

6-14-2001

American Petroleum Institute (1)

Max S. Baucus

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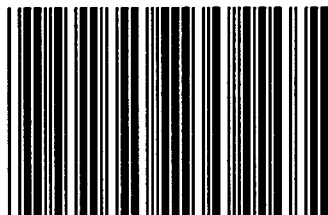
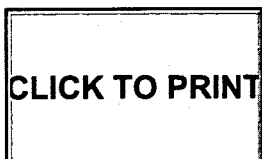
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* "required information"



BAUCUS

MEMORANDUM

368-5567

To: Max Baucus
From: Karen B.
RE: Speech to the American Petroleum Institute (API)
Date: June 14, 2001
Time: 1000 hrs.
Place: API office, 1220 L St, NW (SE Corner of 13th & L)

The Policy Board of the American Petroleum Institute (API) is meeting in DC, and you will be giving a speech to about 30 CEO's who are members of the Institute. API is the major national trade association representing the entire petroleum industry: exploration and production, transportation, refining, and marketing. With headquarters in Washington, D.C., and petroleum councils in 33 states, it is a forum for all parts of the oil and natural gas industry to pursue priority public policy objectives and advance the interests of the industry.

Issues highlighted by API

- Your agenda as the new Chairman of the Finance Committee
- Your perspective on including tax proposals in national energy policy legislation
- Your perspective International Trade legislation
- Your views on the outlook for and timing of international tax simplification legislation; and
- Your views on the agenda of the Environment and Public Works Committee under Chairman Jeffords.

Talking Points are attached for your speech on these issues.

Some points to with regards to the EPW committee agenda: their main concerns will probably be Jefford's four pollutant bill and legislation banning MTBE (this is the oxygenate that California has banned because it pollutes groundwater). The four pollutant bill would set standards for SO₂, NO_x, Mercury, and CO₂. Industry seems comfortable with the idea of a so-called "three pollutant" bill, ie just SO₂, NO_x, and Mercury - they are looking for consolidation and clarification of the mess of rules and regulations that have mushroomed over the years on these pollutants (of course, they also fight tighter standards every step of the way). A multi-pollutant approach would provide industry with some regulatory certainty, which they are always looking for. But, they do not want to see CO₂ become part of any multi-pollutant legislation. They think the science of global warming is unsettled, and that it would be too expensive and difficult to impose caps.

The Reid-Smith MTBE bill is a fairly complex bill, that not only bans MTBE, but also provides a substantial chunk of change to the oil industry to "transition" away from using MTBE (I think about \$250 million). Obviously, the oil industry would prefer that the Clean Air Act not require them to add *any* oxygenates to gasoline (they insist that they can make better quality gasoline at the refinery than can be produced by adding oxygenates), but if there's going to be a ban on MTBE, I'm sure they would rather have one that compensates them handsomely.

Other issues that may be on Jefford's agenda (as they were on the Reid/Smith Agenda), but that will probably hold no interest for the industry are: water and wastewater infrastructure funding, Army Corps of Engineers Reform (Senator Feingold has introduced a Corps reform bill) and investigations into the links between exposure to toxic substances and health problems, such as cancer.

American Petroleum Institute
Remarks of Senator Max Baucus
Thursday, June 14, 2001

Thanks so much for having me here today. Clearly there's a lot going on in Washington now. I'm glad you've given me a chance to come and give a bit of an update on some things I'm working on.

As many of you know, when the Senate shifted I became the Chairman of the Finance Committee. It's humbling. It's a huge responsibility. But I couldn't be more enthusiastic.

I intend to continue the bipartisan approach that is the Committee's tradition and that worked so well on the tax bill where Chuck Grassley and I worked very closely together. Senator Grassley knows how important bipartisanship is. And he's also from a rural state like Montana. He's my friend. I'm committed to making sure we work together on a wide variety of issues.

In fact, just yesterday, we resumed our regular weekly meetings.

When I joined the Committee, Russell Long was chairman, and I aspire to his model of inclusiveness and consensus (they'll probably like the invocation of Senator Long.)

The next big issue is reforming Medicare to cover prescription drugs and make the overall program more efficient and effective. I've have begun working with Democratic members and with Senator Grassley. I hope that the Committee can report a bill by the August recess.

I also will be holding two hearings, next week, on whether to reinstate the President's fast track trade negotiating authority. That should give us an important opportunity to consider how to rebuild a broad consensus in favor of opening markets and expanding trade.

For my part, I'll insist on reasonable progress on labor and the environment. I also would like to move the Jordan and Vietnam trade agreements, as a way to make incremental but important progress.

Everybody wants to know whether there will be more tax cuts. (The issue has come up with respect to the Patients Bill of Rights, and will come up again with respect to the minimum wage bill and with respect to the energy bill (discussed in more detail below).

As a general proposition, I want to maintain the budget deal. (That precludes any further big tax cuts.)
At the same time, I am open to trying to put together reasonable packages that help us move important legislation, like minimum wage and energy legislation.
To maintain the budget agreement, however, (tax cuts in those packages will have to be offset.)

That being said, the intent is to include tax
proposals in any national energy policy legislation that
goes through the Senate. Many energy tax proposals
have been introduced this Congress, and both Senators
Bingaman and Murkowski have included significant tax
provisions in their comprehensive energy bills.

Frankly, I think tax incentives could and should be
used to help us address some of the problems we're
facing in the energy world today.

My state, which is part of the Western Energy grid,
has been struggling with high energy costs. A lot of
workers have been laid off, businesses have shut their
doors. Finding a solution to our energy problems, and
the West's energy problems, is a top priority for me.

Targeted tax incentives should be a vital part of
any long-term strategy, to get businesses and
consumers moving as quickly as possible.

As Chairman, I plan to work with Senator Grassley
in the Finance Committee to consider all of the energy
tax proposals and craft a responsible energy tax
package.

My top priorities would include incentives for improving our transmission and natural gas distribution systems and incentives for clean coal.

Most importantly to those of you here today, I would like to see some of the inefficiencies in the tax code relating to oil and gas improved, such as the expensing of geological and geophysical costs related to oil and gas exploration (this is a big deal to the industry). I have co-sponsored legislation with Senator Hutchison that would accomplish that goal, and others. (Depletion allowance and tax credit for marginal oil and gas wells).

Another area of the tax world that I know you are interested in is international tax. Our international tax rules are important to the competitiveness of our international companies. But I want to be careful here. When some people refer to "competitiveness" they automatically assume that the best approach would be to scrap our current rules and adopt a territorial system of taxation. I do not think we can leap to that conclusion.

Instead, we need to re-examine the international tax provisions and consider their effect on competitiveness.

In particular, we should take a fresh look at the Subpart F rules. They have been around for almost 40 years now and I think it is time we consider them in the context of the new global economy. The study the Treasury Department released last December is a good start and I am sure you have ideas about those rules that you might be willing to share.

In addition, we need to consider the foreign tax credit rules and of course the interest allocation provisions. It may be appropriate later in the session to schedule hearings to develop some of these ideas further.

I am pleased to be working with Senator Hatch on reintroducing our international tax simplification bill.)

We are plowing slowly through the additional ideas you have brought to us. | We also are working with Congressmen Houghton and Levin on the House side. | I would like to introduce that bill before the July 4 recess.

As for international trade issues, I am pleased that Bob Zoellick solved most remaining issues with China on joining the WTO. | Most important was agriculture subsidies, | but there were some services issues also.

It is possible that China can join this year, but there is a lot of technical work left to be done at the WTO. So, it might not happen.

The annual NTR debate over China will be more acrimonious than I had thought earlier this year. The downing of our surveillance plane and arrests of Chinese-American scholars changed the environment. But, I don't think the rejection of NTR will pass in the House. So, we in the Senate probably won't even be involved.

On fast track, or TPA, I support fast track trade
negotiating authority. We need further trade
liberalization at WTO. But, fast track must be done in
the right way. (The US must integrate labor and
environment into all our trade negotiations, although
one size does not fit all. | We also must prevent any
weakening of US trade laws. | These are basic positions
for me. | Without these elements in fast track, there will
be no consensus in the US or in Congress.

Unfortunately, the Bush Administration has done
very little work to develop a consensus and prepare for
fast track debate.

In fact, their delay in moving on steel policy,
holding up the Jordan FTA, sending to Congress the
Vietnam trade agreement only last week, and their anti-
union and anti-environment measures, all will make a
consensus even harder to get. Besides, the
Congressional schedule is packed for the rest of the
year, so, I'm hopeful, but not optimistic about fast
track this year.

And remember we don't need fast track to launch
a New Round. We do need it to complete a round. So,
a New Round could be launched this fall in Doha. On
the other hand, there has been very little political
preparation in US for a launch.

Support is not very deep. I am also very concerned about how to handle labor and environment issues at WTO, as well as preventing a weakening of US trade laws.

On unilateral economic sanctions, I know you are concerned about ILSA, the Iran/Libya sanctions. I am one of the two dozen Senators who has not cosponsored this legislation. Iran and Libya raise great difficulties for our nation. I understand the Administration is trying to shorten the extension of ILSA from five years to two. The question is how can we help strengthen the reform elements in Iran.

Finally, I know you are curious about what the Environment and Public Works Committee will be focusing on now that Senator Jeffords will take Chairman. Frankly, I don't believe Senator Jefford's agenda will change all that much from Senator Smith's or Senator Reid's, but of course, that will be up to Chairman Jeffords.

I'm sure Senator Jefford's four pollutant bill addressing SO2, NOx, Mercury and CO2 will come up, and perhaps it will be the subject of some hearings. I know that Senator Smith had been interested in moving a three-pollutant bill through the Committee, addressing SO2, NOx, and Mercury.

I think a multi-pollutant approach is a good one, to provide some clarity and certainty to industry, but I understand that regulating CO2, to put it mildly, is controversial. Frankly I'm not sure that caps are the best approach to the problem.

Other priorities will probably include MTBE, and legislation banning the use of MTBE. Senators Reid and Smith have introduced a bill, as I'm sure you know, that would ban MTBE and provide some compensation to the oil industry to help them transition away from using MTBE. I'm not sure if Jeffords would like to move the Reid-Smith bill, or focus on other MTBE legislation.

So, clearly we have a lot to do. And again I want to stress my commitment to working in a bipartisan way with my Senate colleagues. With a closely divided Senate, we really need to roll up our sleeves and get some good things done for the American people. Thanks again for having me. I'd be happy to take any questions you may have