

G&G Expenditures

Background

Oil and natural gas exploration includes costs for geologists, surveys and certain drilling activities. These costs are referred to in the oil and gas industry as G&G (geological and geophysical) expenses. The function of G&G activities is to locate and identify properties with the potential to produce commercial quantities of oil and natural gas. Before Congress simplified the law in 2005, G&G costs associated with producing wells were allowed as tax deductions only after production began and over a longer period of time. In 2005, Congress allowed all G&G costs to be deducted over two years. Congress has twice extended the period, most recently in 2007 to seven years for the largest integrated oil and natural gas producers.

The current tax treatment of Geological and Geophysical (G&G) expenditures supports the production of domestic resources.



Congress should not change the current tax treatment of G&G expenditures. Here's why.

Extending the period for recovering the domestic G&G costs of oil and natural gas production companies would further increase the cost of domestic exploration. That would make foreign exploration more attractive, push investment overseas, jeopardize U.S. jobs and increase the nation's reliance on imported oil.

A reduction in exploration activity due to increased domestic exploration costs would likely result in less supply. That later could be reflected in higher consumer costs. With America in a deep recession, now is not the time to increase energy costs for families who are struggling to make ends meet.

According to the U.S. Department of Energy, U.S.-based oil and gas companies spend about \$70 to explore for and produce each barrel of oil or equivalent of natural gas in the U.S. offshore. That compares with less than \$30 a barrel spent to explore for and produce abroad. Favorable tax treatment for domestic exploration will help keep the cost of domestic projects competitive with foreign alternatives.

Domestic exploration and drilling supports U.S. jobs. The oil and natural gas industry directly employs 1.8 million workers. Of those, 170,000 support oil and gas operations, the portion of the industry that includes contract geological and geophysical exploration.



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