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Updated March 8, 2021

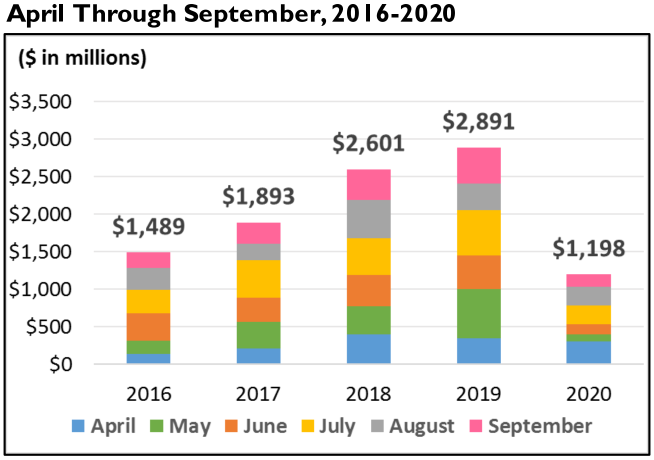
Federal Offshore Oil and Gas Revenues During the COVID-19 Pandemic

The economic effects of the Coronavirus Disease 2019 (COVID-19) pandemic included a reduction in demand for oil and natural gas, resulting in lower prices and decreased production. These changes have affected federal revenues derived from oil and gas leasing on the U.S. outer continental shelf (OCS). Such revenues consist of royalties on oil and gas sold from federal leases, bids at federal lease auctions (known as *bonus bids*), rents paid prior to production, and other fees. Revenue amounts can fluctuate widely from year to year owing to a mix of factors affecting leasing, prices, and production, with the pandemic being a significant factor during FY2020 and FY2021. Changes in federal offshore oil and gas revenues can affect amounts 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), as well as funding for several federal programs.

FY2020

Offshore oil and gas revenues for the second half of FY2020 (April-September) reflect impacts of the pandemic. Data from the Department of the Interior's (DOI's) Office of Natural Resources Revenue (ONRR) show that revenues for the second half of FY2020 were lower than revenues from the comparable period in any of the past five fiscal years and significantly lower than the comparable period in FY2019 (**Figure 1**). For example, May 2020 revenues—generally reflecting sales of offshore oil and gas in April—were 85% lower than those for May 2019, and June 2020 revenues were 71% below June 2019.

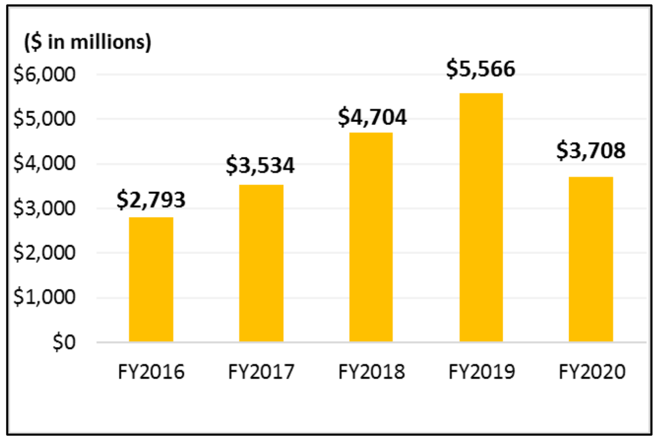
Figure 1. Federal Offshore Oil and Gas Revenues for April Through September, 2016-2020



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.

The pandemic's impacts are less pronounced when comparing revenues for the entirety of FY2020 with those of previous fiscal years (**Figure 2**), given that the pandemic's widespread economic disruptions started partway through the fiscal year.

Figure 2. Federal Offshore Oil and Gas Revenues for the Full Fiscal Year, FY2016-FY2020



Source: ONRR annual data query, at https://revenuedata.doi.gov/query-data. See **Figure 1** source notes for commodity categories.

Royalties. Revenues from royalties constitute the majority of federal offshore oil and gas revenues. Royalty collections for April-September 2020 totaled $1.079 billion, compared with April-September royalties of $2.571 billion for 2019, $2.381 billion for 2018, $1.554 billion for 2017, and $1.247 billion for 2016. (The totals include royalties on natural gas liquids.) The April-September 2020 amount is 58% lower than that for the same months in 2019, 55% lower than 2018, 31% lower than 2017, and 13% lower than 2016.

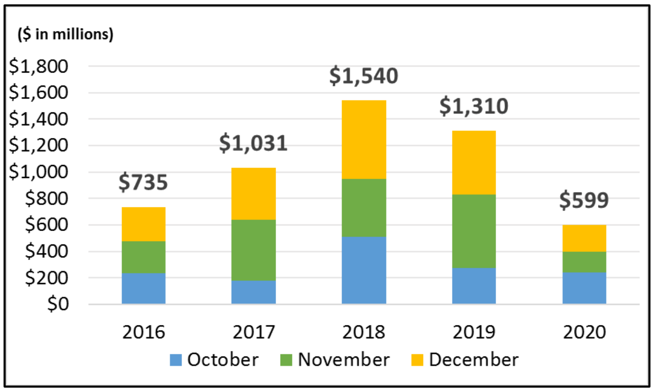
Bonus Bids. DOI's Bureau of Ocean Energy Management (BOEM) held two offshore oil and gas lease sales during FY2020, both for the Gulf of Mexico region, in March and November 2020. The sales drew high (winning) bids totaling $93 million (March 2020) and $121 million (November 2020), which compare with 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 DOI's offshore oil and gas leasing program for 2017-2022. Each sale offered all legally available unleased areas in federal waters of the Gulf.

Rents. Rental payments, collected annually on active but nonproducing leases, typically account for a smaller portion of total revenues than do royalties or bonuses. The number and acreage of nonproducing offshore leases have varied over the past five years, affecting rental payment totals, although rental rates have stayed the same. For April-September 2020, ONRR reported offshore rents totaling $58 million, which compares with April-September amounts of $72 million for 2019, $71 million for 2018, $69 million for 2017, and $85 million for 2016.

FY2021

Like revenues in the latter half of FY2020, federal offshore oil and gas revenues in the first quarter of FY2021 (October-December) were lower than the comparable period in recent years (**Figure 3**).

Figure 3. Federal Offshore Oil and Gas Revenues for October Through December, 2016-2020



Source: ONRR, "Revenue by Month," at https://revenuedata.doi.gov/downloads/revenue-by-month/. Also see **Figure 1** source notes.

Issues for Congress

Royalty Relief for Industry. In response to the financial difficulties facing the oil and gas industry during the pandemic, some producers and Members of Congress asked DOI to offer *royalty relief* on federal oil and gas leases—a temporary reduction or waiver of royalties. They contended that relief could help producers avoid having to shut in wells for financial reasons. Others opposed royalty relief as a response to the pandemic's impacts, questioning the extent to which royalty relief would help mitigate impacts and expressing that relief to other groups or individuals should be prioritized. DOI stated that affected producers could apply individually for discretionary ("special case") royalty relief using existing processes (30 C.F.R. §203.80), clarifying that DOI was not pursuing a new program of blanket royalty relief in response to the pandemic. Some legislation in the 116th Congress (e.g., S. 4041) would have mandated offshore royalty reductions during the pandemic and provided other types of relief to industry, such as authority for lease extensions and suspensions at the leaseholder's request. By contrast, other bills (e.g., H.R. 7781, S. 4887) would have repealed DOI's authority in the OCSLA to grant discretionary royalty relief.

State Revenue Shares. Under the OCSLA and GOMESA, a portion of federal 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 2021 payment (reflecting FY2020 revenues) has not yet been announced. The GOMESA revenues are to be used for coastal conservation and restoration, hurricane protection, and related activities.

The effects on state programs from any pandemic-related revenue reductions would depend on the extent of the reduction and the portion of total program revenue coming from federal disbursements, among other factors. To address any such effects, 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 National Parks and Public Land Legacy Restoration Fund (LRF; 54 U.S.C. §§200401-200402).

Despite effects of the pandemic, FY2020 revenues from offshore oil and gas and other statutorily mandated sources were sufficient to fund all these programs at their specified or maximum amounts, including $150 million for the HPF, $900 million for the LWCF under the LWCF Act, and $1.9 billion for the LRF. Under GOMESA, the LWCF additionally can receive up to $162.5 million from FY2020 offshore revenues for its state assistance program; preliminary data indicate the available funding will not reach this cap. Some have expressed concerns about whether future revenues will be sufficient to fully fund these programs, owing to pandemic effects, federal policy choices, or other factors. In a situation of insufficient funding, questions could arise as to how to prioritize the various programs and whether to supplement current funding sources with new types of funding.

President Biden's Leasing "Pause." In Executive Order 14008 (January 2021), President Biden imposed a "pause" on new federal oil and gas leases, pending a review of federal leasing and permitting practices and their potential climate impacts. Effects of the pause on offshore oil and gas revenues are uncertain and would depend on the length of the pause and any longer-term changes to federal policy based on the required review. In the short term, the leasing pause is one factor, like the pandemic, that could have some influence on FY2021 revenues. For example, BOEM has postponed offshore lease sales based on the pause, which could affect FY2021 bonus bid revenues. However, effects of the pause on offshore royalties—which form the majority of federal offshore revenues—would likely take longer to emerge. For more information, see CRS Insight IN11601, *Offshore Oil and Gas Leasing: President Biden's "Pause."*

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