



WHO REALLY OWNS THE OIL COMPANIES?

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Many Americans believe that the oil and gas industry is owned by a few wealthy industrialists whose profits can easily be taxed away. Of course, raising taxes on any industry creates economic distortions. Higher oil and gas industry taxes means less investment in the industry and fewer employment opportunities for workers in the industry. Moreover, higher oil and gas taxes are passed along to consumers in the form of higher prices. Consumers suffer many times when oil and gas prices rise both through their direct purchases of oil and gas and indirectly through higher prices for goods that depend on energy.

But there is yet another rarely considered cost to higher taxes on the oil and gas industry: the reduced value of retirement accounts for Americans. As it turns out, oil and gas companies, like most large American corporations, are not owned by a few wealthy individuals. Instead, they are owned by millions of ordinary Americans and foreigners, often through their retirement savings. Contrary to popular belief, only about one percent of the shares of the five major oil companies are held by officers and directors of these companies. The rest is held by institutional investors and individual Americans, mostly in retirement accounts.

Raising taxes on oil companies would hurt Americans who benefit from oil companies stocks in their retirement portfolios. In the State of New York, for example, oil and gas investments in the two largest pension plans, the

State Employees' Retirement System and the Public School Employees' Retirement System contributed 21 percent of the funds' return. Higher taxes on oil and gas companies would hurt New York's taxpayers, who would have to put more into the funds to make up for their lower returns.

Even so, the Obama administration proposed raising taxes on domestic oil and gas producers in its fiscal 2013 budget. Such taxes would, if approved by Congress, harm the economic performance of the industry and encourage investment overseas. Moreover, such new taxes would hurt American shareholders, the primary owners of these companies.

Oil and natural gas companies represent a small proportion of total investments in retirement accounts, yet account for a larger share of the return on these investments. Raising taxes on oil and gas would reduce the return on investment, and the returns to these retirement funds. In pension funds in the State of New York, for example, oil and natural gas companies represented 3.8 percent of assets, yet were responsible for 9.3 percent of returns. The same pattern holds true in other states.

THE OBAMA ADMINISTRATION'S PROPOSALS TO TAX THE OIL INDUSTRY

In his 2013 budget sent to Congress in February, President Obama suggested raising \$5 billion in 2013 and \$41 billion over the next decade from tax increases on oil and gas, more than on any other industry. In addition to specific taxes on oil companies, repeal of "last in, first out" accounting methods would cost the industry another \$26 billion over ten years. A substantial share of international tax increases and Superfund taxes would affect the oil industry, raising another \$21 billion, for a total of about \$88 billion over ten years.

One of the largest components of the tax increase, \$12 billion over ten years, comes from repealing the domestic manufacturing deduction for oil and natural gas companies. Currently manufacturers can take a deduction from taxes of 9 percent on their income from domestic production. Oil companies have a lower deduction of 6 percent.

Under the Administration's proposal, oil and gas companies would be the only domestic manufacturers not to qualify.

Another \$13.9 billion over ten years would be raised by repealing expensing of intangible drilling costs. Intangible drilling costs are those that do not have a salvage value, such as those for labor and well preparation. Currently, independent oil companies can expense 100 percent of intangible drilling costs. The larger integrated oil companies can expense 70 percent of these costs, and amortize the remainder over five years.

This proposal unfairly singles out oil companies, because in other industries, such as scientific or pharmaceutical research, non-salvageable costs of creating assets can be expensed.

Eliminating percentage depletion for oil and natural gas wells, a provision that affects smaller wells that pump up to 1,000 barrels per day, would raise another \$11 billion. This would not affect major oil companies. Under percentage depletion (rather than the more complex form of cost depletion), a set percentage of gross income from the oil or gas well is taken as a deduction.

In addition to taxes specifically aimed at the oil and gas industry, some other tax increases in the 2013 budget would primarily affect oil and gas production.

An international tax provision, to modify rules for dual capacity taxpayers, would raise \$11 billion over ten years. It would limit credits against American taxes for taxes paid to foreign governments, increasing the effective tax rate of oil companies.

A proposal to reinstate Superfund taxes, which were dropped in the 1990s, would raise \$21 billion in revenue over ten years, about half from oil companies. But oil companies were not primarily responsible for existing sites and should not have to pay disproportionately to clean them up.

All these taxes increases would reduce the profitability of American companies, hurting American shareholders. Foreign companies would win out in

bidding wars for all phases of petroleum development because their tax burdens would be lower. This would not help Americans, who own substantial shares in oil companies in their savings portfolios.

OWNERSHIP OF OIL COMPANIES

Evidence of ownership of oil companies comes from filings before the Securities and Exchange Commission. Every quarter, domestic institutional investors with more than \$100 million of securities are required to report their holdings in SEC Form 13-F filings. These data show that the officers and directors hold an insignificant fraction of shares of the largest five oil companies, ranging from 0.11 percent for Exxon Mobil (Table 1) to 1.4 percent for Occidental Petroleum (Table 4). Occidental Petroleum is the only one of the firms where ownership by officers and firm directors exceed one percent of outstanding shares. The remainder is held by U.S. and foreign shareholders. The largest holders of oil companies' shares are institutions, which can be found using data from each of the institutional managers' Form 13-F filings.

Table 1 shows the top 15 of approximately 1,000 institutional owners of Exxon Mobil as of December 31, 2011. The largest shareholder is the Vanguard Group, at 4.25 percent of total shares. These shares are primarily held in Vanguard's index funds. Other companies that purchase Exxon shares for index funds are State Street Corporation, with 3.95 percent of shares, Barclays, with 2.73 percent, and the Bank of New York, with 1.58 percent.

There are so many shares that institutions with large numbers of shares still have a small percentage of all holdings. In addition to the major holders listed in Table 1, smaller U.S. institutions and U.S. residents hold shares. Foreign institutions, also major purchasers of shares, are not required to disclose their holdings.

Tables 2 through 5, showing institutional holdings of Chevron, ConocoPhillips, Occidental, and Anadarko, exhibit the same patterns of ownership. Chevron's large institutional investors, shown in Table 2, include many of the same owners of Exxon, as well as Capital World Investors, an index fund, at 3.08 percent. Only

Table 1: Exxon Mobil, Institutional Ownership as of Dec 31, 2011

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Total Shares as of 12/31/2011	4,713,221,000		
Institutional Ownership as of 12/31/2011	2,310,263,765	49.02%	
Owner Name		Shares Held	Percent of total
VANGUARD GROUP INC	Fund Manager	200,084,278	4.25%
STATE STREET CORP	Fund Manager and Custodian Bank	186,374,861	3.95%
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	Fund Manager	128,446,885	2.73%
BANK OF NEW YORK MELLON CORP	Fund Manager and Custodian Bank	74,406,282	1.58%
FMR LLC (Fidelity Management and Research)	Fund Manager	69,325,826	1.47%
WELLINGTON MANAGEMENT CO LLP	Fund Manager	66,831,204	1.42%
NORTHERN TRUST CORP	Fund Manager and Custodian Bank	63,999,504	1.36%
BANK OF AMERICA CORP /DE/	Bank Holding Company	45,976,400	0.98%
JPMORGAN CHASE & CO	Bank Holding Company	45,194,619	0.96%
BLACKROCK FUND ADVISORS	Fund Manager	42,660,548	0.91%
STATE FARM MUTUAL AUTOMOBILE INSURANCE CO	Property and Casualty Insurer	37,062,400	0.79%
BLACKROCK GROUP LTD	Fund Manager	36,576,577	0.78%
NORGES BANK	Norwegian Central Bank	36,186,715	0.77%
PRICE T ROWE ASSOCIATES INC /MD/	Fund Manager	36,165,398	0.77%
GEODE CAPITAL MANAGEMENT LLC	Fund Manager	33,006,727	0.70%
Source: Securities and Exchange Commission, Form 13-F Filings Director and Reported Officer Ownership, including options or restricted shares that can be exercised within 60 days (as of 28 Feb 2011) 5,217,270 shares (.11% of shares outstanding at year-end 2011)			

Table 2: Chevron, Institutional Ownership as of Dec 31, 2011

Total Shares as of 12/31/2011		1,976,967,000	
Institutional Ownership as of 12/31/2011		1,257,309,147	
		63.60%	
Owner Name		Shares Held	Percent of Total
STATE STREET CORP	Fund Manager	98,346,251	4.97%
VANGUARD GROUP INC	Fund Manager	85,354,476	4.32%
CAPITAL WORLD INVESTORS	Fund Manager	60,819,093	3.08%
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	Fund Manager	53,268,551	2.69%
FMR LLC	Fund Manager	51,315,117	2.60%
WELLINGTON MANAGEMENT CO LLP	Fund Manager	37,429,629	1.89%
BANK OF NEW YORK MELLON CORP	Fund Manager and Custodian Bank	27,661,690	1.40%
NORTHERN TRUST CORP	Fund Manager and Custodian Bank	27,263,381	1.38%
PRICE T ROWE ASSOCIATES INC /MD/	Fund Manager	26,740,180	1.35%
JPMORGAN CHASE & CO	Bank Holding Company	20,642,175	1.04%
BLACKROCK FUND ADVISORS	Fund Manager	19,348,815	0.98%
BLACKROCK GROUP LTD	Fund Manager	17,166,652	0.87%
STATE FARM MUTUAL AUTOMOBILE INSURANCE CO	Property and Casualty Insurer	16,281,400	0.82%
BANK OF AMERICA CORP /DE/	Bank Holding Company	15,932,735	0.81%
CAPITAL RESEARCH GLOBAL INVESTORS	Fund Manager	15,040,111	0.76%

Source: Securities and Exchange Commission, Form 13-F Filings
 Director and Reported Officer Ownership, including options or restricted shares that can be exercised within 60 days (as of 28 Feb 2011):
 3,211,739 shares (.16% of shares outstanding at year-end 2011)

Table 3: ConocoPhillips, Institutional Ownership as of Dec 31, 2011

Total Shares as of 12/31/2011		1,279,693,000	
Institutional Ownership as of 12/31/2011		885,963,663	
		69.23%	
Owner Name		Shares Held	Percent of Total
VANGUARD GROUP INC	Fund Manager	59,508,374	4.65%
CAPITAL RESEARCH GLOBAL INVESTORS	Fund Manager	51,935,500	4.06%
STATE STREET CORP	Fund Manager and Custodian Bank	50,550,867	3.95%
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	Fund Manager	36,214,367	2.83%
BERKSHIRE HATHAWAY INC	Diversified Conglomerate	29,100,937	2.27%
WADDELL & REED FINANCIAL INC	Fund Manager	24,119,592	1.88%
CAPITAL WORLD INVESTORS	Fund Manager	23,640,000	1.85%
BARROW HANLEY MEWHINNEY & STRAUSS LLC	Fund Manager	21,418,854	1.67%
BANK OF NEW YORK MELLON CORP	Fund Manager and Custodian Bank	19,393,873	1.52%
NORTHERN TRUST CORP	Fund Manager and Custodian Bank	17,515,879	1.37%
JPMORGAN CHASE & CO	Bank Holding Company	15,502,652	1.21%
BLACKROCK GROUP LTD	Fund Manager	12,197,187	0.95%
BLACKROCK FUND ADVISORS	Fund Manager	12,063,565	0.94%
DIMENSIONAL FUND ADVISORS LP	Fund Manager	11,290,513	0.88%
FRANKLIN RESOURCES INC	Fund Manager	10,955,843	0.86%

Source: Securities and Exchange Commission, Form 13-F Filings
 Director and Reported Officer Ownership, including options or restricted shares that can be exercised within 60 days (as of 15 Feb 2012):
 6,683,719 shares (.522% of shares outstanding at year-end 2011)
 Including deferred/restricted share units

Table 4: Occidental, Institutional Ownership as of December 31, 2011

Total Shares as of 12/31/2011		810,941,000	
Institutional Ownership as of 12/31/2011		647,183,684	
		79.81%	
Owner Name		Shares Held	Percent of Total
FMR LLC	Fund Manager	35,842,875	4.42%
VANGUARD GROUP INC	Fund Manager	33,091,250	4.08%
STATE STREET CORP	Fund Manager and Custodian Bank	30,790,849	3.80%
WELLINGTON MANAGEMENT CO LLP	Fund Manager	30,542,598	3.77%
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	Fund Manager	21,049,609	2.60%
JPMORGAN CHASE & CO	Bank Holding Company	17,622,709	2.17%
DODGE & COX	Fund Manager	17,172,914	2.12%
DAVIS SELECTED ADVISERS	Fund Manager	16,600,063	2.05%
BARROW HANLEY MEWHINNEY & STRAUSS LLC	Fund Manager	14,362,018	1.77%
BANK OF NEW YORK MELLON CORP	Fund Manager and Custodian Bank	13,891,733	1.71%
MASSACHUSETTS FINANCIAL SERVICES CO /MA/	Fund Manager	10,791,966	1.33%
AMERIPRISE FINANCIAL INC	Fund Manager	9,772,778	1.21%
TIAA CREF INVESTMENT MANAGEMENT LLC	Teachers Insurance and Annuity Association	9,593,599	1.18%
NORTHERN TRUST CORP	Fund Manager and Custodian Bank	9,169,276	1.13%
NEUBERGER BERMAN GROUP LLC	Fund Manager	9,070,013	1.12%

Source: Securities and Exchange Commission, Form 13-F Filings
 Director and Reported Officer Ownership, including options or restricted shares that can be exercised within 60 days (as of 29 Feb 2012):
 11,640,205 (1.4% of shares outstanding at year-end 2011)
 Including deferred/restricted share units
 13,043,811 shares (1.6% of shares outstanding at year-end 2011)

Table 5: Anadarko, Institutional Ownership as of Dec 31, 2011

Total Shares as of 12/31/2011		505,593,000	
Institutional Ownership as of 12/31/2011		416,576,945	
		82.39%	
Owner Name		Shares Held	Percent of Total
FMR LLC	Fund Manager	27,949,348	5.53%
WELLINGTON MANAGEMENT CO LLP	Fund Manager	27,175,870	5.38%
STATE STREET CORP	Fund Manager and Custodian Bank	20,115,358	3.98%
VANGUARD GROUP INC	Fund Manager	19,886,803	3.93%
BARCLAYS GLOBAL INVESTORS UK HOLDINGS LTD	Fund Manager	13,302,606	2.63%
CLEARBRIDGE ADVISORS, LLC	Fund Manager	12,805,780	2.53%
INVESCO LTD.	Fund Manager	11,374,531	2.25%
JENNISON ASSOCIATES LLC	Fund Manager (Prudential Financial)	10,730,899	2.12%
PAULSON & CO INC	Hedge Fund	9,579,548	1.89%
BLACKROCK GROUP LTD	Fund Manager	7,620,637	1.51%
BANK OF NEW YORK MELLON CORP	Fund Manager and Custodian Bank	7,180,342	1.42%
NEUBERGER BERMAN GROUP LLC	Fund Manager	6,970,309	1.38%
JPMORGAN CHASE & CO	Bank Holding Company	6,779,803	1.34%
AMERIPRISE FINANCIAL INC	Fund Manager	5,997,980	1.19%
PRICE T ROWE ASSOCIATES INC /MD/	Fund Manager	5,964,313	1.18%

Source: Securities and Exchange Commission, Form 13-F Filings
 Director and Reported Officer Ownership, including options or restricted shares that can be exercised within 60 days (as of 29 Feb 2012):
 3,317,091 (.66% of shares outstanding at year-end 2011)
 Including deferred/restricted share units
 3,667,655 shares (.73% of shares outstanding at year-end 2011)

0.16 percent of Chevron shares are held by Chevron's officers and directors.

Private and public pensions own 31 percent of all U.S. oil and natural gas companies. Americans own 3 percent of funds directly, and 28 percent through mutual funds.¹ These shares have raised the returns of these funds, benefitting current and future retirees.

Take the State of New York, for example. New York's two largest pension plans, the State Employees' Retirement System (SERS) and the Public School Employees' Retirement System (PSERS) have 1.2 million members, some retired and some still in the workforce. Over the years 2005 through 2009 the assets of these funds together averaged \$217 billion, with oil and natural gas investments responsible for 5.5 percent of the funds' assets.

The oil and gas investments of SERS and PERS outperformed other assets held by the funds. Their return over the period was 40 percent, compared with 8 percent for the funds as a whole. They contributed 21 percent of the funds' total return.²

The same pattern exists for all New York State public employee retirement plans, with data available from

the U.S. Census Bureau data. Oil and gas companies represented 3.8 percent of assets, but were responsible for 9.3 percent of returns.³

CONCLUSION

Raising taxes on any single industry causes distortions and economic dislocations in that industry. Raising taxes on a large and productive industry such as oil and natural gas would have widespread effects throughout the economy. It is not just the sticker shock for motorists who already recoil from \$5 per gallon gasoline prices. Higher taxes on oil and gas will reduce investment in the industry, lessen economic activity and employment. Even those who do not work or invest directly in the oil and gas industries would be adversely affected.

Among the many losers from higher oil and gas taxes would be the millions of Americans with retirement accounts. As it turns out, the owners of the largest oil and gas companies are not primarily a few wealthy individuals. The owners are millions of ordinary Americans who invest their retirement savings in funds that own large shares of American oil and gas companies.

ENDNOTES

¹ Robert J. Shapiro and Nam D. Pham, *Who Owns America's Oil and Natural Gas Companies*, SONECON, October 2011, page 8.

² Robert J. Shapiro and Nam D. Pham, *The Financial Contribution of Oil and Natural Gas Company Investments to Major Public Pension Plans in Seventeen States, Fiscal Years 2005-2009*, SONECON, June 2011, page 39.

³ *Ibid*, page 40.