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Exporting Oil and Gas Will Import Economic Growth

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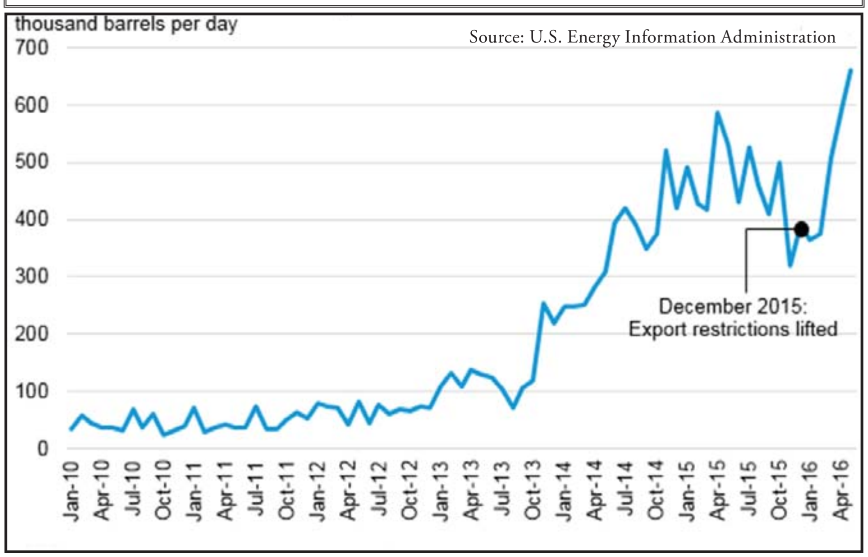
Ending the 40-year ban on crude oil exports, plus finally providing government approval of terminals that enable the U.S. to export natural gas, may have been the most pro-economic growth measures to emerge during the Obama administration's otherwise lackluster economic record.

Last December Congress passed a $1.1 trillion spending bill that included the crude oil export ban repeal. The president and his administration opposed the repeal, but the bill also extended the wind and solar energy tax credits, so the president agreed to the compromise.

By contrast, liquefied natural gas (LNG) export terminals only require Department of Energy approval. And even though some permits have finally been approved, they were slow in coming.

But as a result of those changes, the U.S. is making major strides in exporting crude oil and natural gas.

Figure 1: Crude Oil Exports



Oil and Gas Exports Begin

In the first five months of the year, about 500,000 barrels of crude oil per day were exported to 16 countries—including several in Europe, South and Central America, Israel and even China—according to the U.S. Energy Information Administration. [see Fig. 1]

The first tanker with U.S. LNG left Louisiana last February. In the first six months of the year, some 50 billion cubic feet of natural gas has been exported. Energy analyst and Forbes contributor Jude Clemente estimates the U.S. will be exporting about 7 Bcf per day by 2020 and 17 Bcf/d by 2040. The U.S. currently produces about 80 Bcf/d.

Why Exporting Oil and Gas is Important

The ability to export oil and natural gas is important for several reasons.

The U.S. Increasingly Has the Supplies—Innovative drilling techniques have allowed the U.S. to become the largest oil and natural gas producer in the world. For example:

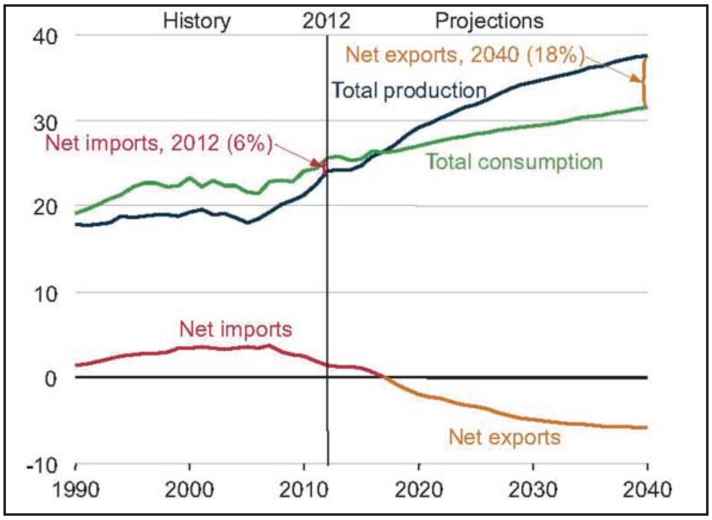
- According to the EIA, the U.S. produced about 15 million barrels per day of crude oil and other liquids in 2015, compared to about 11 million b/d in Russia and 12 million b/d in Saudi Arabia.
- For natural gas, the U.S. is producing more than the combined totals of Russia and Saudi Arabia.
- While the U.S. still consumes more oil than it produces, the EIA projects the U.S. will become a net-gas exporter in the second half of 2017. [see Fig. 2]

International Markets Support Stable Prices and Supplies—In years past, chaos in the Middle East meant chaos at the gasoline pump. No more. Parts of the Middle East are in meltdown mode and yet gasoline prices have remained extremely low.

Those low energy prices are the result of increased U.S. production and declining usage—gasoline consumption has remained flat or declined since the recession—which led to excessive supplies that drove down the price of oil to the point that it was having a serious negative impact on the economy.

For example, the energy industry downturn cost Texas 91,000 jobs since 2014, according to The Wall Street Journal.

FIGURE 2: U.S. NATURAL GAS PRODUCTION, CONSUMPTION AND IMPORTS (TRILLION CUBIC FEET)



Source: U.S. Energy Information Administration

Exports Enhance Economic Efficiency—People sometimes wonder why U.S. companies would export crude oil when the country still must import about 24 percent of its oil needs, though that's the lowest percentage since 1970. The answer often has to do with efficiency and refining.

Most U.S. refineries are set to process very heavy oil, similar to that being produced in Alberta, Canada, which the Keystone pipeline currently transports to Illinois refineries (and the Keystone XL would have sent to Gulf Coast refineries—had President Obama not squelched the project).

But most of the oil coming from the shale formations, comprising about 52 percent of total oil production, is what's called light sweet crude, which requires a different, less-intensive refining process. While some refineries are starting to adapt to the lighter crude slate, that refining transition isn't easily or cheaply made.

Moreover, sometimes the closest refineries are already operating at/or near capacity. Instead of having to discount or store a regional oversupply of crude oil, it may make sense for producers to export it to refineries that can handle that type or quantity of oil.

U.S. Allies Need a Better Energy Source—U.S. exports could help meet the energy needs of some of our allies—especially those that have been dependent on energy from countries like Russia, which use their oil and gas supplies as a hammer to discourage opposition to their geopolitical mischief.

For example, the European Union depends on Russia for about a third of its energy needs, and the EU would love to have an affordable alternative.

EXPORTS AND ECONOMIC GROWTH

Finally, exporting crude oil and natural gas will jumpstart economic growth and reduce the U.S. trade deficit (for those that think that's important). Energy experts Daniel Yergin and Kurt Barrow, writing in The Wall Street Journal in 2014, estimated that ending the oil export ban would:

- Lead to a production increase of 2.3 million barrels of oil per day and $1 trillion in new investment;
- Create 860,000 more jobs, many of which would be high-paying blue-collar jobs; and
- Add $3 trillion in federal revenues—important for a country about to pass $20 trillion in federal debt.

Expanding capacity to export is doable. Federal estimates show there are some 5,000 wells in seven major oil drilling regions that are "drilled but uncompleted" (DUC), according to The Wall Street Journal. Those are wells that can begin producing for very little additional financial input because the sites have already been drilled.

The energy boom over the past eight years provided real economic benefits during a time of sluggish economic growth. Without it the country might have fallen into recession. Oil and natural gas exports will allow the U.S. to extend and expand that boom.

CONCLUSION

The explosion in energy production occurred in spite of the Obama administration rather than because of it. Nevertheless, ending the oil export ban and permitting LNG terminals to export natural gas will encourage energy companies to ramp up production because new markets are now available to them.

The fossil fuel industry arguably kept the U.S. economy out of recession for the past eight years and, with export markets now open, could help the country return to 3 percent or even 4 percent GDP growth.

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