When studying an increase to the onshore royalty rate to 18.75 percent, the independent Congressional Budget Office found it would generate roughly $400 million in the first decade while the effect on production of oil and gas on federal lands would be "negligible." According to the CBO, oil and gas companies' production decisions are primarily influenced by physical factors and market forces. The probability of finding oil or gas, the expected amount, the extraction costs, the current and expected future prices for oil and gas, and the firms' costs of capital all have a large influence on a company's decisions. Factors within a given leasing system, like the royalty rate, have a lesser impact.[xxii]

By continuing to retain the outdated royalty rate of 12.5 percent, the BLM has deprived federal and state taxpayers of tens of billions of dollars over the course of decades. Increasing the oil and gas royalty and reforming the royalty collection system is paramount if taxpayers are to receive a fair return for these valuable resources.

Time for Reform

Low royalties on oil and natural gas produced on federal lands have deprived the federal treasury of billions of dollars. There are steps that both Congress and the Administration can take to reform oil and gas royalty collection policies. Congress can pass legislation to amend the Mineral Leasing Act of 1920 and update the royalty rate to 18.75 percent. The Administration can also increase the royalty rate for oil and gas production on federal lands through rulemaking or on a lease sale-by-lease sale basis.

As oil prices surge and taxpayers lose considerably more potential revenue, it is it time to bring the federal oil and gas system into the modern era and ensure taxpayers receive a fair return for the use of their public lands by increasing the royalty rate from 12.5 to 18.75 percent, in line with the rate currently charged for offshore production.