

Statement of Danielle Brian
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In June 2000 the Department of Interior implemented a final oil valuation rule that collected \$70 million more annually from companies drilling oil from federal and Indian lands. As a result, the oil industry's decades-long practice of cheating the taxpayers and Indians ended. The oil rule was finalized after a grueling 5-year rulemaking process that was held hostage at every turn by hostile industry interests and their friends in Congress.

The rule was finalized only after more than \$400 million in settlements by oil companies with the Justice Department. Caught red-handed with their hands in the cookie jar, oil companies became the target of hundreds of newspaper editorials and articles denouncing the oil royalty scams, and fever-pitch public outrage.

Now, we see the Bush Administration seeks to reopen the oil valuation rule just two and a half years after it has been implemented. The Interior Department's Minerals Management Service (MMS) claims that "technical issues" need refinement. However, MMS is largely revisiting fights that industry lost, presumably because this Administration is so oil-industry friendly. The rule reopening is nothing more than a sop to the oil industry and an invitation to complain about the millions of dollars oil companies have been forced to pony up under a fair system.

Indeed, this agency has already undermined the oil valuation rule by dramatically expanding the use of dubious royalty-in-kind collection programs promoted by the oil industry. For years, MMS has consistently failed to demonstrate that royalty-in-kind programs can collect fair market value. Royalty-in-kind has been a money-losing proposition even under the most promising circumstances. Members of Congress, POGO and others have urged the agency to collect data that would allow it to determine whether or not royalty-in-kind provides a return to the taxpayer that is comparable to returns under the oil valuation rule. But the agency has refused to do so. Instead, MMS has issued astonishingly biased and unsubstantiated declarations about the purported benefits of RIK.

An independent analysis by the General Accounting Office (GAO) now confirms that MMS is operating at odds with the interests of the American taxpayer and Indians and in violation of Congressional directives issued in the 2001 and 2002 Interior Department budgets. According to the GAO report, MMS will make royalty-in-kind programs permanent without evaluating the performance of pilot programs that have been on-going since 1995. In eight years of pilot programs, MMS has failed to establish that royalty-in-kind results in a financial return that is equivalent to the cash collected under the oil valuation rule. Yet, with oil industry encouragement, the agency is forging ahead.

Shame on the Interior Department for snubbing Congress. Shame on the Interior Department for failing to protect the taxpayer, school children, and Indian beneficiaries from being fleeced by the oil industry. Shame on the Interior Department for its inexcusable incompetence.

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