EXPORTING PUBLIC RESOURCES:

TAXPAYERS LOSE BIG IF CONGRESS LIFTS THE CRUDE OIL EXPORT BAN AND IGNORES ANTIQUATED ROYALTY RATES

INTRODUCTION AND SUMMARY

Oil companies are ramping up an aggressive advocacy campaign to convince Congress to lift the four-decade-old law banning the export of American crude oil.[1] But in its haste to hand the oil industry a major policy victory, Congress risks missing an opportunity to reform the antiquated laws governing oil and gas drilling and development. At the top of that list is the century-old royalty rate that oil companies are required to pay to American taxpayers for the right to extract oil and gas from U.S. public lands.

In this analysis, we calculate how much money taxpayers stand to lose if Congress allows oil companies to send American-produced oil overseas without also ensuring that those companies pay a fair return to taxpayers for oil produced from U.S. public lands.

Using data from the Energy Information Administration and a report commissioned by the American Petroleum Institute, **we estimate that American taxpayers could lose more than $500 million over the next decade if Congress lifts the crude oil export ban and ignores outdated royalty rates.**

While lifting the export ban may allow drillers to increase oil production, American taxpayers will be left with the costs of increased development, including more lands lost to drill rigs and well pads, spills, truck and train traffic, and local air pollution.[2]

Our lawmakers have an obligation to ensure that all Americans—not just oil companies and their bottom lines—benefit from increased oil drilling. If Congress is going to consider reforming oil policies, it would be negligent to lift the export ban without simultaneously ensuring taxpayers are receiving a fair return from the oil produced here at home.

BACKGROUND ON THE OIL EXPORT BAN

The intent of the export ban—first passed in the aftermath of the Arab oil embargo in the 1970s—was to stabilize oil prices and ensure that oil produced in the U.S. is put towards our nation's sizable oil import deficit.[3]

Calls to lift the export ban have intensified in recent months as oil production in the U.S. has risen dramatically with the advent of hydraulic fracturing and horizontal drilling technologies. Leading the charge is Alaska Senator Lisa Murkowski, who has called for lifting the ban on crude exports because "America has entered an era of energy abundance."[4]

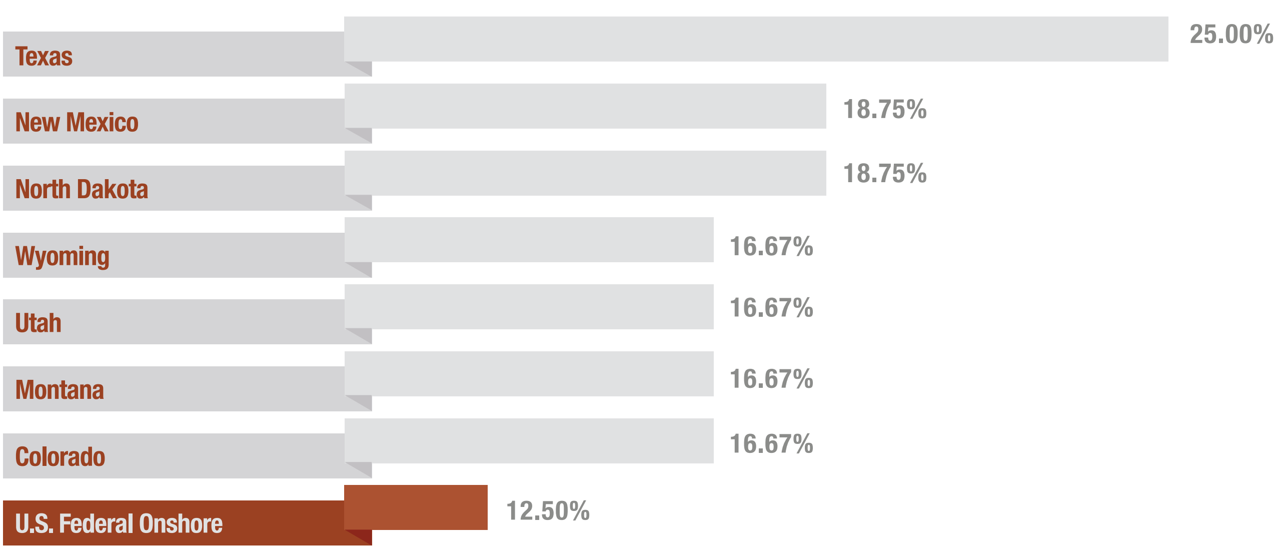
But while crude oil output in the U.S. is approaching its highest levels ever,[5] our nation still imports over nine million barrels of oil each day,[6] partially as a result of capacity issues in oil refineries.[7] While energy independence has been a goal sought by every president since at least Richard Nixon,[8] even with growing U.S. oil output our nation is still dependent on oil from places like Saudi Arabia, Nigeria, Iraq, Russia, and Venezuela.[9]

OIL ROYALTIES ON U.S. PUBLIC LANDS REMAIN OUTDATED

With so much focus on lifting the export ban, policy makers risk losing sight of a critical question: are American taxpayers receiving a fair return from rising oil production? The answer to that question on public lands is a resounding "no."

Under current law, last updated in 1920, oil companies pay a royalty to American taxpayers of 12.5 percent of the value of oil produced from U.S. public lands.[10] This outdated rate falls well below the 18.75 percent assessed on oil produced from offshore leases. It also falls short of the royalty rate charged by states, which typically have a royalty between 16.67 percent and 18.75 percent for oil produced on state-owned lands; Texas charges a 25 percent royalty.[11]

FEDERAL ONSHORE ROYALTY RATES COMPARED TO WESTERN STATES



The result is that as oil production on U.S. public lands continues to climb, American taxpayers are not capturing a fair return from development. Just last year, companies produced nearly 149 million barrels of oil from onshore public lands.[12] That represents the highest production levels since at least 2003 and a nearly 50 percent increase over the last twelve years.

The Department of the Interior has begun the process of modernizing royalty rates, announcing earlier this year that it would pursue policies to ensure Americans are receiving a fair return from energy development on U.S. public lands, including updating low royalty rates.[13] But the agency has been forced to act only because Congress has failed for decades to recalibrate the royalty rate.

ANALYSIS: AMERICAN TAXPAYERS COULD LOSE OVER $500 MILLION IF CONGRESS IGNORES ROYALTIES

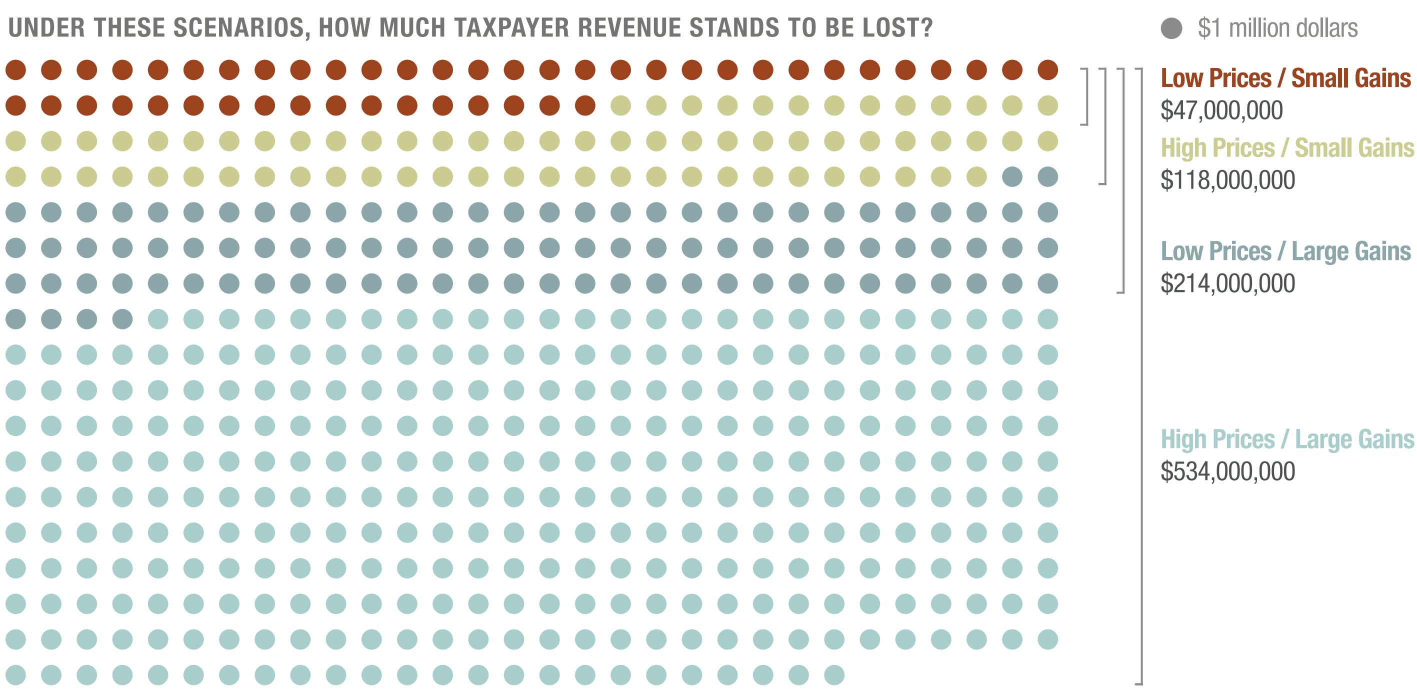
Using publicly-available data and oil industry estimates, we calculated the amount of money American taxpayers could lose out on if Congress lifts the export ban without updating the royalty rate on U.S. public lands.

Under the assumptions detailed below, we find that taxpayers could lose between $47 million and $534 million over the next decade if Congress lifts the export ban and fails to simultaneously increase royalties to match the 18.75 percent charged on offshore oil leases. The range depends on the price of oil and actual levels of increased production.

TAXPAYER REVENUE LOST BY LIFTING EXPORT BAN WITHOUT MODERNIZING ONSHORE ROYALTY RATES, ESTIMATED FOR 2016-2025

SCENARIO #1: OIL PRICES AT $40 PER BARREL		SCENARIO #2: OIL PRICES AT $100 PER BARREL	
Small Oil Production Gains	Large Oil Production Gains	Small Oil Production Gains	Large Oil Production Gains
$47,000,000	$214,000,000	$118,000,000	$534,000,000

UNDER THESE SCENARIOS, HOW MUCH TAXPAYER REVENUE STANDS TO BE LOST?



ASSUMPTIONS:

- Lifting the oil export ban will result in increased oil production of between 40 million (small oil production gains) and 183 million barrels per year (large oil production gains). Production increases from U.S. public lands are estimated with data from the American Petroleum Institute[14] and the Energy Information Administration.[15]
- The proportion of American oil produced from onshore U.S. public lands remains constant with levels in 2014. Data on oil production levels from U.S. public lands are from the Energy Information Administration.[16]
- The royalty rate is increased from 12.5 percent to 18.75 percent, matching the royalty rate for producing oil on offshore leases.

CONCLUSION

With a growing chorus of oil industry groups and companies calling on Congress to lift the oil export ban, lawmakers should move cautiously and deliberately. Our analysis finds that American taxpayers could lose upwards of $500 million over the next decade if Congress lifts the export ban without also modernizing outdated oil royalties on U.S. public lands.

In a rush to hand oil drillers a policy victory, lawmakers risk missing this key opportunity to reform outdated laws and guarantee taxpayers benefit from oil development on American soil.

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[16] *Ibid.*