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Democrats Press Plan to Channel Billions in Oil Subsidies to Renewable Fuels

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WASHINGTON, June 16 — Senate Democrats are seeking a major reversal of energy tax policies that would take billions of dollars in tax breaks and other benefits from the oil industry to underwrite renewable fuels.

The tax increases would reverse incentives passed as recently as three years ago to increase domestic exploration and production of oil and gas. The change reflects a shift from the Republican focus on expanding oil production to the Democratic concern about reducing global warming.

On Tuesday, the Senate Finance Committee will take up a bill that would raise about $14 billion from oil companies over 10 years and would give about the same amount of money on new incentives for solar power, wind power, cellulosic ethanol and numerous other renewable energy sources. The bill is one of the signature issues this year for Democrats, along with immigration and the war in Iraq, and one in which they hope to clearly distinguish themselves from the Republicans.

But Senate Democrats are expected to go beyond the $14 billion in tax changes in the draft bill. Democratic officials said the committee is all but certain to adopt a proposal by Senator Jeff Bingaman of New Mexico that would raise $10 billion from companies that drill for oil and gas in federal waters but do not currently pay royalties to the government.

“We are cutting back subsidies for the oil and gas industry and using that money to finance the development of new and cleaner sources of energy,” said Mr. Bingaman, who plans to attach the entire tax package to the energy bill on the Senate floor next week.

It is unclear how much President Bush or Republicans in Congress will fight the proposed tax shift. The ranking Republican on the Senate Finance Committee, Senator Charles Grassley of Iowa, has already endorsed the $14 billion package.

But the plan could easily founder because of opposition to any one of many hotly disputed provisions in the broader energy bill. Just last week, a threatened filibuster by Republicans forced Democrats to postpone a floor vote on requiring electric utilities to produce 15 percent of their power from renewable fuels. The White House, meanwhile, has threatened to veto the bill if lawmakers do not drop a provision intended to prosecute what Democrats call “unconscionably excessive” gasoline prices.

Senator Charles E. Schumer of New York has proposed that oil companies be prohibited from using an accounting method called “last in, first out” for inventories that saves them as much as $5 billion in taxes a year.

Because Senate Democrats want to offset the cost of any new tax breaks with tax increases elsewhere, many lawmakers are pushing for even more tax raises from oil companies.

Oil executives are protesting loudly, saying that the proposed changes would take money away from exploring and drilling in the United States and increase the nation's dependence on imported foreign oil.

"They talk about our companies as if they're owned by space aliens," said John Felmy, chief economist at the American Petroleum Institute, a trade association. "They talk about energy security, but these provisions could have the opposite effect in terms of reducing our production here and increasing our imports."

The oil industry has ample reason to worry. With consumers seething about gasoline prices increasing to more than $3 a gallon and oil profits reaching record highs, oil companies would be short of friends in Congress regardless of the party in power.

Beyond the immediate jockeying, however, lies a bigger question: Is Congress putting taxpayers at risk by funneling billions of dollars in subsidies into alternative fuels that are still a long way from being profitable?

Indeed, industry experts said the Senate bill greatly understated the true cost of incentives for renewable fuels. Most of the incentives are set to expire at the end of 2009 or 2010, but Democrats in both the House and Senate have called for an increase in the production of such fuels by 2022. As a practical matter, the vast majority of "temporary" tax breaks are routinely extended once they are passed for the first time.

In addition to higher taxes for oil companies, House and Senate Democrats are hitting at the oil industry in other ways. The Senate bill would give the federal government more power to prosecute companies that engage in "price gouging" on gasoline prices, which is broadly defined in the bill as charging "unconscionably excessive" prices that reflect "unfair leverage." A similar measure is moving through the House.

Separately, the House Natural Resources Committee passed a bill last week that would, among other things, crack down on companies that cheat on royalties they pay for oil and gas pumped on publicly owned land.

In effect, the various bills would transfer billions of dollars from oil companies to producers of renewable fuels.

The Senate bill would offer $5.6 billion in tax credits over the next three years for companies that produce electricity from renewable fuels like wind and geothermal power. It would offer tax-free bonds for new power plants with renewable or clean energy. It would offer tax credits totaling about a dollar a gallon to producers of cellulosic ethanol, and even bigger tax credits for "biodiesel" fuel. It would extend and expand tax breaks for plug-in electric cars and other vehicles that use alternative energy sources, and it would provide tax breaks for gas stations that offer renewable fuels.

In a nod to the politically powerful coal industry, the bill would also provide $1.5 billion in tax-free "clean coal bonds" for advanced coal-fired electricity plants and $332 million in tax credits for plants that make diesel fuel from coal.

Democrats in the House are moving with similar legislation. The House passed a bill earlier this year that would raise about $14 billion over 10 years from oil companies, and the House Ways and Means Committee is expected to mark up a new tax bill that would offer rich incentives for alternative fuels and increased efficiency.

The Democratic bill contrasts sharply with the energy bill that the Republican-led Congress passed in 2005. The Senate bill offers less than $1 billion in incentives for coal, no tax breaks for nuclear power and tax hikes for oil. But two years ago, Congress approved $11 billion in additional tax breaks, of which $7 billion went to oil, coal and nuclear power.

"It is a dramatic change in policy, targeted at the big oil companies," said Senator Ron Wyden, Democrat of Oregon. "It will show the country the kind of things we can do by taking away subsidies for fossil fuels and putting the money into new sources of energy."

Privately, some Democrats say it is payback time: the oil industry's political contributions have overwhelmingly gone to Republican lawmakers and President Bush, and many Democrats say they have little sympathy for the industry now.

It is unclear whether Republicans or Mr. Bush plan to protect the industry.

In stinging criticism earlier this month, the White House Office of Management and Budget said the proposed price-gouging measure amounted to price regulation that would jeopardize investment in oil production and ultimately hurt consumers.

In 2005, Mr. Bush threatened to veto a one-year measure that blocked oil companies from using the "last in, first out" accounting method for inventories. The Bush administration, echoing charges by the oil industry, said the measure amounted to a one-year windfall profits tax that would frighten investors by raising the prospect of further tax raises whenever oil prices jumped sharply.

Mr. Schumer's proposal is similar to the 2005 proposal, except that his measure would be permanent.

The oil industry still has persuasive clout in Washington. Exxon, Shell and trade groups like the American Petroleum Institute have hired former Democratic lawmakers and Democratic lobbyists to help press their case.

They have carefully positioned themselves, picking their fights on selected issues that attract fairly little popular interest but affect potentially large amounts of money.

The effort is mostly defensive — fending off tax increases — but also has offensive elements. Royal Dutch Shell and other big companies hope to be big players in coal-based liquid fuels. And the industry in general is still pushing for Congress to open up more areas on the outer continental shelf for deepwater drilling.

But industry executives hold out little hope for emerging unscathed.

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