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The Case for Permitting Crude Oil Exports

by Merrill Matthews, Ph.D

Since the gasoline shortages of the 1970s, Congress has, with a few exceptions, barred U.S. crude oil exports. But an energy policy that may have made sense 40 years ago when OPEC dominated world supply no longer does. Innovative drilling techniques have spawned an oil and natural gas boom in the United States. Given those production increases and the growing use of energy in foreign policy, it's time to eliminate export restrictions.

But defenders of the ban still argue that lifting it would hurt U.S. businesses and economic growth. Not so. Allowing oil— as well as natural gas—exports would lower energy prices, increase supply, and improve U.S. security and foreign policy, especially now that many of our allies and friendly countries depend on politically repressive oil-producing countries for their energy supplies.

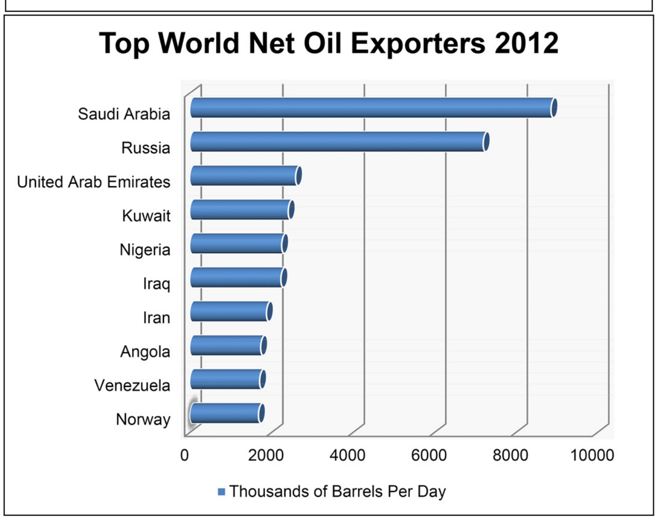
New Markets Would Mean a More Stable Supply

Even though the U.S. energy sector has vastly expanded production of both oil and natural gas, the global supply is subject to major short-term disruptions. The U.S. Energy Information Administration (EIA), a government agency, says that unplanned global supply disruptions were up about a third in 2013.[1]

However, those supply disruptions did not have a major negative impact on world oil prices thanks to the U.S. According to the EIA, "Rising crude oil production in the United States contributed to relatively stable global crude oil prices in 2013, around the same annual average levels of the previous two years."[2]

Several of the top oil and gas producing countries are hostile to the U.S. and its allies. And those countries often use the threat of cutting off oil and natural gas supplies to influence other countries' policies. The U.S. needs to be able to fill those energy gaps with coal, oil or gas when and if the need arises. Allowing U.S. crude oil exports would encourage even more production and would help stabilize both the supply and the price of oil.

Shouldn't the U.S. Be on This List?



Huge Economic Benefits

States that are exploiting oil and natural gas drilling, which is mostly done on private land, have seen economic expansions. For example, North Dakota is at the epicenter of the drilling boom. Its unemployment rate is 2.7 percent, compared to 6.6 percent for the country.[3] And, posting a 13.4 percent economic growth rate in 2012, the state's economy has grown five times faster than the national average.

Many of the states that have expanded their oil and gas production can't find enough workers, especially blue-collar workers, so wages have gone up rapidly.

However, many states that would like to produce more energy are being left out of the boom because the federal government must approve drilling on federal land and offshore. According to the Congressional Research Service (CRS):[4]

- The federal government owns 28 percent of U.S. land.
- 62 percent of Alaska is federally owned, as is 47 percent of 11 western states.

Energy companies would drill on much of that land, creating even more exportable commodities, but the Obama administration has denied, delayed and slow-walked drilling permits. According to a March 2013 CRS report:[5]

- [I]t took an average of 307 days for all parties to process (approve or deny) an APD [application for permit to drill on federal land] in 2011, up from an average of 218 days in 2006.
- Overall, U.S. natural gas production rose by 4 trillion cubic feet (tcf) or 20 percent since 2007, while production on federal lands (onshore and offshore) fell by about 23 percent and production on non-federal lands grew by 40 percent.

- On federal lands, there was an increase in [crude oil] production from (fiscal years) 2008-2009 and another increase in 2010, but then declines in 2011 and 2012, which brought production below 2007 production levels.

Swelling Government Revenues

The energy boom has also been a financial windfall for states. For example, in 2013 Texas received about $8.8 billion in oil and gas royalties and taxes.[6] And federal coffers have grown as well. In 2012 the energy industry, gas and oil, paid $9.7 billion in federal royalties, rents and bonuses. And in 2010 the energy industry paid $8.5 billion in federal income taxes.[7] That's money that the federal government doesn't have to borrow or take from workers.

If the Obama administration opened up millions of acres of federal land and offshore regions to drilling, it would create a huge new federal revenue stream. But rather than using that income as a new source of federal largess, Congress could take a lesson from Alaska by returning that money to the public, perhaps in the form of a contribution to a personal retirement account. Such accounts would give everyone a direct stake in a successful energy sector.

Lowering the Trade Deficit

According to the EIA, in 2013 net crude oil imports declined by 16 percent, from $310 billion to $268 billion.[8] That decline reduced the U.S. trade deficit by about $22 billion a month. However, estimates suggest the U.S. could be a net oil exporter in five to seven years if the export ban were removed.

The Efficiency Factor

But if the U.S. is still several years away from becoming a net oil exporter, why remove export restrictions now? The answer is economic efficiency. Crude oil must be transported to refineries, and some refineries are better suited to refining particular types of crude. For example, much of the U.S. oil is considered light, sweet crude, while many of the refineries specialize in heavier crude oil, like that produced in Canada.

It may be more efficient and less expensive to export crude oil drilled in the northeast to Europe—especially if the East Coast refineries are running at capacity—and import crude from Mexico than it would be to force the northeast oil to be shipped to Gulf Coast refineries, which might have to be retooled to accommodate the northeast crude. Imposing artificial barriers, like trade restrictions, creates higher prices and economic inefficiency, and everyone pays more.

Increases Energy Security

Imagine a world in which we didn't have to worry about whether oil-producers like Iran or Venezuela or Saudi Arabia were upset about U.S. foreign policy decisions. And what if our allies had a place they could turn to for oil if Russia threatened to cut off their oil or natural gas supplies—e.g., Georgia and Ukraine—or if Iran blockaded oil shipments through the Straits of Hormuz?

Eliminating the oil export ban does not mean that oil would become our primary energy export. Coal might be a better alternative for friendly countries whose natural gas supplies have been cut for political reasons. But ending the export ban would encourage much more production because producers would know there would be a market for their products, even if it is not in the U.S.

Conclusion

For 40 years U.S. foreign policy has been constrained by the need to make nice with certain politically repressive, oil-producing countries. It is time for the U.S. to become a crude oil and natural gas exporter. Closed, repressive, unstable and undemocratic countries are using oil and gas as a tool to keep those dependent on that energy in line. The only way to blunt their efforts is to be able to supply those client countries' energy needs. Ending the crude oil export ban is the first step to a stronger U.S. economy and a safer world.

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Endnotes

1 http://www.eia.gov/todayinenergy/detail.cfm?id=14991&src=email

2 http://www.eia.gov/todayinenergy/detail.cfm?id=14531

3 http://money.cnn.com/2013/06/06/news/economy/north-dakota-economy/

4 https://www.fas.org/sgp/crs/misc/R42346.pdf

5 http://energycommerce.house.gov/sites/republicans.energycommerce.house.gov/files/20130228CRSreport.pdf

6 http://www.statesman.com/news/news/texas-revenues-up-124-percent-to-101-billion/nTpRS/

7 http://energytomorrow.org/blog/2013/october/do-you-know-the-drill-on-federal-revenues-from-oil-natural-gas-development

8 http://www.eia.gov/todayinenergy/detail.cfm?id=15131&src=email

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