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Statement on Gas Industry-Financed Report on Marcellus Shale's Economic Impact

HARRISBURG, PA (May 25, 2010) - The natural gas industry released an updated report today on the economic impact of natural gas production in the Marcellus Shale. The Pennsylvania Budget and Policy Center issued the following response:

"Natural gas production in the Marcellus Shale has the potential to bring jobs and economic opportunity to Pennsylvania. However, the gas industry is overstating the economic benefits of increased drilling and overestimating the impact of a severance tax.

"A severance tax will ensure that drillers - not Pennsylvania taxpayers - bear the costs of environmental cleanup, infrastructure repair, emergency services, and other social costs of drilling. The report makes no mention of the environmental impact of increased drilling. In light of the tremendous environmental devastation caused by the oil spill in the Gulf of Mexico, it seems unconscionable that the industry would not acknowledge the real environmental and social costs of drilling.

"While the industry claims a severance tax will deter investment in the Marcellus Shale, studies in Wyoming, Utah and other states have shown that tax rates have little effect on production. Industry analyst Subash Chandra reinforced that point, telling The Philadelphia Inquirer recently that the 'industry will probably hate me for saying this,' but a severance tax won't 'have a huge impact on drilling. It's not that large.'

"The industry report claims that natural gas producers already pay enough in state and local taxes, but the methodology used is questionable.

"For instance, the industry counts local property taxes as the largest single part of the tax total, even though oil and gas reserves are not subject to property taxes in Pennsylvania, as they are in other states. Drilling equipment is not subject to the property tax, either.

"The report also appears to overstate the amount of sales tax paid. Many companies drilling in the Marcellus Shale are based out of state and likely buy a large share of taxable goods from suppliers in their home states. Many items used directly in the drilling process are also exempt from sales tax.

"Finally, the report overstates the jobs created by Marcellus Shale drilling. In 2008, the industry directly employed 10,300 people in Pennsylvania, according to the U.S. Bureau of Labor Statistics, and the state estimates that number will grow to 12,400 by 2016. By comparison, Wal-Mart employed 48,800 people in Pennsylvania as of January 2010.

"The report claims industry growth will create 88,000 jobs in 2010 and 111,000 in 2011, which include jobs outside the natural gas industry in such fields as health services and wholesale suppliers. It is impossible to verify these numbers and their connection to the industry.

"This industry-sponsored report, much like the industry-sponsored report released last summer, overplays the positive impacts of drilling in the Marcellus Shale, while minimizing the negative. It overstates taxes paid by the industry and misrepresents the impact of a severance tax, which most energy-producing states have. Lawmakers should act in the best interests of Pennsylvanians, rather than continuing to give unneeded tax breaks to this industry."
