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Highlights

Highlights of GAO-10-795T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

On April 20, 2010, an explosion at the mobile offshore drilling unit *Deepwater Horizon* resulted in a massive oil spill in the Gulf of Mexico. The spill's total cost is unknown, but may result in considerable costs to the private sector, as well as federal, state, and local governments. The Oil Pollution Act of 1990 (OPA) set up a system that places the liability—up to specified limits—on the responsible party. The Oil Spill Liability Trust Fund (Fund), administered by the Coast Guard, pays for costs not paid for by the responsible party.

GAO previously reported on the Fund and factors driving the cost of oil spills and is beginning work on the April 2010 spill. This testimony focuses on (1) how oil spills are paid for, (2) the factors that affect major oil spill costs, and (3) implications of major oil spill costs for the Fund. It is largely based on GAO's 2007 report, for which GAO analyzed oil spill cost data and reviewed documentation on the Fund's balance and vessels' limits of liability. To update the report, GAO obtained information from and interviewed Coast Guard officials.

What GAO Recommends

In 2007, GAO recommended that the Coast Guard (1) adjust liability limits for inflation and (2) determine whether liability limits should vary by vessel type. The Coast Guard agreed with both recommendations and implemented the former but not the latter recommendation.

View GAO-10-795T or key components.
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OIL SPILLS

Costs May Impact Viability of Oil Spill Liability Trust Fund

What GAO Found

OPA places the primary burden of liability for the costs of oil spills on the responsible party in return for financial limitations on that liability. Thus, the responsible party assumes the primary burden of paying for spill costs—which can include both removal costs (cleaning up the spill) and damage claims (restoring the environment and compensating parties that were economically harmed). To pay both the costs above this limit and costs incurred when a responsible party does not pay or cannot be identified, OPA authorized use of the Fund, up to a $1 billion per spill, which is financed primarily from a per-barrel tax on petroleum products. The Fund also may be used to pay for natural resource damage assessments and to monitor the recovery activities of the responsible party, among other things. While the responsible party is largely paying for the current spill's cleanup, Coast Guard officials said that they began using the Fund—which currently has a balance of $1.6 billion—in May 2010 to pay for certain removal activities in the Gulf of Mexico.

Several factors, including location, time of year, and type of oil, affect the cleanup costs of noncatastrophic spills. Although these factors will certainly affect the cost of the Gulf spill—which is unknown at this time—in this spill, additional factors such as the magnitude of the oil spill will impact costs. These factors can affect the breadth and difficulty of recovery and the extent of damage in the following ways:

- Location. A remote location can increase the cost of a spill because of the additional expense involved in mounting a remote response. A spill that occurs close to shore can also become costly if it involves the use of manual labor to remove oil from sensitive shoreline habitat.
- Time of year. A spill occurring during fishing or tourist season might carry additional economic damage, or a spill occurring during a stormy season might prove more expensive because it is more difficult to clean up than one occurring during a season with generally calmer weather.
- Type of oil. Lighter oils such as gasoline or diesel fuels dissipate and evaporate quickly—requiring minimal cleanup—but are highly toxic and create severe environmental impacts. Heavier oils such as crude oil do not evaporate and, therefore, may require intensive structural and shoreline cleanup.

Since the Fund was authorized in 1990, it has been able to cover costs not covered by responsible parties, but risks and uncertainties exist regarding the Fund's viability. For instance, the Fund is at risk from claims resulting from spills that significantly exceed responsible parties' liability limits. Of the 51 major oil spills GAO reviewed in 2007, the cleanup costs for 10 exceeded the liability limits, resulting in claims of about $252 million. In 2006, Congress increased liability limits, but for certain vessel types, the limits may still be low compared with the historic costs of cleaning up spills from those vessels. The Fund faces other potential risks as well, including ongoing claims from existing spills, claims related to sunken vessels that may begin to leak oil, and the threat of a catastrophic spill—such as the recent Gulf spill.