

Fact Sheet: Big Oil's Royalty Rip-Off

“Under the current environment, we don't need royalty relief.”

– Michael Coney, lawyer for Shell Oil
New York Times. *Vague Law and Hard Lobbying add up to Billions for Big Oil*, 3/27/2005

**“I will tell you with \$55 oil we don't need incentives to oil and gas companies to explore.
There are plenty of incentives.”**

– President George W. Bush
Washington Post. *House Energy Bill Increases Tax Breaks: Legislation at Odds With Bush Proposal*,
4/19/2005

Oil and gas companies are recording record-setting profits while ordinary Americans struggle with the high cost of energy. These oil companies are drilling off our coasts for oil and natural gas and cheating Americans out of billions in royalties. Congress should act immediately to end this royalty rip-off.

Oil company profits continue to skyrocket

Big oil companies are swimming in a sea of record-breaking profits while American consumers and taxpayers pay the price. In 2005, the world's biggest oil companies reported a combined \$111 billion in profits:

Company	2005 Annual Profits	% increase from 2004
ExxonMobil	\$36.1 billion	43 percent
Royal Dutch Shell	\$25.3 billion	37 percent
BP	\$22.3 billion	30 percent
ConocoPhillips	\$13.52 billion	66 percent
Chevron Texaco	\$14.1 billion	6 percent

Oil companies are cheating Americans out of billions

- Big oil and gas companies are cheating Americans out of billions, failing to pay their fair share of royalties for the oil and gas they extract and sell from the deep waters in the Gulf of Mexico. According to the Department of the Interior, oil and gas companies will avoid paying royalties on more than \$65 billion worth of revenues over the next five years, costing the federal government approximately \$9.5 billion over that periodⁱ **According to a draft report by the General Accountability Office, losses to the treasury over 25 years could reach a staggering \$20 billion. And if the oil industry is successful in a recent legal challenge, these losses could balloon to \$80 billion over the same period.**ⁱⁱ
- Oil and gas companies typically pay a 12 to 16 percent royalty on oil and gas they extract from federally owned waters. The royalties provide needed funding to the Land and Water Conservation Fund, the Historic Preservation Trust Fund, the oil-producing states and the general treasury.

- In order to spur domestic production when oil and gas prices were at an all-time low, Congress in 1995 passed the Deep Water Royalty Relief Act of 1995, which granted royalty relief to oil and gas companies drilling in deep waters for leases sold between 1996 and 2000.ⁱⁱⁱ
- The law placed several limits on the royalty relief. First, it limited royalty relief to a set volume of production from a lease: 17.5 million barrels from depths of 200 to 400 meters, 52.5 million barrels from depths of 400-800 meters, and 87.5 million barrels from depths greater than 800 meters. More importantly, it authorized the Interior Department to set price thresholds when awarding offshore drilling leases, to ensure that royalty relief would end when oil and gas prices rose above a certain amount. But In 1998 and 1999, the Interior Department awarded leases for offshore drilling that didn't include price thresholds. Production from these leases is just now coming on line.
- With oil and natural gas prices at all-time highs, oil and gas companies drilling in the Gulf are expected to earn more than \$65 billion over the next five years, royalty-free. According to the Minerals Management Service budget, these leases will produce 298 million barrels of oil and 7 trillion cubic feet of natural gas.
- The Interior Department concluded that taxpayers will lose out on \$9.5 billion in royalties that oil companies should be paying over the next five years. **More recently, the GAO concluded in a draft report that taxpayers could lose out on at least \$20 billion over the next 25 years.** Roughly half the cost is attributed to the lack of price thresholds in the 1998 and 1999 leases. The other half is attributed to a 2003 legal victory by oil companies which greatly expanded the amount of royalty-free oil and gas they could produce.

Oil companies are demanding even more money

- Worse, the oil industry is actually demanding that taxpayers refund billions in already-paid royalties. Not content with the billions in royalty-free profits it stands to make from the 1998 and 1999 leases, the industry is challenging the authority of MMS under the 1995 law to include price thresholds in leases awarded in 1996, 1997 and 2000.
- On March 21 Kerr-McGee filed suit against the Interior Department, arguing that the oil industry should be exempt from paying as much as \$28 billion over the next five years—and that the government should refund more than half a billion in royalties that oil companies have already paid. **If the legal challenge led by Kerr-McGee is successful, the GAO estimates that taxpayers could lose out on as much as \$60 billion over 25 years—bringing total losses from industry's royalty rip-off to \$80 billion.**

Congress must not allow this royalty rip-off to continue

Congress should act immediately to require the Interior Department to suspend royalty relief for production of offshore oil and natural gas. Congress should also insist that no royalty relief be awarded for future offshore drilling when prices are high.

ⁱ <http://www.mms.gov/PDFs/2007Budget/FY2007BudgetJustification.pdf>

ⁱⁱ <http://www.nytimes.com/packages/pdf/business/29lease.pdf>

ⁱⁱⁱ P.L. 104-58