Many observers today would agree that there are negative externalities to the consumption of fossil fuels, including both pollution and increased dependence on foreign sources of oil. For this reason, many feel that fossil fuels should be taxed heavily rather than granted certain favorable treatment in the Code. Repealing incentives for fossil fuel production would increase the after-tax costs associated with these activities, likely reduce the amount of capital employed in these activities in the long run, and potentially increase the prices of fossil fuels.[243] If fossil fuel prices were to rise as the result of the repeal of incentives for fossil fuel production, there could be substitution from fossil fuels and into other energy sources, including nuclear or renewable sources of energy. The impact on pollution of any such substitution is unclear and would depend on the type and quantity of pollution associated with the alternative energy resource. To the extent that addressing pollution concerns was a major objective, economic theory would suggest the need for a tax on the externality from the consumption of fossil fuels that equaled the social harm from the consumption. Simply removing selected subsidies related to the production of fossil fuels does not address the issue of establishing proper prices on the consumption of goods that cause pollution.

If the proposals caused substitution into alternative sources of energy, reliance on foreign sources of fossil fuels could be reduced because nuclear and renewable energy sources are domestically produced. Alternatively, to the extent that the proposals primarily affect domestic production of fossil fuels, it is possible that any substitution into these alternate energy sources reflects a substitution from domestic production of fossil fuels into domestic production of these alternate sources, thus leaving the United States' reliance on foreign fossil fuels unchanged. Furthermore, as the proposals are likely to have no effect on the world price of fossil fuels, any increase in prices for domestically consumed fossil fuels is likely to be attenuated, and the proposals could primarily result in substitution of foreign fossil fuel sources for domestic sources whose production is more reliant on the subsidies provided in current law. Such an outcome would further imply that the proposals would not lead to any shift into the alternate energy sources of nuclear or renewables. Lastly, other observers have argued that current prices and expected future demand for fossil fuels provide sufficient market-based incentives for domestic exploration and production, and have argued that the present law subsidies are unnecessary to secure a viable domestic fossil fuels production industry.

Additional motivations may also support specific proposed changes. For example, with respect to tertiary injectants opponents of repeal have also argued that the deduction for tertiary injectants encourages the use of carbon dioxide in enhanced oil recovery projects. Such projects represent a primary method of carbon sequestration, which reduces greenhouse gas emissions by capturing and storing carbon dioxide that would otherwise be released into the atmosphere.[244]

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[243] Any price rise is likely to be attenuated in the case of a globally traded commodity, such as oil, where the price is determined globally. In such a case, a decrease in United States' output may have a greater effect increasing imports of foreign oil than on increasing crude prices for domestic consumers. Similarly, an increase in United States' output may have a greater effect displacing imports of foreign oil than on decreasing crude prices for domestic consumers.

[244] See also sec. 45Q, which provides a credit for certain qualified tertiary injectant projects that use carbon sequestration.