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to the
House of Representative's Committee on Natural Resources

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ANWR: Jobs, Energy and Deficit Reduction

Chairman Hastings, Ranking Member Markey, and members of the committee, thank you for giving me the opportunity to testify before you today.

My name is Erich Pica and I am the President of Friends of the Earth US. Friends of the Earth fights to defend the environment and create a more healthy and just world. We are a member of a federation of grassroots groups working in 76 countries on today's most urgent environmental and social justice issues. Friends of the Earth US has more than 30 years of experience working on tax and budget issues and I personally have authored numerous reports on environment and tax and budget issues, including our Green Scissors report, which identifies wasteful spending that is harmful to the environment.

The Joint Select Committee on Deficit Reduction has been tasked with coming up with $1.5 trillion dollars in budget savings, on top of the $900 billion in spending cuts that were agreed to as part of the latest debt ceiling increase. If the Joint Select Committee on Deficit Reduction cannot reach an agreement another $1.2 trillion dollars in cuts will be implemented automatically. Environmental programs stand among those that will be the hardest hit by these cuts. On behalf of our members and activists, I urge Congress not to accept a bad deal that extends the Bush tax cuts or weakens important parts of our social safety net. It is not too late to press the reset button on this flawed process.

Over the past few months, we have all seen the rise of the Occupy movement in cities across the country and around the world. Friends of the Earth stands in solidarity with this movement, which serves as a reminder of the need for our government -- and our budget -- to serve people and the planet, not corporate polluters. This continuing public outcry for fundamental economic justice stands in stark contrast to the rhetoric about the "need" to cut social safety nets and environmental protections that has dominated the political discourse for much of the last year.

The growing inequality in the United States and around the world manifests itself not only through disparities of wealth and opportunity, but of political power. In a country where money is speech and corporations are considered people, it is little wonder that the wealthiest seem to hold a tight grip on our political system. In the last decade, the influence of big business has expanded to such an extent that our civil and political systems have largely been captured by corporate lobbyists and campaign donations.

Today, functions that were once the domain of the public sector -- from the provision of services, to the protection of our commons, to the fighting of our wars and even the writing of our laws -- have been taken over by corporations that put profit before the public interest. There is perhaps no better illustration of this than the use of our public lands and waters. Increasingly multi-national corporations are being given control of our public's lands to exploit them for profit. Opening up the Arctic National Wildlife Refuge for drilling would be one more in a long line of giveaway of public lands for private profits.

Drilling the Arctic National Wildlife Refuge to raise revenue is a false solution, and it goes directly against the values of the American people, which overwhelmingly support protecting the Refuge and our natural heritage. There are some places in this country that should be left untouched. Unfortunately, it is too late for many of them. We can still preserve Arctic Refuge, one of the last vast pristine, undisturbed wildernesses left in America.

Efforts to authorize oil production in the Arctic would replace wilderness with oil derricks, roads, long pipelines connected by feeder pipelines, power plants, oil processing facilities, and landfills. It would despoil this wilderness with air pollution (particularly nitrogen oxides and methane, a greenhouse gas), oil spills, drilling wastes and sewer sludge. Both exploration and development would cause direct and cumulative impacts to our natural heritage, as well as to the wildlife and subsistence resources that the Arctic Refuge was established to protect. All of this sacrifice comes for little gain.

The Congressional Research Service has estimated that drilling in the refuge could raise $191 billion over the 30 year drilling period.[1] While this sounds like a significant amount of money, simply ending existing oil and gas tax giveaways would save taxpayers well over $300 billion in that same period without any of the damage that would accompany Arctic drilling.

The Congressional Research Service projections are unrealistically optimistic about the revenues that could be raised by drilling. The estimate assumes a 50/50 split of royalties between the State of Alaska and the federal government, but current law under the Alaska Statehood Act has 90% of royalties going to Alaska and only 10% going to the federal government. The Congressional Research Service analysis also assumes an unreasonably high effective tax rate of 33% on oil and gas revenues. A recent analysis by Citizens for Tax Justice found no oil and gas companies that are paying rates that high in the US.[2] To illustrate, over the past two years ExxonMobil only paid an effective tax rate of .4% on their $9.9 billion in pretax US profits.[3] Finally, drilling in the arctic cannot be a budget solution for today. The bulk of these highly speculative and likely diminutive funds would not be realized until 20 years into a drilling program, when production would be at its peak. And even if Congressional Research Service's estimates turn out to be accurate, it is simply not worth the environmental destruction it would create.

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[1] Congressional Research Service, Possible Federal Revenue from Oil Development of ANWR and Nearby Areas, RL34547, June 2008.

[2] Citizens for Tax Justice, The Great Myth about the Great Myth about Oil Tax Breaks, http://tax.com/taxcom/features.nsf/Articles/A276A2A68C3C993B8525783300510DDF?OpenDocument

[3] Citizens for Tax Justice, Congress Should End Oil & Gas Tax Breaks, April 29th 2011~~Id.~~

What makes this giveaway particularly egregious is that some are justifying it under the pretense of fiscal responsibility, while the same companies that stand to benefit are currently robbing taxpayers of billions of dollars worth of resources each year. An honest discussion about how to raise revenue from oil and gas production or other natural resources must start with making sure that taxpayers get a fair return on the resources that are already being exploited, not with how to open up even more lands to oil and gas companies at cut rate prices.

We should begin by making oil companies pay for the oil they are extracting in public waters in the Gulf of Mexico. According to the Government Accountability Office taxpayers stand to loose $53 billion from royalty free leases in the Gulf.[4]

Even when taxpayers are getting some return for our oil and gas resources, we are still not receiving our fair share. That's because even after President Bush increased federal royalty rates for oil and gas, these rates are among the lowest in the world. And all of this is on top of the more than $10 billion a year in tax incentives that we give to this polluting industry that is helping them produce record profits.

But it is not just oil and gas that is being handed over to corporations for free. The 1872 Mining law allows corporations to take valuable minerals such as gold, silver and copper from our land for free, costing taxpayers over $300 million every year. Similarly, the federal government actually loses $100 million a year on its grazing program. That's right: despite the fact that we charge grazing fees, taxpayers would save money -- and protect the environment -- by simply eliminating grazing on our federal lands. At minimum, we should increase the grazing fees to market prices.

And the programs I mentioned are just the tip of the iceberg. Our Green Scissors 2011 report identifies more than $380 billion in potential savings over 5 years that could be achieved by eliminating subsidies – many of them corporate handouts – while benefitting the environment. We released this report in partnership with Taxpayers for Common Sense, Public Citizen and The Heartland Institute. Clearly, that is a diverse group with divergent views about the role of government. But we can get past our differences and all agree that these proposals make sense.

Recommendations from Green Scissors 2011 that are under the jurisdiction of this Committee include:

Reforming the 1872 Mining Law: The 1872 Mining Law is perhaps the grandfather of all anti-environmental giveaways. First enacted under President Ulysses S. Grant in 1872, the law was intended to promote western settlement. Yet, 139 years later, this anachronistic law remains unchanged, providing an enormous subsidy to the biggest mining operators in the world like UK-based Rio Tinto. Under the 1872 law, mining companies pay no royalties for the minerals they remove from federal lands and can purchase federal land for $5 per acre (a weak annual moratorium on purchases has been put in place, but there is no permanent fix). Taxpayers receive nothing for the approximately $2.4 billion worth of precious minerals such as gold, silver and

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[4]United States Government Accountability Office, Oil and Gas Royalties: Litigation over Royalty Relief Could Cost the Federal Government Billions of Dollars, GAO-08-792R Royalty Relief, June 5 2008.

copper that mining companies extract annually from federal lands. A royalty rate of just 12.5% would return $300 million to taxpayers annually.

Ending Royalty Free Leases: The federal government gives away oil and gas deposits for free. For years gasoline prices have been at record levels and oil companies have enjoyed sky-high profits, making the subsidization of the industry particularly egregious. The 1995 Deep Water Royalty Relief Act (DWRRA) provided royalty "relief" for leases sold from 1996-2000. According to the Government Accountability Office in 2008 the total cost to taxpayers could exceed $53 billion in the next 25 years.[5] Instead of fixing this giant giveaway, Congress widened it in 2005 by providing additional royalty relief in the Energy Policy Act.

Receiving Fair Value for Oil and Gas Royalties: Taxpayers are being cheated out of billions of dollars because of lax oversight by our nation's royalty collection system and low royalty rates. The Government Accountability Office has targeted the nation's oil and gas royalty collection for serious criticism, giving it a "high risk for waste" tag this year.[6] In 2008 the Government Accountability Office found that over the last two years the Department of the Interior had made continual blunders with the collection of company-reported data and offered unreliable sales data that do not reflect market prices for oil and gas. Even when the royalty system is working properly taxpayers are getting less than their fair share. According to a 2007 Government Accountability Office report, despite a recent increase in rates for offshore oil and gas royalties, US rates for oil and gas production are among the lowest in the world, and lower than those of the states.[7] Royalty rates for oil and gas production on-shore have not been raised in over 25 years. The failure to charge and collect appropriate fees for oil and gas production on public lands is robbing taxpayers of much needed revenue.

Reforming Grazing Fees: In 2009 the United States Forest Service and Bureau of Land Management public grazing programs cost taxpayers $120 million to operate but collected only $17 million in fees, costing taxpayers $103 million. The reason for this loss is because federal grazing fees are lower than the fees charged by almost every state, offering a giant subsidy to a small percentage of ranchers. In fiscal year 2007, federal grazing fees fell to $1.35 per acre, the lowest amount allowed by law. To put that in perspective, the first uniform federal grazing fee that was established in 1934 was set at $1.23 per acre. The equivalent, in 2010 dollars, is $19.81 per acre. Using state formulas to assess grazing fees would save taxpayers $41 million over 5 years.[8]

Stopping Money Losing Timber Sales: According to the Congressional Budget Office, the United States Forest Service has spent more on the timber program in recent years than it has collected in revenue from the companies that harvest the timber.[9] In 2008 the United States Forest Service lost $45 million by selling rights to log roughly 2.5 billion board feet of public

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[5] United States Government Accountability Office, Oil and Gas Royalties: Litigation over Royalty Relief Could Cost the Federal Government Billions of Dollars, GAO-08-792R Royalty Relief, June 5 2008.

[6] Government Accountability Office, High Risk Series Update, GAO-11-270, February 2011.

[7] Government Accountability Office, Oil and Gas Royalties: A Comparison of the Share of Revenue Received from Oil and Gas Production by the Federal Government and Other Resource Owners; GAO-07-676R, May 1, 2007.

[8] Congressional Budget Office, Reducing the Deficit: Spending and Budget Options, Pub. No. 4212, March 2011.

[9] Congressional Budget Office, Reducing Budget Options Vol 2, Pub. No. 3191, August 2009.

timber. The Congressional Budget Office estimated that reducing money for timber sales that lose money could save taxpayers $276 million over 5 years.

Even with $380 billion in potential savings, the Green Scissors 2011 report was unable to document all of the savings that could be achieved by protecting the environment. Other key ideas that this committee should explore include:

Increasing Offshore Oil and Gas Inspection Fees: The Deepwater Horizon tragedy in the Gulf of Mexico highlighted the inadequacy of our current safety and response system for oil spills. We badly need to upgrade these systems and we should ensure that industry, and not taxpayers, pays the cost. The No Free Inspections for Oil Companies Act, H.R. 2566 would save taxpayers $500 million over 10 years by making the oil and gas industry bear some of the costs caused by their industry.

Ending Giveaways to States: The Gulf of Mexico Energy Security Act of 2006 gave 37.5% of revenue from selected offshore leases in federal waters to a select group of states. This arrangement provides some states with a massive financial incentive to support increased oil and gas production and the perpetuation of our fossil fuels based economy. It will also have a significant cost on the rest of the country, costing the Federal Treasury $150 billion over the next 60 years. We should not be giving away federal resources to a few favored states.

Ending perverse incentives for destroying our environment is an important step for fiscal and environmental stewardship. But the root problems that are plaguing our environment are the same ones that are harming our economy and weakening our nation. Our government is simply too responsive to the wants of powerful corporations at the expense of the majority of Americans. To solve these problems we need to not only end polluter subsidies, but also end of the Bush tax cuts that are largely responsible for our current budget crunch impose a transactions tax on Wall Street traders who have caused much of our current economic crisis, put a stop to offshore tax avoidance, increase taxes for the wealthy, and implement other progressive fiscal policies. Progressive tax, economic and financial policies are not only critical for our environment, but are also fairer and more equitable for our society.

We need to refocus our national conversation on how wealth and power have become increasingly concentrated, not on how we can funnel even more wealth to a chosen few at tremendous cost to us all.

Thank you, and I welcome any questions.