Europe Energy

EU Big Oils: Sensitivity to Section 899

Michele Della Vigna, CFA
+39(02)8022-2242 |
michele.dellavigna@gs.com
Goldman Sachs Bank Europe SE - Milan branch

Yulia Bocharnikova
+44(20)7051-6299 |
yulia.bocharnikova@gs.com
Goldman Sachs International

Anastasia Shalaeva
+971(4)214-9908 |
anastasia.shalaeva@gs.com
Goldman Sachs International

Quentin Marbach
+44(20)7774-7644 |
quentin.marbach@gs.com
Goldman Sachs International

A provision in the House-passed fiscal package (H.R. 1), would create a new Section 899 of the tax code, which would raise the US tax on many forms of passive income and active business income by 5pp next year, 20pp over four years and, in some cases, as much as 50pp over the next decade. According to our Economists, these policies could negatively impact holders of US assets, but rather than an intentional effort to discourage demand for US assets to weaken the dollar, the intent of this policy is to pressure other countries to rescind taxes on US multinationals. According to our Strategy team, the main channel for listed companies will be via the increase in the withholding tax: starting at 5%, and then increasing by 5pp annually to a maximum of 20%. This applies to both active business income (profits) and passive income (dividends, interest, capital gains). Amongst the affected would be non-US individuals and foreign corporations (>50% owned by non-US) with countries likely affected including most EU members and the UK.

In this report, we therefore focus on the potential downside risk to the European integrated oil companies stemming from the proposed Section 899 of the tax bill. Specifically we run a sensitivity analysis applying a surtax rate of 5%/20% on earnings generated due to implied exposure from US operations across the group in order to quantify the potential impact under varying scenarios.

While we acknowledge that the intent of this policy could be to pressure other countries and the policy might potentially never be applied, EU Big Oils could also be exempt from the tax due to their large US ownership. Assuming the provision is applied and without exemption, our analysis implies that BP would be the most affected amongst Big Oils with up to 18-4% of their profit at risk due to their exposure to the US. Shell and Repsol could also be exposed on our estimates (6-2%/6-2% of profit sensitivity to a 20% increase in the withholding tax respectively) while TotalEnergies, Equinor and ENI would have a more muted impact. In contrast, Galp and OMV would appear largely unaffected due to minimal exposure to US operations.

Implications for EU Big Oils

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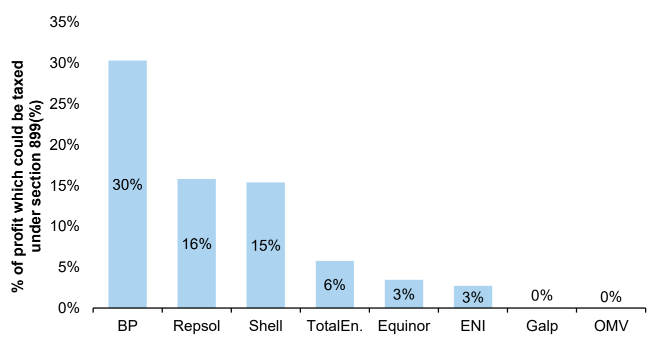
Exhibit 1: BP has the highest percentage of its profit which could potentially be taxed under section 899, followed by Repsol and Shell

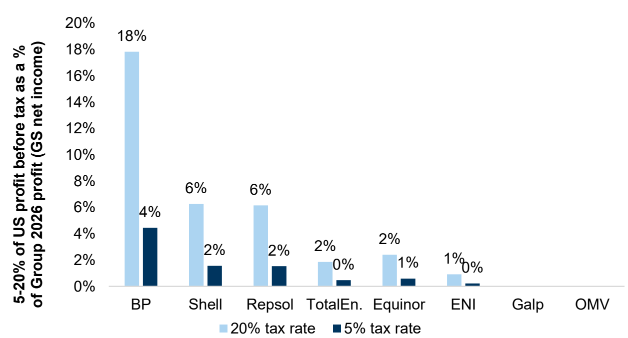
% of group profit which could be taxed under section 899



Source: Company data, Goldman Sachs Global Investment Research

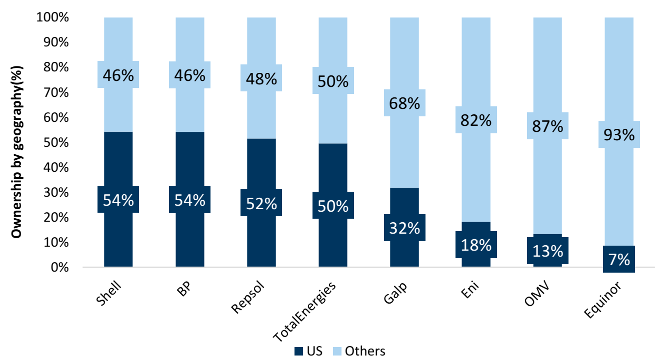
Exhibit 2: A 20% reduction in US profit would represent an 18% impact to earnings for BP, and a low-to-mid-single-digit % impact for other names

5-20% of US profit before tax as a % of Group 2026 profit (GS net income)



Source: Goldman Sachs Global Investment Research

Exhibit 3: Shell, BP, Repsol and Total could potentially be exempted given >50% US ownership
% stock ownership by US investors, last reported



Ownership as of June 2025

Source: Bloomberg

Understanding Section 899

The "One Big Beautiful Bill Act" extends the 2017 tax cuts and introduces new tax and spending measures. While US equity markets may benefit in the short term — particularly from CAPEX and R&D — one of the most consequential provisions for global investors is Section 899.

Section 899 introduces retaliatory tax measures against non-US individuals, corporations, and governments from countries that impose "unfair foreign taxes" on US persons. These include: OECD Pillar Two UTPRs (Undertaxed Profits Rules), Digital Services Taxes (DSTs) and Diverted Profits Taxes (DPTs). These taxes are automatically deemed "unfair," bypassing the need for Treasury designation.

Tax Mechanics. The main channel for listed companies will be via the increase in the withholding tax: starting at 5%, and then increasing by 5pp annually to a maximum of 20%. This applies to both active business income (profits) and passive income (dividends, interest, capital gains).

Who Is Affected? Non-US individuals and entities tax-resident in countries with UTPRs, DSTs, or DPTs, foreign governments and sovereign wealth funds (explicitly included in the bill), foreign corporations (>50% owned by non-US), foreign trusts, partnerships, and branches. Countries likely affected include most EU members, the UK, Canada, Australia, Korea, Norway, and Switzerland.

Will It Be Applied? Our chief US political economist, Alec Phillips, notes that Section 899 is designed to pressure foreign governments to reverse recent tax measures. However, the provision could discourage foreign investment in US assets at a time when the US is seeking to reshore manufacturing and attract capital. The legal ambiguity around whether US Treasuries are taxed is unsettling investors. While the "portfolio interest exemption" appears preserved (protecting registered holders of USTs, MBS, and corporate bonds), treaty-based exemptions may still be at risk.

Indeed, there are some mitigating factors. First, it remains unclear whether Section 899 will be fully enforced or primarily used as a negotiating tool in international tax diplomacy. Second, European firms are likely to adapt. Potential strategies include passing on costs through US price increases, reallocating deductible expenses to US operations, restructuring ownership to exceed the 50% US-ownership threshold as many firms currently fall in the 40–50% range (one option is relisting in the US), and occasionally moving the HQ and tax domicile to the US, as well as lobbying for exemptions or bilateral relief.

Valuation and key risks

Exhibit 4: 12-month price targets, implied upside and key risks to our views and PTs

Pricing as of the market close of June 05, 2025

		Currency	Target Price	Current Price	*Potential upside*	Rating	Methodology (applied to 2026E cash flow unless otherwise indicated)	Key risks
EU Integrated Oils	**BP**	p	**450**	366	*23%*	Buy	*5.9x EV/DACF*	*Lower oil and gas prices or exploration success than we expect, negative surprise to growth or capex*
	BP ADR	US$	**36**	29	*23%*	Buy	*5.9x EV/DACF*	*Lower oil and gas prices or exploration success than we expect, negative surprise to growth or capex*
	ENI	€	**15**	13	*14%*	Buy	*6.1x EV/DACF*	*Lower oil prices and refining margins; ramp up issues in Kashagan, downstream restructuring failure*
	Equinor	NKr	**230**	244	*-6%*	Sell	*3.7x EV/DACF*	*Higher oil and gas prices than we expect, better than expected cost efficiency outcome and production*
	Galp	€	**19**	14	*35%*	Buy	*SOTP*	*Lower oil prices or less exploration success than we expect, negative surprise to growth or capex*
	OMV	€	**45**	48	*-6%*	Neutral	*6.7x EV/DACF*	*Lower/Higher oil prices/refining margins or exploration success than we expect, worse/better than expected cost efficiency outcomes or value realised from proposed asset sale/swaps*
	RD/Shell A	€	**40**	30	*35%*	Buy	*6.3x EV/DACF*	*Lower oil prices and refining margins, negative surprise to growth or capex*
	RD/Shell A ADR	US$	**90**	67	*35%*	Buy	*6.3x EV/DACF*	*Lower oil prices and refining margins, negative surprise to growth or capex*
	Repsol*	€	**15**	12	*27%*	Buy	*5.1x EV/DACF*	*Lower oil prices or refining margins than we expect or negative surprise to growth or capex or distributions to shareholders*
	TotalEnergies	€	**56**	53	*6%*	Neutral	*6.2x EV/DACF*	*Lower/Higher oil prices and refining margins; ramp up issues/acceleration in projects under development*

*Repsol is also on the European Conviction List - Directors' Cut

Source: FactSet, Company data, Goldman Sachs Global Investment Research

We would like to thank Sara Zmary for her contribution to this report.

Disclosure Appendix

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