

# Joint bidding restriction policy for selective E&P firms in the US Gulf of Mexico OCS: How persuasive is its effectiveness?

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## Abstract

The principal Minerals Management Service (MMS) policy or regulation intended to promote competition (or inhibit collusion) in the lease market is the Restricted Joint Bidders List. It is compiled and published twice a year and applies to all lease sales held during the subsequent six-month period or until the next list is issued. This paper applies descriptive and econometric analyses to data on lease sales in the US Gulf of Mexico OCS region to evaluate the effectiveness of this policy. In the aggregate, empirical analyses suggest that the imposition of joint bid restrictions on some E&P firms reduces bidding effectiveness for petroleum leases on the OCS. The patterns of bidding for leases on the OCS by E&P firms restricted from bidding jointly do not seem to indicate anticompetitive behavior. Further, joint bidding is found to be consistently associated with higher average high bids and this seems to be consistent with, and perhaps enhances competition in the lease market.

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## 1. Introduction

The principal Minerals Management Service (MMS) policy or regulation intended to promote competition (or inhibit collusion) in the lease market is the Restricted Joint Bidders List. It is compiled and published twice a year and applies to all lease sales held during the subsequent six-month period or until the next list is issued. The list of restricted joint bidders is published in the *US Federal Register*. The Energy Policy Conservation Act enacted in December 1975 requires the list. Relevant provisions in the Act ban companies whose global petroleum production is in excess of 1.6 million barrels of oil equivalent per day from submitting bids jointly in federal OCS lease sales (Moody and Krivant, 1988; Millsaps et al., 1981; Sullivan et al., 1980).

The Act, apparently, does not prohibit firms on the list from joint operations, only joint bidding. If a firm on the

list wants to acquire a share of a lease which is owned or partly owned by another firm also on the list, it makes a request to MMS to do so which MMS forwards to the US Department of Justice for review. According to MMS personnel, such requests are extremely rare occurrences, but those that we talked with did not recall any such requests being denied by MMS or the Department of Justice.

The relative importance of the restricted bidders list can be measured by comparing the number of high bids made and bonuses paid by those on the list and the number of high joint bids and bonuses paid to the respective totals for all firms over the period.<sup>1</sup> Of the 13,946 leases awarded between 1983 and 1999, 6554 or about 47 percent went to those firms on the restricted bidders list. Of those leases, 1915 or about 14 percent involved joint bids with other firms. The bonus paid for leases won by firms on the

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<sup>1</sup>For our analysis and exposition we include all firms that were listed as restricted bidders during the period even though some such as Amoco, Chevron, and Texaco were not on the list for all of the years in the period.

Table 1  
Number of winning joint bids by firms on the restricted bidders list and other firms: 1983–1999

Amoco	BP	Chevron	Exxon	Mobil	Shell	Texaco	Vastar
Shell-71	BHP-58	Texaco-136	Amoco-55	Phillips-69	FL Explor. -84	Chevron-136	Texaco-17
Exxon-55	Conoco-12	BHP-28	Conoco-48	Sohio-35	Flour-84	Unocal-92	Elf-15
Tenneco-45		Samedan-25	Sohio-20	Amoco-32	Conoco-79	Uni.Explor-55	
Texaco-32		Unocal-20	Getty-18	Kerr-McGee-27	Apache-72	Pogo-42	
Mobil-32		Kerr-McGee-18	Amerada-18	Ensearch-18	Amoco-71	Amoco-32	
Conoco-19		Bechtel-10	Elf-16	Agip-13	Texaco-29	Conoco-31	
Sun-18			Aminoil-12	NW Mutual-11		Marathon-29	
Pennzoil-18				Texaco-11		Shell-29	
Brit.-Borneo-13						Tricentral-27	
Elf-10						Brit.-Borneo-20	
						Samedan-17	
						Vastar-17	
						Mobil-11	
						Getty-10	

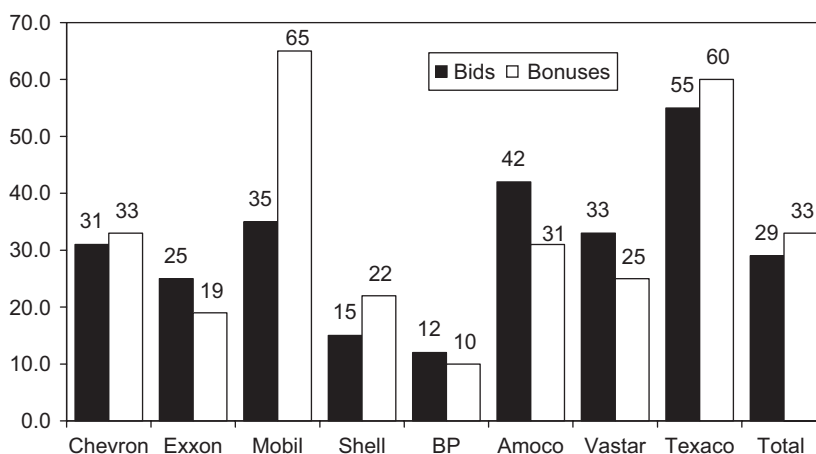


Fig. 1. Percent of JV high bids and JV bonuses for MMS restricted bidders.

restricted list bidding jointly with others was \$1.955 billion; which was about 12 percent of the \$16.721 billion of total bonuses paid for leases. Total bonuses paid by restricted bidders amounted to \$5.982 billion, so joint bids accounted for about 33 percent of their bonus payments. It is speculative to estimate how many more joint bids and, potentially, fewer competitive bids would have resulted if the restricted bidders list were not in force, however, clearly the restricted bidders are a very important part of the lease market and their use of joint bids even under the joint bidder restrictions are not negligible.

Looking at the behavior of the restricted joint bidders individually also helps characterize the lease market. Table 1 shows the number of the joint bids won by the restricted bidders and other Gulf of Mexico OCS producers with whom they submitted ten or more bids during the study period. Texaco was the most frequent partner in joint bids with restricted bidders, participating in 225 winning bids during the period. Conoco (207), Amoco (197), Chevron (148) and Unocal (132) were the other

members of the five most frequent winning joint bidders with firms on the restricted bidder list. Conoco was the only firm to partner with each of the restricted bidders. Amoco submitted joint winning bids with all of the restricted bidders except their eventual merger mate BP, and Elf, although only participating in 50 winning bids, partnered with every firm except Texaco. Several firms, such as AGIP, Apache, Ensearch, Marathon and Phillips participated in joint bidding primarily with a single firm.

Fig. 1 shows there are major differences in the relative use of joint bids among the firms appearing on the restricted bidders list. BP, Exxon and Shell use joint bids less extensively than others on the average. Only 12.5 percent of BP's high bids were made jointly and bonuses paid with those bids amounted to less than 10 percent of BP's total. The comparable percentages for Exxon were about 25 percent for high bids and 19 percent for bonuses paid, and only about 15 percent of Shell's 1824 high bids were made jointly and bonuses paid with those bids amounted to about 22 percent of the firm's total. Both

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