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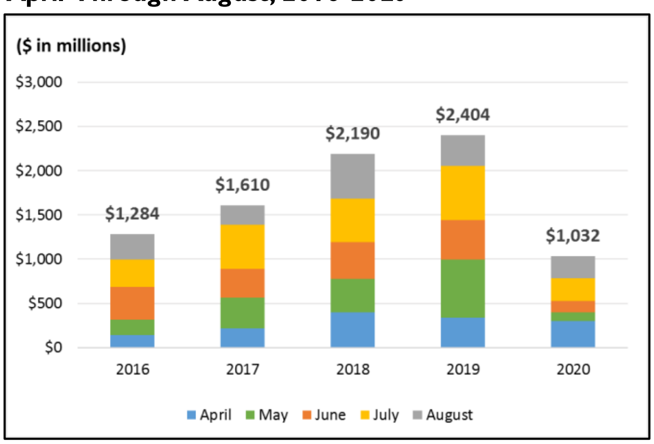
Federal Offshore Oil and Gas Revenues During the COVID-19 Pandemic

The economic effects of the Coronavirus Disease 2019 (COVID-19) pandemic have included a reduction in demand for oil and natural gas, resulting in lower prices and decreased production. These changes have affected revenues paid to the federal government from oil and gas leasing on the U.S. outer continental shelf (OCS). Federal revenues from OCS oil and gas include bonus bids from lease sales, rents paid prior to production on leases, royalties collected during production, and other fees.

A portion of federal offshore oil and gas revenue is shared with coastal states under the Outer Continental Shelf Lands Act (OCSLA; 43 U.S.C. §§1331-1356b) and the Gulf of Mexico Energy Security Act of 2006 (GOMESA; 43 U.S.C. §1331 note). The revenues also fund multiple federal programs and contribute to the General Fund of the Treasury.

Data from the Department of the Interior's (DOI's) Office of Natural Resources Revenue (ONRR) generally show lower federal offshore oil and gas revenues during April-August 2020 as compared with the April-August period in recent years (**Figure 1**). The April-August data largely reflect activities in March-July, because royalties—which constitute the majority of revenues—come from sales in the previous month. The revenue totals reflect a mix of factors influencing oil and gas leasing, prices, and production. For 2020, the pandemic is a prominent (though not necessarily exclusive) factor.

Figure 1. Federal Offshore Oil and Gas Revenues for April Through August, 2016-2020

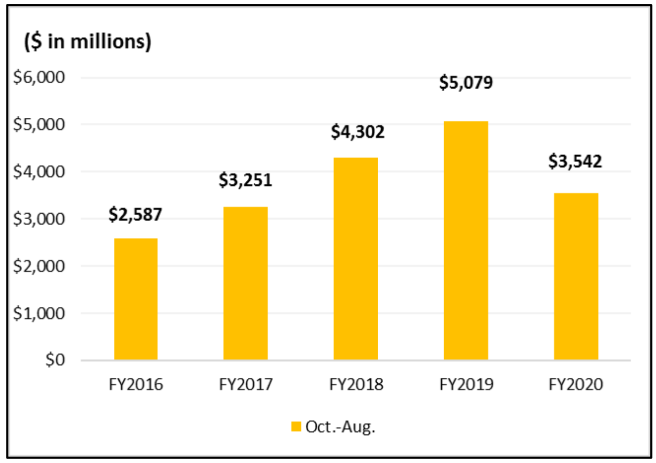


Source: ONRR, "Revenue by Month," at https://revenuedata.doi.gov/downloads/revenue-by-month/. Includes bonuses, rents, royalties, and "other revenues" for the commodity categories Oil, Gas, Oil & Gas, and NGL (natural gas liquids). Does not include inspection fees.

Notes: Royalties reflect sales in the previous month. Bonus payments may reflect lease sales from earlier months.

Because the pandemic began midway through the fiscal year, its effects would be less pronounced when comparing available data for the fiscal year to date (October-August) with the same period in past fiscal years (**Figure 2**).

Figure 2. Federal Offshore Oil and Gas Revenues for Partial Fiscal Year (October-August), 2016-2020



Source and Notes: See **Figure 1**. All years show October-August.

Bonus Bids

DOI's Bureau of Ocean Energy Management (BOEM) has held two offshore oil and gas lease sales (Lease Sales 254 and 256) during the period in which the United States has been affected by COVID-19. The sales took place in March and November 2020, respectively, for leases in the Gulf of Mexico region. Like other sales in DOI's offshore oil and gas leasing program for 2017-2022, the sales offered all legally available unleased areas in federal waters of the Gulf. The sales drew high (winning) bids totaling $93 million (March 2020) and $121 million (November 2020), which compare with high bids of $159 million (August 2019), $244 million (March 2019), $178 million (August 2018), $125 million (March 2018), and $121 million (August 2017) for other Gulf lease sales in the 2017-2022 program.

Rents

Rental payments, collected annually on active but nonproducing leases, typically account for a smaller portion of total revenues than do royalties or bonuses. Operators pay varying rental rates per acre, based on the water depth of the lease, the age of the lease, and other factors. Rental rates have not changed in the past five years, but the number and acreage of nonproducing active offshore leases have varied, affecting rental payment totals. For example, in November 2020, BOEM reported 1,651 active but nonproducing leases on the OCS, whereas in January 2017, there were 2,345. For April-August 2020, ONRR reported offshore rents totaling $55 million, which compares with April-August amounts of $66 million for 2019, $68 million for 2018, $67 million for 2017, and $77 million for 2016.

Royalties

Royalties constitute the majority of offshore oil and gas revenues. The revenues from royalties reflect the royalty rate defined in offshore leases, applied to the oil and gas produced from these leases, valued at market prices. While offshore royalty rates have been relatively steady, changes in oil and gas prices and production cause royalty amounts to fluctuate regularly. Most recently, effects of the pandemic have reduced oil and gas prices and production, resulting in lower federal royalty collections.

ONRR's offshore oil and gas royalty collections for April-August 2020 totaled $915 million, compared with April-August royalty collections of $2.109 billion for 2019, $1.971 billion for 2018, $1.274 billion for 2017, and $1.053 billion for 2016. (The totals include royalties on natural gas liquids.) The 2020 amount is 57% lower than that for the same months in 2019, 54% lower than 2018, 28% lower than 2017, and 13% lower than 2016.

Issues for Congress

Royalty Relief for Industry. In response to the financial difficulties facing the oil and gas industry during the pandemic, some U.S. oil and gas producers and some Members of Congress have asked DOI to offer *royalty relief* on federal oil and gas leases—a temporary reduction or waiver of royalties. Some other Members have opposed a comprehensive royalty relief program for federal oil and gas producers. DOI has stated that affected producers may apply individually for discretionary ("special case") royalty relief using existing processes (30 C.F.R. §203.80), clarifying that DOI is not pursuing a new program of blanket royalty relief in response to the pandemic.

Some stakeholders have sought measures to make royalty relief more comprehensive or to expedite the application process. They contend that obtaining royalty relief more quickly could help producers avoid having to shut in wells for financial reasons. Some other stakeholders oppose broadening or expediting royalty relief during the pandemic. They note that the OCSLA (43 U.S.C 1337(a)(3)) authorizes royalty relief to promote increased production, which could be seen as contradictory to the pandemic situation of oversupply. They also argue that the federal government needs offshore oil and gas royalties to fund key state and federal programs. Some bills in the 116th Congress (e.g., H.R. 6289, H.R. 6707, H.R. 7781, S. 3488, S. 3611) would repeal DOI's authority in the OCSLA to grant discretionary royalty relief. In contrast, other legislation (e.g., S. 4041) would mandate offshore royalty reductions during the pandemic and would provide other types of relief to industry, such as authority for lease extensions and suspensions at the leaseholder's request.

State Revenue Shares. Under the OCSLA and GOMESA, a portion of offshore oil and gas revenue is shared with coastal states. GOMESA provides the majority of shared revenues; 37.5% of revenues from qualified leases (up to a specified cap) are shared among Alabama, Louisiana, Mississippi, and Texas. In 2020 (reflecting FY2019 revenues), the four states combined received approximately $353 million under GOMESA. The GOMESA revenues are to be used for coastal conservation and restoration, hurricane protection, and related activities. To the extent that offshore revenues are reduced due to impacts from the COVID-19 pandemic, disbursements to states under GOMESA would decline accordingly. The severity of these effects on state programs would depend on the portion of total program revenue coming from federal disbursements and on other factors.

To address any effects of COVID-related revenue decreases on state programs, and to augment state funding more generally, some have suggested that Congress could amend GOMESA to provide a higher state percentage share and/or remove the funding cap. Conversely, others might support reducing the GOMESA state revenue share to preserve funding for federal programs that also may be affected by revenue decreases. For further discussion, see CRS Report R46195, *Gulf of Mexico Energy Security Act (GOMESA): Background, Status, and Issues*.

Revenues for Federal Programs. Offshore oil and gas revenues provide most or all of the funding for several federal land conservation and restoration programs, including the Land and Water Conservation Fund (LWCF; 54 U.S.C. §§200301 et seq.), the Historic Preservation Fund (HPF; 54 U.S.C. §303102), and the newly established National Parks and Public Land Legacy Restoration Fund (LRF; for more information, see CRS In Focus IF11636, *The Great American Outdoors Act, P.L. 116-152*).

Some have expressed concern about whether FY2020 revenues will be sufficient to fund these programs. The HPF and LWCF receive disbursements up to specified annual amounts: $150 million for the HPF and, for the LWCF, up to $900 million under the LWCF Act. Given that FY2020 offshore oil and gas revenues have exceeded $3 billion through August (**Figure 2**), the FY2020 revenues may be sufficient to meet these funding commitments, even after state revenue sharing under GOMESA and the OCSLA. Under GOMESA, the LWCF additionally is authorized to receive up to $162.5 million from FY2020 offshore revenues as mandatory funding for its state assistance program; preliminary data indicate the available FY2020 GOMESA revenues for the LWCF will not reach this cap. With respect to the LRF, it is to receive a percentage share of all federal energy revenues (from onshore and offshore conventional and renewable energy) that remain in the Treasury as miscellaneous receipts after other distributions under law. Based on prior years, the majority of these receipts likely would come from offshore oil and gas leasing. A decrease in offshore revenues in FY2020 stemming from the COVID-19 pandemic could mean the miscellaneous receipts would be insufficient to allow for the maximum LRF distribution of $1.9 billion in FY2021. The totals that would be available are as yet uncertain, as is the question of how or if the pandemic might affect subsequent years' revenues for the LRF or other funds.

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