Reforming Onshore Oil and Gas Royalties

The Problem

For over 100 years, the federal government has failed to ensure that taxpayers receive fair market value in royalties for the oil and gas that companies extract from publicly owned land. While oil and gas royalties do constitute a significant revenue stream for the government, the Department of the Interior’s negligence when it comes to bringing royalty rates into the 21st century has cost state, local, and tribal governments hundreds of millions of dollars in potential revenue. Had the federal government fulfilled its fiduciary responsibility to taxpayers, these funds could have been used to address pressing challenges such as the COVID-19 pandemic, negative environmental impacts of oil and gas drilling, and the rising national debt.

The federal onshore royalty rate for oil and gas leases was set at 12.5% by the Mineral Leasing Act of 1920, and it has not been updated since.¹ To this day, the Department of the Interior has not even established a regular process for assessing the need to adjust royalties, despite urging from other federal agencies, transparency groups, and the public. In contrast, a number of states, including Texas, New Mexico, and North Dakota, have set the gold standard for diligently reviewing and updating their royalty rates in order to best assess fair market value for their residents derived from state-owned property. As a result, a number of state governments have higher onshore royalty rates than the federal government.² Further, the federal government sometimes declines to charge any royalties on minerals extracted from public lands.³

And there are other ways the federal government is falling short in ensuring that taxpayers receive fair market value for oil and gas companies’ use of publicly owned land. For example, the minimum bid (the payment that companies must provide to purchase a lease on public lands) in competitive auctions is only $2 an acre, which is far too low to reflect market conditions. Furthermore, if a lease fails to generate any bids at auction, oil and gas companies may obtain it noncompetitively at an even lower rate, and on a first-come, first-served basis. This cheats taxpayers out of the potential revenue that could have been generated if the department declined to issue leases noncompetitively and instead introduced them into competitive auctions at a later date for a higher price.

The Solution

Congress must conduct rigorous oversight of oil and gas companies to ensure they are engaging in fair, transparent, and cost-effective practices that provide the American people with a fair value of return.

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for use of publicly owned lands. Specifically, the federal government must:

- **Raise the royalty rates for onshore oil and gas leasing.** Increasing onshore royalty rates from the current 12.5% to at least 18.75% would achieve parity with royalty rates for offshore production. Offshore royalties were increased to 18.75% under the George W. Bush administration, but onshore rates have stayed the same since 1920 and continue to deprive taxpayers of billions of dollars in potential revenue. An increase in onshore royalty rates would benefit western states and tribal nations especially, as approximately half of the royalties collected by the federal government are returned to the region where the development occurs. In 2016, the Congressional Budget Office found that increasing the onshore royalty rate from 12.5% to 18.75% could increase revenue to the federal government by as much as $200 million over 10 years, with little to no impact on production levels.

- **Raise the minimum bid for onshore oil and gas leases.** Congress should increase the minimum bid for onshore oil and gas from the current $2 to at least $5, and indexed to inflation. According to lawmakers, increasing the minimum bid for onshore oil and gas to $5 in 2018 would have generated roughly $3.5 million by 2021.

- **End noncompetitive leasing.** The noncompetitive leasing program is a gift to the oil and gas industry. The vast majority of these leases never go on to produce oil or gas, which means that taxpayers are simultaneously denied potential revenue from more competitive bids and are unable to benefit from other productive uses of the public land.

**Additional Context**

POGO endorses Representative Katie Porter’s Ending Taxpayer Welfare for Oil and Gas Companies Act of 2021. The bill passed out of the House Committee on Natural Resources on May 5, 2021, and is waiting for action before the full House.

**Additional Reading Materials**

- [POGO Calls for Congressional Action to Reform Onshore and Offshore Royalty Systems](#)
- [POGO Urges Royalties Agency to Withdraw Rule that Would Benefit Oil Industry over Taxpayers](#)

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4 *Leveraging America’s Resources as a Revenue Generator and Job Creator: Hearing before the United States Senate Committee on Energy and Natural Resources, 113th Cong. (July 22, 2014) (testimony of Greg Gould, Director of the Office of Natural Resources at the U.S. Department of the Interior), https://www.energy.senate.gov/services/files/d8c5d5f4-efce-4c0e-ae87-6b3eecc6316f."
