\$1,408)	(\$1,400)
Oil Spill Tax			(\$451)	(\$717)
Total - Tax Only	(\$70,291)	(\$79,659)	(\$87,821)	(\$86,279)

2012 Priority Federal Tax Issues

API has identified three priority tax issues:

- **Combating the targeted repeal of Sec. 199**
- **Preserving IDC and cost recovery**
- **Maintaining the full Foreign Tax Credit for Dual Capacity Taxpayers**

Although all targeted tax increases on the industry are fought and opposed by the API.

Priority Tax Issues – Section 199

Passed in 2004, as part of the American Jobs Creation Act to try and retain manufacturing and spur job creation.

Allows taxpayers to claim a deduction equal to a percentage of US production.

- Production includes manufacturing, production, growing and extraction**
- Percentage phased in over time and generally equates to a US rate cut.**

Every US industry that qualifies receives a 9% deduction today (3 percentage point rate cut) – except the oil and gas industry – which was capped in 2008 at 6%.

Priority Tax Issues – IDC Deduction

Tangible costs are recovered through depreciation.
Intangible costs (“IDC”):

Since 1913, companies have been able to recover these costs by deducting them.

- Independents can expense 100% in year one;
- Integateds may expense 70% in year one and recover the reminder over 5 years.

Policy consistent with how other businesses are able to treat similar business costs to help manage risk:

- Sec. 174, Research & Experimental Deduction;
- Mine development costs

Priority Tax Issues – Dual Capacity

- **US imposes a worldwide tax system:**
 - US is the only OECD country using this system.
- **Fairness of worldwide system depends upon adequate foreign tax credit mechanism.**
 - Foreign taxes offset US tax on same income.
 - Avoids double taxation.
- **What is a “dual capacity” taxpayer?**
 - Taxpayer that makes payments to a foreign government as well as pays taxes.
 - US concern – credit for taxes only.
- **Dual capacity rules –**
 - **Taxpayers must prove tax meets US definition of tax,**
 - **Prove that it is not a payment for some other benefit.**

Other key tax provisions

- **Geological & Geophysical (G&G) costs**
 - 2 year amortization for non-integrateds.
 - 7 years for major integrated companies.
- **Percentage Depletion: set percentage of gross income from mineral property allowed as deduction.**
 - Available for wide range of natural deposits at different rates (oil and gas at 15%)
 - Limitations for oil and gas:
 - Only available to small independent producers.
 - Limited to average of 1,000 bpd production.
- **Section 193: Tertiary Injectant Deduction Repeal**
- **LIFO Accounting Repeal**



2012 Legislative Outlook

2012 – Tax Legislative Outlook

- **Small movements are made to try and develop legislative record for members**
 - Payroll Tax Extension
 - Highway Bill
- **Members are in full campaign mode**
 - Menendez type legislation (political targeting), or
 - Total Congressional stalemate
- **Major end of the year battles:**
 - **Lame Duck session of Congress (aka, M.O.L.D. – “*Mother Of [all] Lame Duck’s*”)**

2012 - End of Year - MOLD

<u>Category</u>	<u>Provisions</u>	<u>1 Year</u>	<u>10 year</u>
Individual Increases	Extension of 15% tax rate on dividends	25.3	311.5
	Extension of tax rate on capital gains	7.7	92.0
	Continue with individual tax rates	63.1	1,003.0
	Marriage penalty relief	5.2	104.7
	Estate & Gift at \$5M/35%	31.8	431.0
	AMT	115.0	1,898.0
	Medicare Tax	20.5	210.0
Business	Business Extenders	50.0	
	Small Business Expensing	25.5	
General	Sequester	80.0	
	Payroll Tax Reduction	31.0	
	UI	30.0	
	Doc Fix	26.0	
* - money in billions		\$511B	



Tax Reform

2012 – Tax Reform

- **Industry Priorities in Tax Reform**
 - **Domestically: Cost Recovery**
 - **Internationally: Competitive Equality**

- **International/Territorial**
 - **House & Senate proposals**
 - **Industry response**

- **US Corporate/Individual**
 - **2013 likely start**

- **Winners & Losers**
 - **Obama plan; ONG industry clearly a “loser”**



MOBILIZATION PROGRAM

Creating an Energy Base

ENGAGEMENT

EDUCATION



EFFECTIVE ACTION

CAPABILITY

10.1 million active voter database (31 states)

Ability to target:

62 U.S. senators

256 House members

31 governors

Thousands of state legislators & local officials

Generated 20 million individual voter contacts

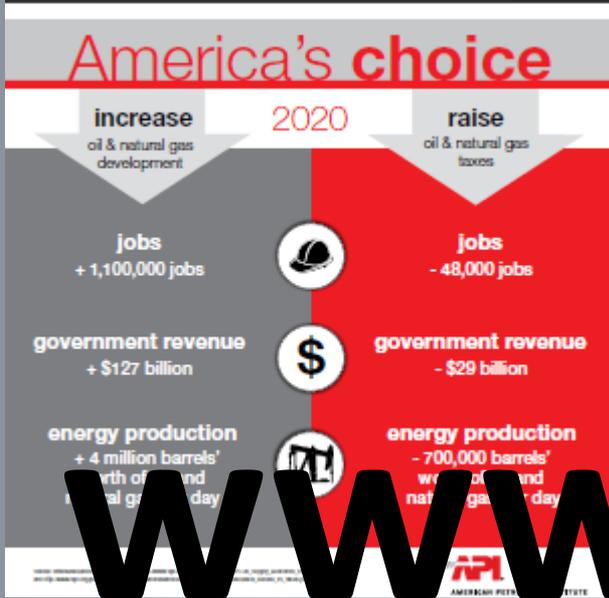
325,000 patch-through calls

27 state Energy Forums

64,000 Energy Nation advocates



2012 - Tax Education Inside the Beltway



ENERGY ANSWERS

U.S. OIL AND NATURAL GAS
More Energy, More Jobs, More Federal Revenue

www.API.org



Challenges facing the industry could mean fewer jobs...

The average U.S. citizen uses about 2 barrels of oil every month:

Oil consumption per barrel per day (BPD) by country from 1980 to 2010:

Year	U.S.	China	India	Japan	Other
1980	~18	~0	~0	~1	~1
1990	~18	~0	~0	~1	~1
2000	~18	~0	~0	~1	~1
2010	~18	~10	~5	~1	~1

2012 - Taking it to the states

ENERGY WORKS

The U.S. oil and natural gas industry supports more than 8 million jobs nationwide, supports over 7% of GDP* and contributes more than \$86 billion to the Federal Treasury



COLORADO

The people of the oil and gas are a critical part of Colorado's economy

What does this current

\$91,296	Total state
\$97,667	Average salary
\$47,616	Annual sales
\$16.5 billion	Contribution
\$16.5 billion	Contribution

However, with sensible policies, Colorado could

- 10,131 additional jobs are supported by oil and gas
- An average of \$223 million directly to the state treasury

That's enough money to cover all 10 of 20 essential services

Instead of parts of Colorado's oil and natural gas industry if American voters have more influence over the nation, including more to



To find out more, visit API.org for more information and follow us on Twitter @EnergyTrends.

* Bureau of Economic Analysis (BEA) "The Economic Report on the U.S. and World: The Energy of the U.S. Economy" (Washington, DC: Bureau of Economic Analysis, 2011) (http://www.bea.gov/energy/).
 † Bureau of Economic Analysis (BEA) "The Economic Report on the U.S. and World: The Energy of the U.S. Economy" (Washington, DC: Bureau of Economic Analysis, 2011) (http://www.bea.gov/energy/).
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ENERGY WORKS

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FLORIDA

The people of the oil and gas are a critical part of Florida's economy

What does this current

\$26,091	Total
\$61,266	Average salary
\$40,242	Annual sales
\$16.1 billion	Contribution
\$16.1 billion	Contribution

However, with sensible policies, Florida could

- 64,000 additional jobs are supported
- An average of \$1 directly to the state treasury

That's enough money to cover every Florida public utility

Long-term jobs of Florida oil and natural gas industry support natural gas resources in government treasury too



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NEVADA

The people of the oil and gas are a critical part of Nevada's economy

What does this current

\$1,027	Total state
\$75,040	Average salary
\$40,300	Annual sales
\$2.1 billion	Contribution
\$2.2 billion	Contribution

However, with sensible policies, Nevada could

- 293 additional jobs are supported by oil and gas

A telephone call of Nevada's oil and natural gas resources, a development would provide net



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MINNESOTA

The people of the oil and natural gas industry are a critical part of Minnesota's economy

What does this currently mean for Minnesota...

\$17,249	Total statewide jobs provided or supported by our industry*
\$27,200	Average salary for non-gas sector of oil and natural gas employees*
\$40,204	Annual average salary to MHI across all industries and sectors*
\$2.0 billion	Contribution to MHI tax or income*
\$1.1 billion	Contribution to MHI economy*

However, with sensible energy development and sound tax policies, Minnesota could realize...*

- 750 additional jobs created by 2015 and 1,075 additional jobs created by 2020 supported by oil and natural gas industry operations in MHI

A January 2012 Harris Interactive poll found that 70% of American voters favor increased access to U.S. oil and natural gas resources, and similar numbers believe more oil and natural gas development would provide major benefits to the nation, including more U.S. jobs.†



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* Bureau of Economic Analysis (BEA) "The Economic Report on the U.S. and World: The Energy of the U.S. Economy" (Washington, DC: Bureau of Economic Analysis, 2011) (http://www.bea.gov/energy/).
 † Harris Interactive (2012) "Energy and the Economy" (http://www.harrisinteractive.com/).
 ‡ Bureau of Economic Analysis (BEA) "The Economic Report on the U.S. and World: The Energy of the U.S. Economy" (Washington, DC: Bureau of Economic Analysis, 2011) (http://www.bea.gov/energy/).
 § Bureau of Economic Analysis (BEA) "The Economic Report on the U.S. and World: The Energy of the U.S. Economy" (Washington, DC: Bureau of Economic Analysis, 2011) (http://www.bea.gov/energy/).
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MOVING THE METRICS: NEW MEDIA



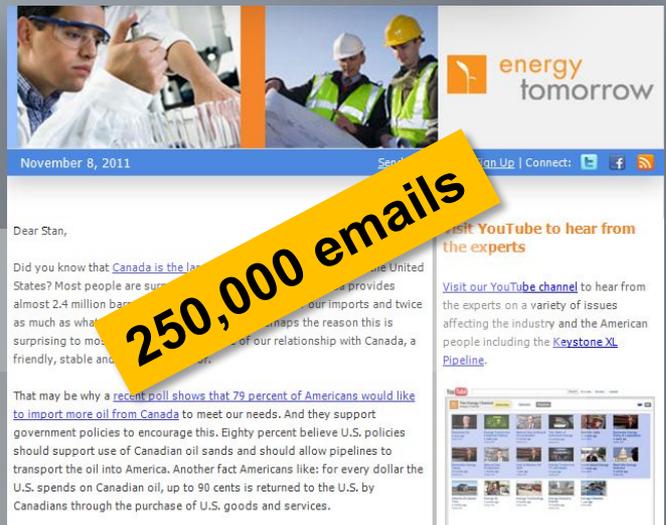
3,000 republished posts



3.5 million views



6 million views



250,000 emails



Questions & Thank You!