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HISPANICS ENJOYING CAMPING, HUNTING, AND THE OUTDOORS

Reforming the Oil and Gas Leasing Program

Executive Summary

We have an opportunity before us to look at the climate crisis, the state of the oil and gas industry, and the need for investment in our local and state communities in a compound way. Oil and gas executives have control over aspects of the market which allows them to take advantage of consumers and raise prices to increase profits, or withhold supply to do the same. We know that people are feeling the pain at the pump, and increased royalty rates and bonding standards may come off as counterintuitive, but we also know that the conversation is more nuanced than that. Compound provisions to both ensure efficient use of federal lands by the industry, while still moving us forward in addressing the climate crisis are possible

Challenge

As a part of the 1920 Mineral Leasing Act, Congress authorized the Bureau of Land Management (BLM) to issue leases to private parties for federal oil and gas resource development. Lessees must pay royalties on oil and gas production at a rate set by BLM. For over 100 years, the royalty rate has been 12.5 percent, the minimum allowed under the Mineral Leasing Act. BLM has the authority to increase the royalty rate but never has. Private landowners in the notably oil-friendly state of Texas - which accounted for 43% of the nation's crude oil production and 26% of its marketed natural gas production in 2020 - set royalty rates of 20-25%.

The decision to maintain the federal royalty rate at 12.5 percent reflects BLM’s long-standing goal of maximizing oil and gas development. Consistent with that goal, BLM leased over 10 million acres of federal land to oil and gas developers during President Obama’s eight years in office. More than 6 million additional acres of federal land were leased during the four years of the Trump administration. As of March 2021, 26.6 million acres of federal land were covered by oil and gas leases. Of those 26.6 million acres, 14 million go unused or go idle. The industry can ramp up production to help lower gas prices. Instead, it holds its supply hostage to drive up prices at the pump and maximize profits , while simultaneously blaming a lack of new lease sales for price increases.

The oil and gas industry enjoys the bargain it gets from the federal government – it pays less to explore, produce, and sell fossil fuel products than private landowners and the states while stockpiling leases across the west to manipulate prices. The industry also leaves tax payers to clean up its orphaned wells and abandoned mines which leak toxins into the air and waterways. There is a lack of accountability measures in bonding standards. These standards, controlled by the BLM, currently use antiquated 1950s rates to set bonds which only cover a fraction of the costs to seal wells properly. Combined with the common practice of creating and dissolving shell companies to drill on public lands, these issues allow the oil and gas industry to wash its hands clean of the true costs to seal the wells they drill on public lands. The Infrastructure Investment and Jobs Act, signed into law in 2021, allocated $4.7 billion to clean up just half of the 130,000 orphaned wells identified by the Department of the Interior. However, the EPA estimates there are as many as 3 million orphaned wells across the country.

12.5%

Thr royalty rate imposed by the BLM, well below what oil friendly states like Texas impose

14M

The number of acres leased and untouched by oil and gas companies

$8.2B

The total bailout oil and gas benefitted from, all while laying off 600,000 workers

Insert In 2020, big oil and gas companies got an $8.2 billion bailout but laid off 60,000 workers so they could use the money to boost their share prices and reward their CEOs with massive bonuses. From January to September 2021, the net income for the top twenty-four oil and gas companies, including Exxon, Chevron, Shell, and BP, was $174 billion. These actions hurt our environment and our economy.

Solution

It is time to hold the industry that has been making billions of dollars off of our federal public lands accountable. The oil and gas industry needs to pay fair royalty rates for their waste of our finite resources, and it needs to clean up after itself so that pollutants from orphaned wells don't continue to poison our communities. We must ensure that oil and gas companies make responsible use of the 14 million acres of unused public lands already leased for oil and gas development instead of shifting supply concerns onto efforts to conserve additional public lands from new leasing .

Policy Recommendations

- Increase federal royalty rates from 12.5% to 18.75%
- Increase bonding requirements to ensure the complete and timely reclamation of the lease tract and restoration of land and waters adversely affected by lease operations
- Implement idled well fees requiring oil and gas operators to pay an annual fee for idled wells on federal land where the yearly fee for each well increases the longer the well has been idle on federal land

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