Crude Oil Exports: An Opportunity for America

Expanded U.S. production of tight formation oil creates economic opportunities that have not existed for over five decades. These opportunities, however, could be missed if available market options are not pursued. Exports need to play a key role to keep the development of U.S. production on course. Federal government policy decisions will determine whether it will support or impede U.S. energy development.

Key Points:

1. Numerous independent studies by energy experts confirm that crude oil exports will produce economic benefits nationally as well as globally – providing stable or lower fuel prices because fuels are priced based on international crude prices.
2. These studies have confirmed that exports will benefit America's economy these by expanding high quality jobs, lowering the trade deficit, increasing U.S. energy security and strategically positioning the U.S. internationally on energy issues.
3. Trade policy allows export of petroleum products; the U.S. is the largest gasoline exporting country. Exporting crude oil would be a consistent policy to gain the full economy benefits for America.
4. American crude oil exports improve U.S. international strategic positioning.
5. U.S. refining capacity is primarily designed to process heavy, sour crude oil. When U.S. refining capacity cannot process enough tight crude oil, surplus production should be available for export or production investment will drop.

Crude Oil Exports Background: In 1975, the U.S. enacted limitations on the export of crude oil to prevent exposure to a volatile world market. It followed the 1970 peak of U.S. oil production and the realization of heightened U.S. dependency on Persian Gulf oil that became so clear during the 1973 Arab oil embargo. Today's American energy landscape bears little resemblance to that of the 1970s. Oil production is booming in the U.S. The use of new technologies, most notably horizontal drilling and hydraulic fracturing, have unlocked an abundant supply of light, sweet crude oil which most U.S. refineries are no longer designed to process.

Numerous Independent Reports Have Shown The Widespread Benefits of Crude Oil Exports: Since 2014, reports by IHS, ICF, NERA, The Brookings Institute, The Aspen Institute, The Center on Global Energy Policy and Baker Institute for Public Policy Center for Energy Studies have assessed the impact of crude oil exports on the U.S. economy and jobs.

Gasoline Prices Will Be Stable: Questioned about the impact if the United States exported its surplus of crude oil, Secretary of Energy Ernest Moniz confirmed at a February 2015 Senate hearing that:

> …the EIA…conclusion was, probably none to possibly minor decreases in domestic prices largely because the gasoline price is indexed more to the Brent benchmark.

The EIA report he referenced was *What Drives U.S. Gasoline Prices?* It concluded that "*gasoline is a globally traded commodity and, as a result, prices and changes in prices are highly correlated across global spot markets*". This assessment is confirmed by other reports. IHS concluded that gasoline prices could be reduced by eight cents per gallon. NERA's analysis concluded that a possible nine cent per gallon decrease was likely for five years, but if oil supplies are more abundant than the analysis assumed, price declines would be seven cents per gallon to twelve cents per gallon for a longer period of time.

Growing American Production Means High-paying Jobs: Study results are clearly demonstrating substantial increases in key indicators if exports are allowed by the federal government. For example, U.S. jobs could grow by 300,000 (ICF) to 630,000 (The Aspen Institute) to 1,000,000 (IHS) under assumptions that exports will be allowed – and allowed expeditiously. The World Economic Forum found that every new job added in the oil and natural gas extractive industry creates three new additional jobs elsewhere in the economy. Employment attributed to all upstream unconventional oil and natural gas activity supported more than 1.7 million jobs in 2012, growing to some 2.5 million jobs in 2015. The energy sector invested more in the U.S. in 2012 than any other industry. For producers, investment in the economy is about reinvesting cash flow. The current drop in crude oil prices will adversely impact drilling and reduce industry employment; expanded crude oil exports would directionally encourage drilling activity and assist in lowering global and U.S. product prices.

Allowing Crude Oil Exports Is Appropriate Trade Policy: As the Center for Global Energy Policy states in its analysis: *Lifting crude export restrictions is consistent with past and present US trade policy priorities, would enhance US credibility in current and future trade negotiations, and avoid creating a precedent that could harm US trade policy objectives down the road.* The world crude marketplace is largely fungible and adding U.S. crude would improve its liquidity and stability. It helps buffer shocks from geopolitical events around the world. For example, U.S. crude production helped fill the void left by sharp reductions in crude oil availability from geopolitical flashpoints like the uprising in Libya that crippled its crude production

Exports Enhance U.S. Energy Security: From a national security perspective, the nation's geopolitical interests are best served by providing a more stable market for international allies and trading partners. Adding more crude oil to the world supply suppresses price growth and volatility. It weakens the power of OPEC to manage crude oil supply and drive prices. Former CIA Director and Secretary of Defense Leon Panetta and former National Security Advisor Stephen Hadley explained:

> *Too often foreign-policy debates in America focus on issues such as how much military power should be deployed to the Middle East, whether the U.S. should provide arms to the Ukrainians, or what tougher economic sanctions should be imposed on Iran. Ignored is a powerful, nonlethal tool: America's abundance of oil and natural gas. The U.S. remains the great arsenal of democracy. It should also be the great arsenal of energy.*

Without Exports, U.S. Crude Production Will Be Limited By "Gridlock": All refineries are designed around a specific "crude slate" – the mix of crude oil purchased. Over the past 30 years, U.S. refineries – particularly along the Gulf Coast – were reconstructed to process heavy, sour crudes. Refineries take years to modify due to extensive permitting and building time, not to mention the expense and uncertainty of a return on investment. IHS concluded in its study that "*The US oil system is nearing 'Gridlock' with the mismatch between the rapid growth of light tight oil and the inability of the US refining system to economically process these growing volumes. The result is a widening discount, which will reduce drilling investment, jeopardizing oil production growth, reducing jobs, and hurting the US economy.*" Currently, the nation is nearing its maximum effective refining capacity – rising from 84% in July-August 2009 to 94% in July-August 2014.

<u>Producers should have the same options that all commodity industries currently enjoy – to export their product when it is economical to do so.</u>

IPAA advocates lifting barriers to crude oil exports which will give America access to the international market. In the current global marketplace America's independent producers need stability and open market access to continue to support the American economy, enhance our national energy security and improve the balance of trade.