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**Folder Title:**
Energy: British Thermal Unit Tax Proposal - Ashland Oil

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Ashland

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February 25, 1993

Richard Rosensweig
Department of Energy
Washington, DC 20580

Dear Mr. Rosensweig:

Ashland Oil, Inc. is pleased to submit comments in regard to the Administration's BTU energy tax proposal as we discussed on February 18 in the White House.

While we recognize that the President's initiative toward the petroleum industry is designed to target deficit reduction, several provisions of the proposal are unclear as to potential impact on Ashland. We are particularly concerned with questions related to the domestic refining industry and petroleum product imports.

Ashland has joined with Sun Oil in an effort to bring the concerns of domestic independent refiners to your attention. President Clinton has made it clear that he wishes to stimulate the economy along with deficit reduction. It is our intention to work with you in providing information that will enable you to detail the program in an as fair and equitable manner as the proposal allows.

We look forward to meeting with you on March 4 to further discuss this program.

Sincerely,

Will Haddeland

cc: Kathleen McGinty

Questions on the Broad-Based Energy Tax

**Do GATT and NAFTA Prevent the Taxing of Imports?**

The proposal discusses applying the BTU tax to imported petroleum products at the point of importation. Will the taxing of these imported products violate the provisions of GATT or NAFTA or any foreign trade agreement? If the BTU tax cannot be levied on imports due to these agreements, how will the resulting large price advantage for imports be overcome by domestic refiners?

**Tax on Imported Refined Petroleum Products**

Will the tax on imports be based on BTU content? Since the BTU content of crude oil is greater than gasoline or diesel, will imported products be taxed at a higher rate per BTU to make the tax on domestic and imported products equivalent on the same volumes or will the administration make other provisions to compensate refiners? In addition, domestic refiners will be required to pass along the tax at 10 to 15 cents per gallon of gasoline or diesel, while imports will be taxed at 7 to 8 cents per gallon. Will imports also be assessed additional tax to compensate for the higher prices paid by domestic refiners on energy consumed in the refining process? How will imported blending components or other refinery feedstocks be treated under the proposal?

**Timing of Tax Collection**

If the collection point for the tax on crude oil is the refinery, what is the timing of the collection of the tax? Sufficient time (60 days) is needed prior to the remittance of the tax to prevent industry from being burdened with additional working capital requirements. Will the tax due be based on the tax on crude oil processed less the credit for tax exempt products produced? If so, will the the tax be computed on a daily, weekly, or monthly basis?

**Tax Credits for Non-Fuel Petroleum Products**

How will the administration award credits for non-fuel refinery products to offset the tax paid on the crude from which they are derived? (petrochemical feedstocks, lubricating oil, asphalt, sulfur, etc.) Which products will be exempt from the tax and will receive credits? Who is entitled to the credit and how will it be computed? Perhaps the refiner should receive the credit based on the volume of the non-fuel product. Many refiners produce significant quantities of elemental sulfur as a product of crude oil refining? How will this non-fuel product which contains no hydrocarbons and no fuel (BTU) value receive credits? How will petrochemicals and petrochemical feedstocks be defined under the proposal? Imported petrochemical products do not have the associated increased indirect energy costs as do the domestic products. How would the rate of tax on imported petrochemical products be determined to provide parity between imported and domestic products?

**Recordkeeping Requirements**

What records will refiners and producers of coal and natural gas be required to maintain regarding the BTU tax? In addition, what records will be necessary to receive credits for non-fuel products which are exempt from the tax?

**Energy Used to Produce Other Petroleum Fuels**

Taxing refiners on the energy content of fuels used in the refining process constitutes double taxation on refined petroleum products. Will refiners be required to pay the energy tax on fuel used in the production of gasoline, diesel, and other refined products under the proposal? Will refiners receive a credit for indirect increases in the cost of electricity they use?

**Energy Used in the Production of Coal**

Electricity is one of the largest expenses in the mining of coal and its cost is reflected in the price of coal. Will the proposed energy tax apply to electricity and other energy used in the mining of coal?

**One Year Exemption for Heating Oils**

Refiners manufacture distillate oils which are used as diesel motor fuel, industrial fuel and home heating oil. Typically the refiner sells this distillate oil (No. 2 fuel oil) to distributors who in turn sell to the heating oil consumer. A determination as to the ultimate use of this material cannot be made until the sale is made to the consumer. How will the one year exemption be administered? Will the refiner receive a credit for the volume sold as heating oil and how will that volume be determined?

**Credit for Coal Derived Non-Fuel Feedstocks**

Coal tar light oil is a product that is derived from coal in the coking process. This light oil is primarily used in refineries as a petrochemical feedstock rather than being consumed as fuel. Is the coal used in the coking process exempt from the BTU tax? If not, will a credit, for the BTU tax on the coal, applied at the minemouth, be allowed for this light oil?

**Petroleum Coke Sold As Fuel**

Some petroleum coke is sold as fuel and other petroleum coke is used in the manufacture of aluminum and other products. How will the proposed tax apply to petroleum coke?

**Tax on Natural Gas Liquids**

Natural gas liquids are recovered from the production and transmission of natural gas. How will the energy tax apply to this material? Will natural gas liquids be treated as natural gas, crude oil or neither? How will butanes which are recovered from natural gas be treated?

**Tax on Natural Gas Produced**

At what point in the production or transportation of natural gas will the tax be levied? Will the tax be paid by the producer at the point of transfer to the pipeline or by the pipeline owner/operator?

**Credit for Energy Consumed to Transport Oil, Coal and Gas**

Energy products are transported extensively throughout the United States from their point of production to the marketplace. These product are transported by various means including pipeline, rail, barge, and truck, all of which consume energy. Will the energy consumed in the transportation of these fuels be subject to the BTU tax?

**Canadian Gas Imports**

Significant quantities of natural gas are transported overland into the United States from Canada. What are the plans to tax this gas? Can this be done without violating NAFTA?

**Volumetric Gains/ Losses in the Refining Process**

Many refiners, especially those with sophisticated refineries, have a volumetric loss resulting from the refining process while less sophisticated refineries have a volume loss. In calculating the net tax due, how will this increase or decrease in volume between the crude oil and the refined product be dealt with?

**Feedstock Trading Among Refiners**

Significant quantities of petroleum and petrochemical feedstocks are traded among refiners. If refiner A buys a petroleum feedstock from refiner B and processes it into petroleum product, how will those transactions be treated under the proposal?

**Waste Lube Oils As Fuels**

Lubricating oils are produced by refiners as a non-fuel product. How will waste lube oils which are burned as fuel but may have received a non-fuel credit be treated under the proposal?

**Methanol Used to Produce MTBE**

Methanol is used as a feedstock in refineries to produce MTBE. How will methanol be treated under the proposal since it is produced from natural gas which will already have been taxed?