

Putting The Risk For Deepwater Drilling Where It Belongs – On The Corporate Bottom Line

The oil spill in the Gulf of Mexico is developing into the greatest man-made environmental disaster in U.S. history. Up to 2.52 million gallons a day are spewing into the Gulf; oil has contaminated beaches and marshes in Louisiana, Mississippi, Alabama and Florida. One-third of the Gulf is closed to fishing, and tourism has taken a huge hit, disrupting the lives of millions of Gulf residents. The wildlife death count is just beginning. The events of April 20 will leave a deep scar on the region's culture, communities and coastline for generations.

The scope of this catastrophe demands that Congress and the White House fundamentally change our approach to offshore oil and gas development. Foremost should be an overhaul of the extremely flawed economic incentives—provided at taxpayer expense—that have abetted the industry's rush to drill in ever deeper waters.

- **Repeal the deepwater drilling subsidy.** The Deepwater Royalty Relief Act of 1995 was designed specifically to encourage drilling at depths of 200 meters or more. The law waives royalties that companies owe the federal government on the initial volume of oil and gas. The deeper the well, the greater the risk—and, under the law, the more free barrels of oil or cubic feet of natural gas the industry gets.
- **Repeal the liability cap.** Under the Oil Pollution Act, companies are liable for a maximum of \$75 million for oil spill response and cleanup, which the public now understands to be wholly inadequate. Such a paltry amount further encourages risk-taking by the industry and violates a basic principle that polluters should pay for their mistakes. The cap should be repealed.

An analysis in mid-June by the Southern Environmental Law Center shows that, since the Deepwater disaster, the Minerals Management Service had sold six deepwater Gulf leases of 2,000 meters or more to BP, a subsidy of up to \$210 million. (As of June 25, MMS had sold 200 Gulf leases since April 20 qualifying for the subsidy.) It's evident the depth of the BP blowout greatly complicated, if not precluded, control of the well. Congress should repeal the royalty relief program and end this taxpayer subsidy that encourages one of the richest industries on the planet to gamble with our coastal economies and ecosystems.

- **Convert from a leasing to a permitting system.** Like the previous two reforms, this change would remove substantial risk from American taxpayers. The current leasing system treats offshore leases as property rights; MMS conveys leases to oil companies, and only then undertakes environmental review. Thus, the government's incentive to assure safety and minimize environmental impacts is compromised by its liability to pay the lessee either fair market value or its costs if a decision is made not to permit drilling. A permitting system would put environmental protection and safety first.

In addition to these essential financial reforms, NOAA or EPA should be designated as the lead agency in environmental review and permitting for offshore oil and gas development. MMS (now the Bureau of Ocean Energy Management, Regulation and Enforcement) is inherently conflicted in its dual missions to collect revenues from the industry and oversee safety and environmental impacts. These responsibilities should be given to NOAA or EPA, either of which have more scientific expertise and a clear mission to put public health and safety, and environmental protection first.



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June 2010

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