TAXPAYERS for COMMON SENSE

ISSUE BRIEF

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Federal Oil & Gas Reforms Bringing Leasing into 21st Century are a Big Win for Taxpayers;

Negligible Impact for Oil & Gas Companies

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Oil and gas companies have been leasing and drilling on federal lands under sweetheart terms for decades. These terms, including low bonding and royalty rates and free on-site use of natural gas, have allowed the companies to pocket billions of dollars that should have been returned to the resource owners – U.S. taxpayers. To end the giveaway and get taxpayers a fair return from development of the oil and gas we own, Congress is considering several reforms to the federal leasing process in the Build Back Better (BBB) Act.

In response, the oil and gas industry is spreading false information about collapsing domestic production and pushing policymakers to abandon much needed and long overdue common sense reform proposals.

Bottom line: the revenue impacts of reform would be significant for taxpayers but negligible for producers.

Reforms Mean Real Revenue for Taxpayers

The Congressional Budget Office estimates that enacting all reforms in the BBB would generate $2.4 billion for federal taxpayers over 10 years. While a big win for taxpayers, this amount of money is little more than icing on the cake for industry. For context, the Office of Natural Resources Revenue has collected $7.6 billion per year on average from federal oil and gas production since 2018. The new revenue would be about one-third of annual collections.

Royalty Rate Should Meet the Market and Bring Parity with Offshore

Among the many reforms on the table, the most consequential – and the largest target of industry ire – is an increase of the royalty rate for leases on federal land. The current federal royalty rate of 12.5% was set in 1920 and lags what states and private landowners charge for leasing their lands. The reform package would increase the minimum onshore royalty rate to 18.75% – equal to the rate for federal offshore drilling and in line with some of the biggest oil and gas producing states (see table).

Federal Royalty Rate Lags State Rates

The federal royalty rate has not been updated since 1920 while states have raised rates several times.

Leasing Jurisdiction	Oil & Gas Royalty Rate
California	16.67 - 25 percent, generally
Colorado	20 percent
Montana	16.67 percent
New Mexico	18.75 - 20 percent
North Dakota	16.67 or 18.75 percent, county-dependent
Oklahoma	18.75 percent
Texas	20 - 25 percent
Utah	16.67 percent
Wyoming	16.67 percent
Private Lands	12.5 - 25 percent, generally
Federal Lands	12.5 percent, sometimes less

Sources available in our report, *Royally Losing*

If the federal government had been charging 18.75% for all oil and gas produced on federal lands over the last decade, **taxpayers could have gotten up to $12.9 billion more in revenue**.

Every new lease issued at the lower 12.5% is a missed opportunity to collect a fair revenue for taxpayers.

18.75 Percent Royalty Rate – Production Unharmed

At issue in the current debate is what effect raising the royalty rate might have on production or industry interest in leasing. The short answer – very little, if any. First, the higher royalty rate will only apply to NEW leases, so **not a single drop of oil currently being pumped out of federal lands would be affected by the new rate**. Current leases will continue producing oil and gas for years, if not decades and pay only 12.5% of their revenue to taxpayers. According to one study by the Congressional Budget Office, half of all royalty receipts came from leases issued more than 50 years prior.

But what about in the long-term? Again, any effect on production is likely to be minimal. Because the federal government would be charging a competitive rate – i.e., a rate that's generally no higher than what producers would pay on nearby state lands – there's no reason to think oil and gas companies will suddenly avoid bidding for federal leases. **They go where the oil and gas is**. Officials from both Texas and Colorado have reported that when they raised their royalty rates (to 25% and 20%, respectively), there was no noticeable change in industry interest for state leases.

Rents and Minimum Bid Also Need to Meet the Market

Rental revenue and bonus bids at lease auctions make up an important part of taxpayers' return from the leasing system. But neither the annual rental rate nor the minimum bonus bid has been updated since 1987. By failing to keep up with inflation alone, the stagnant rental rate has cost taxpayers more than $300 million over the last decade.

Increasing the minimum bid would also help cover the costs of administering onshore oil and gas auctions, which are largely borne by taxpayers. The Bureau of Land Management receives roughly $140 million per year in appropriations to inspect oil and gas leases and evaluate parcels for inclusion in auction, among other activities. Instituting an inspection fee, as the reconciliation bill does, follows from basic user-pays principles and would reduce the need for appropriations. According to a recent GAO report, only 20 percent of acres nominated for lease from 2009 to 2019 were ultimately put up for auction, but the agency expended huge resources to evaluate each nomination. Charging a fee for each expression of interest would cut down on abuses of the system, and recover agency costs.

Profitable, Recovered Industry

The oil and gas industry is cashing in on current oil and gas prices and has recovered from the demand shock brought on by the pandemic. In fact, the top 10 U.S. oil and gas producers alone raked in $38 billion in net income in *just the first nine months of 2021*. That is, **10 top producers made more in one month than all the reforms in the BBB would cost the entire industry over 10 years.**

Some top U.S. oil and gas exploration and production (E&P) companies outperformed their pre-pandemic earning results. ExxonMobil, the largest U.S. E&P firm, recorded a $6.75 billion profit during the third quarter of 2021, its strongest result since 2017. Chevron, the seconded largest U.S. E&P company, reported $6.1 billion in profits, its highest quarterly result in eight years. Overall, U.S. total rig count and crude oil production has been rising steadily and world oil demand is projected to rise above pre-pandemic levels. The oil and gas industry is highly mature, profitable, and resilient. There is no reason for taxpayers to continue subsidizing the industry by charging below market rates for public resources.

Conclusion

The Department of the Interior has a fiduciary duty to ensure taxpayers receive a fair return from the development of publicly owned resources. But right now, management of federal oil and gas falls far short of that responsibility. Congress has a chance to change that, and misleading industry influence shouldn't get in the way.