U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

July 30, 2012

Hon. Timothy Geithner
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Ave. NW
Washington, D.C. 20220

Dear Secretary Geithner,

Last week, the China National Offshore Oil Corporation (CNOOC), a Chinese state-owned corporation, announced the planned acquisition of the Canadian oil company Nexen Inc. Currently, Nexen's U.S. subsidiary holds ownership in 233 active offshore leases in U.S. federal waters totaling nearly 1.3 million acres in the Gulf of Mexico. Included in these holdings are at least two leases issued by the Interior Department under the Deep Water Royalty Relief Act (DWRRA) of 1995 under which oil companies are not paying any royalties. These flawed leases allow some of the wealthiest corporations in the world to extract American oil from public lands in the Gulf of Mexico without paying any royalties to American taxpayers. Nexen is a major beneficiary of DWRRA, having produced 32 million barrels of oil and 34 billion cubic feet of natural gas in the Gulf of Mexico through May 2012 without paying royalties. If CNOOC takes over Nexen's Gulf of Mexico assets and operations, this giveaway of American resources could be extended to a Chinese state-owned company. I believe this merger could lead to a massive transfer of wealth from the American people to the Chinese government, and I strongly urge you to block this proposed transaction until, at a minimum, parties to the merger agree to pay royalties to the U.S. taxpayer on all oil produced off American shores or relinquish any ownership interests in these leases.

As a result of an oil company legal challenge to the poorly drafted Deep Water Royalty Relief Act of 1995, oil companies now hold leases that allow them to extract oil for free in the Gulf of Mexico. Even at current oil prices of $90 a barrel and with U.S. oil production at an 18 year high, companies are able to drill on the lands covered by these leases without paying U.S. taxpayers a single dime.

Giving valuable American resources away to wealthy multi-national corporations is wasteful, but giving valuable American resources away to a foreign government is far worse: it has the potential to directly undermine American economic and national security. On many different fronts, Chinese domestic and foreign policies come into direct conflict with American policy and the interests of American citizens. In reviewing this proposed transaction, the Committee on Foreign Investment in the United States, which you chair, should consider these conflicts and the implications of royalty-free drilling by a Chinese government-owned entity.

The importance of Administration attention to the problem of royalty-free oil drilling is heightened because of Congress's failure to do so. The U.S. House of Representatives has voted five times on the House Floor so far this Congress on Democratic proposals to incentivize companies to renegotiate these faulty leases. House Republicans overwhelmingly rejected these proposals all five times.

The Government Accountability Office projects that the American people currently stand to lose as much as $53 billion in royalty payments over the life of all the faulty leases issued under the Deep Water Royalty Relief Act of 1995. According to an analysis by the Interior Department, American taxpayers will lose more than $1 billion in 2012 alone from royalty-free drilling. The oil and gas resources below public lands belong to the American people and we should ensure that the Chinese government is not able to exploit them for free through this acquisition.

Thank you for your attention to this matter.

Sincerely,

Edward J. Markey

Edward J. Markey
Ranking Member
Committee on Natural Resources