Industry Analysis

Congress Debates Lifting Crude Export Ban

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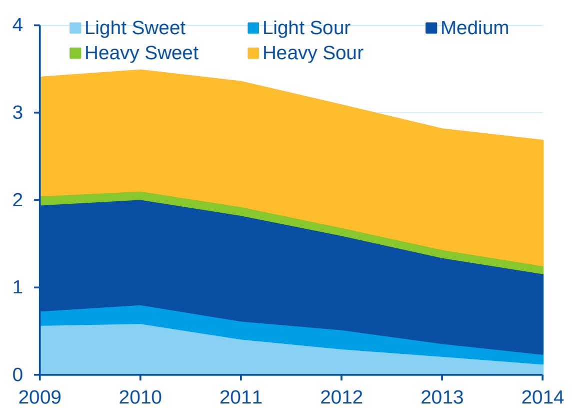
- **Bill removing ban on crude oil exports passed the House last week, heads to Senate**
- **President Obama has pledged to veto the bill, calling for more focus on renewables**
- **EIA estimates little or no impact on gas price from lifting the ban**

A bill that would lift the current ban on oil exports was passed by the House last week with a vote of 261-159. Sales of U.S. crude abroad have largely been prohibited since 1975 after the Arab oil embargo provoked an energy crisis characterized by surging domestic gas prices and oil shortage fears. Exceptions to the embargo include shipments to Canada and the recently-approved crude swaps with Mexico.

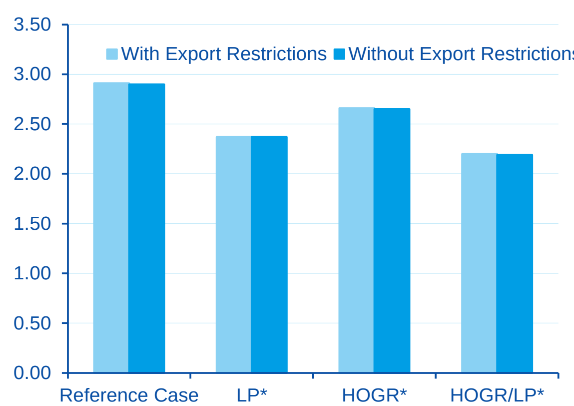
Supporters of the bill, among them Republican lawmakers and major oil producers, contend that the current situation is much different than that during the export ban's inception. An oil shortage doesn't appear to be in the cards at the moment with domestic crude production increasing 59% and imports down 20% between 2010 and 2014. However, domestic producers feel pressure to sell their crude abroad given the current low oil price environment combined with OPEC's reluctance to cut production and the potential of additional oil coming from the release of sanctions to Iran. Proponents of the bill argue that allowing oil exports would stimulate domestic production and ultimately return jobs to the sector. Domestic producers could gain extra revenues from higher margins and benefit from expanded refining capacity abroad for their growing inventories. Nearly 90% of the growth in U.S. oil production between 2011 and 2014 came from light sweet grades; however, most light sweet refining capacity is located abroad while the U.S. has the most heavy sour refining capacity.[1] Another argument for removing the ban is to reduce U.S. allies' dependence on imports from Russia and the Middle East.

Chart 1
Annual U.S. Crude Imports by Type (billion barrels)



Source: EIA

Chart 2
Average Motor Gasoline Price – 2025 (2013 $/gallon)



Source: EIA *LP: Low Oil Price Case, HOGR: High Oil and Gas Resource Case, HOGR/LP: High Oil and Gas Resource/Low Oil Price Case

[1] Van Wagener, Dana. 2015. "Increases in U.S. crude oil production are predominantly light, sweet crude." EIA. http://goo.gl/a1UH6B

Several domestic refiners are among the opponents of lifting the ban. Under the terms of the existing policy, it is legal to export refined product but not crude; unlike domestic producers, domestic refiners currently enjoy the ability to both buy oil and sell petroleum products abroad. The EIA estimates that lifting the crude oil ban would decrease gross profits for refiners by $22.7 billion in 2025, while increasing gross revenue for producers by $29.7 billion.[2] Several refiners claim that allowing crude exports could boost domestic oil prices and harm both refiners and consumers. However, a report from the EIA forecasts that gasoline prices would be either unchanged or even reduced by the lifting of the export ban. In the EIA's high oil and gas resource scenarios (HOGR), the removal of crude oil export restrictions would result in higher domestic crude prices, leading to greater domestic production and world crude supply. This looser supply/demand balance would lower Brent prices and thus gasoline prices, as gas prices have a stronger relationship to Brent than to WTI.[3]

The Obama Administration, along with many environmental organizations, is fighting against removing the trade restrictions, citing that more focus should be given to renewables. In a statement last week, the White House threatened the veto of the bill and stated: "Legislation to remove crude export restrictions is not needed at this time. Rather, Congress should be focusing its efforts on supporting our transition to a low-carbon economy."[4]

Final passage of a bill lifting the ban on crude exports looks unlikely during this administration, unless a compromise can be reached appeasing the interests of all parties. One option is to amend the current bill to include measures to boost the attractiveness of renewable fuels. Another alternative is to stick with the status quo and reevaluate lifting the ban in the future. Regardless, the bill is headed for a showdown in the Senate, after which it faces a firm veto on the president's desk, signaling that concessions must be made if oil producers want their way.

[2] EIA. 2015. "Effects of Removing Restrictions on Crude Oil Exports." Independent Statistics and Analysis. http://goo.gl/qLUtvz
[3] Ibid.
[4] White House Office of Management and Budget. 2015. "H.R. 702 – To adapt to changing crude oil market conditions." Statement of Administration Policy. https://goo.gl/gGRKcA