

# **The Crude-Oil Export Ban in Context**

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## Key Terms

### Crude-Oil

A mixture of hydrocarbons that exists as a liquid in natural underground reservoirs and remains liquid when brought to the surface

### Oil Refinery

A plant that refines crude-oil into petroleum products, such as jet fuel, gasoline, and kerosene

### Oil Company

A company that explores, produces, refines, and distributes oil and gas

### Oil Benchmark

A reference used when pricing oil; crude-oil is bought and sold in contracts and contracts trade in units of 1,000 barrels, so benchmarks help to determine the price of a barrel in a contract

### West-Texas Intermediate (WTI)

Benchmark used to price crude-oil from the Southwestern U.S.

### Brent

Benchmark used to price crude-oil from the East Shetland Basin (between Scotland and Norway)

## Key Terms (Continued)

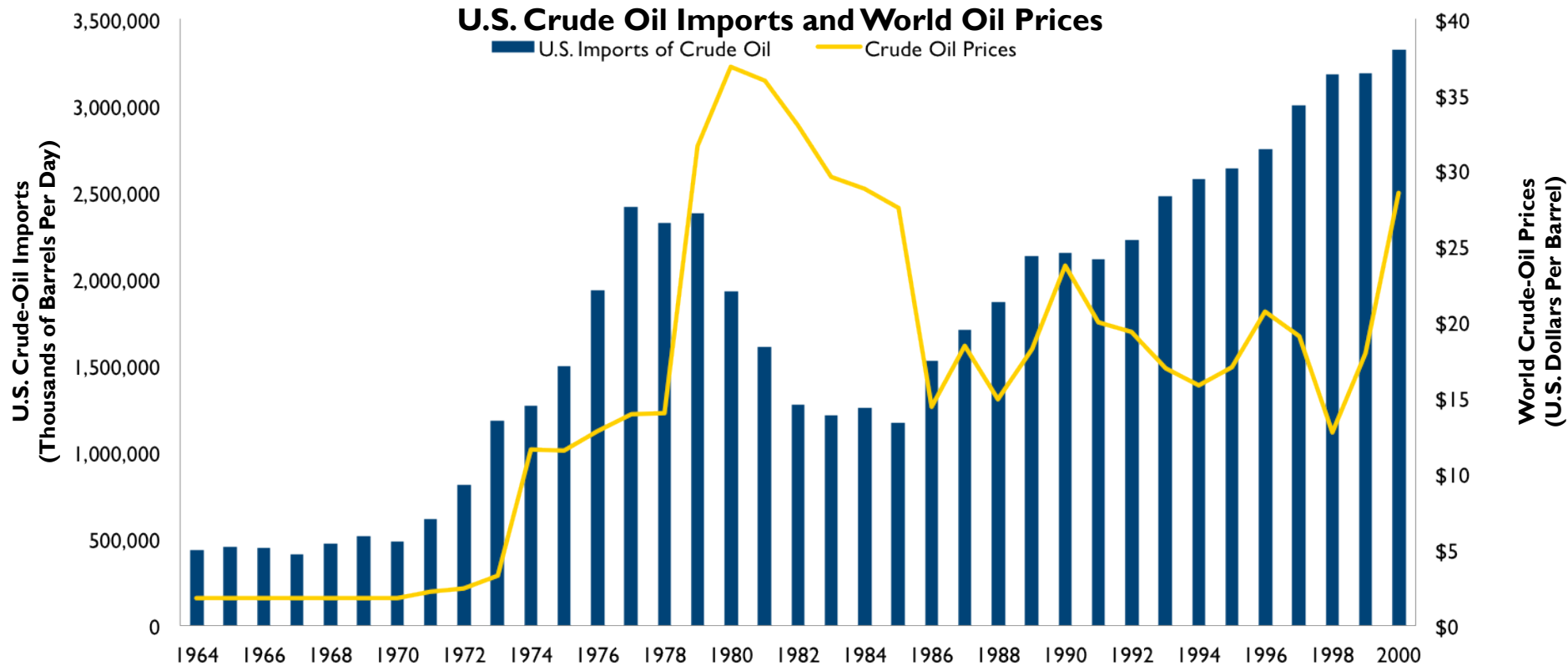
### Shale Gas

Natural gas trapped within shale formations, which are fine-grained sedimentary rock that are sometimes rich sources of petroleum and natural gas

### Fracking

The process of drilling with a high-pressure water mixture directed toward rock in order to release shale gas inside of it

# 1973 Oil Embargo Forced U.S. to Shore Up Crude Production

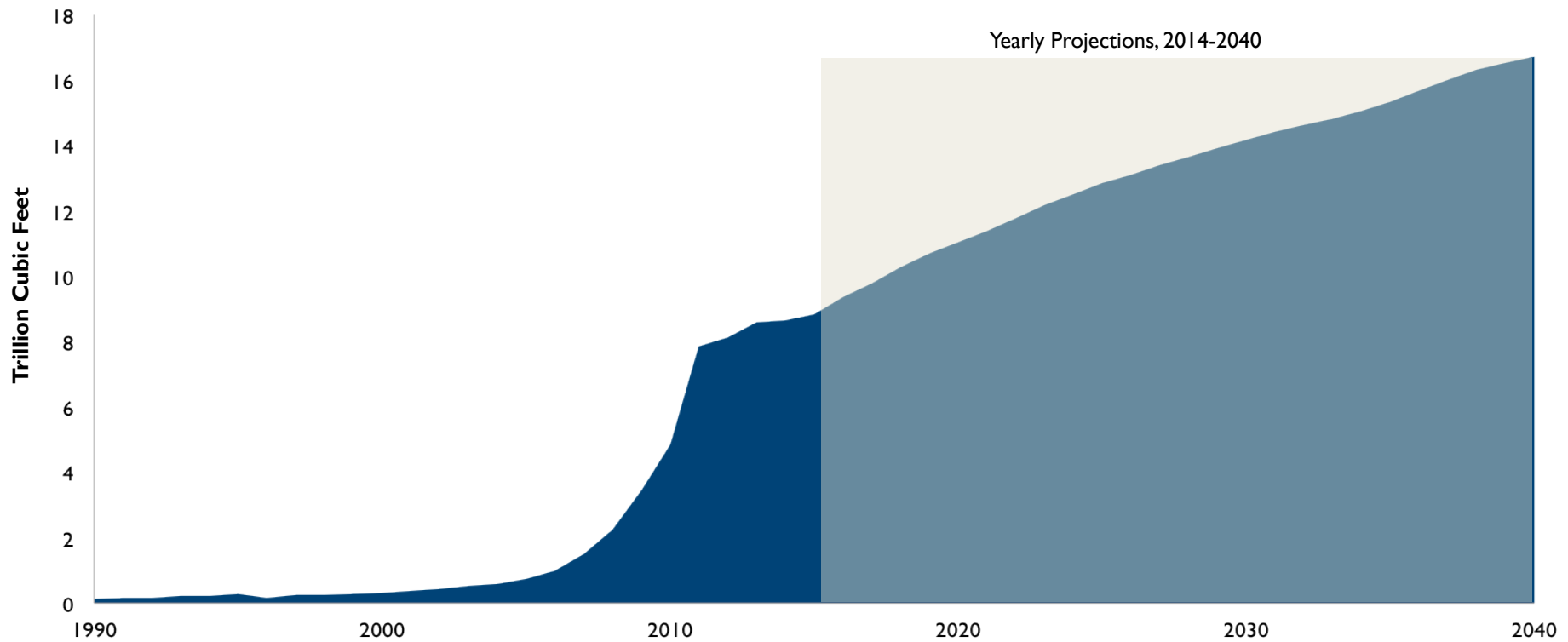


## Analysis

- When Arab producers banned oil exports to the U.S. in 1973, world crude-oil prices soared, straining the U.S. economy because of its relatively heavy dependence on foreign oil
- In order to protect the U.S. from the global crude-oil markets, Congress enacted the Energy Policy and Conservation Act in 1975, which banned crude-oil exports, except in select circumstances, to shore up crude production
- As a result, U.S. oil imports decreased in the late 1970s and early 1980s, but then rose again when Arab producers lifted their ban on exports
- At the same time, oil prices remained volatile, causing analysts to question whether the ban protected the U.S. economy as intended

# Fracking Now Driving Domestic Production to Record Highs

## U.S. Shale Gas Production, 1990-2040

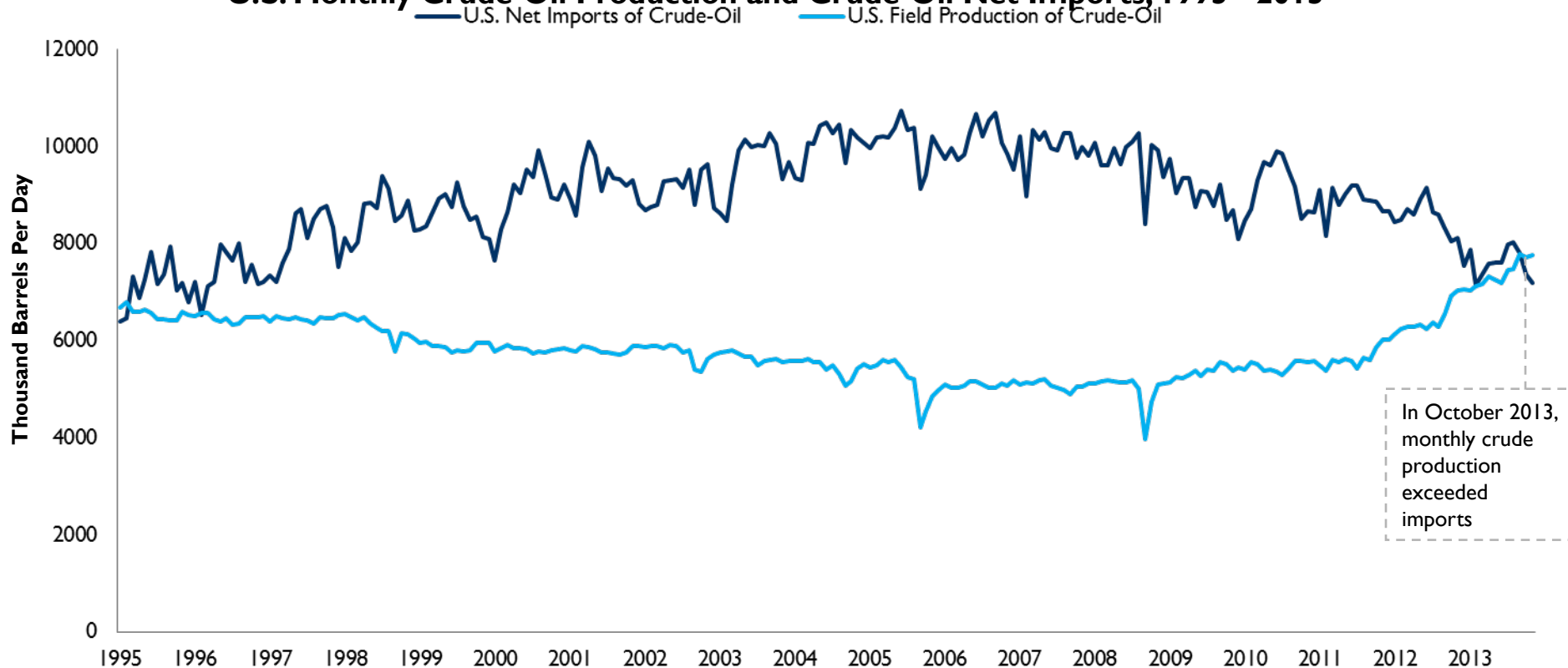


### Analysis

- Advances in horizontal drilling and fracking have increased shale gas production by 60.43% from 1990 to 2013, and it's expected to increase by another 51.13% from 2020 to 2040
- U.S. oil production rose to the highest level in 2013 because of shale drilling boom, which will make the U.S. the world's largest producer of crude oil by 2015 and reach a historic high by 2016

# Production Exceeded Imports For First Time in 2013

## U.S. Monthly Crude-Oil Production and Crude-Oil Net Imports, 1995 - 2013



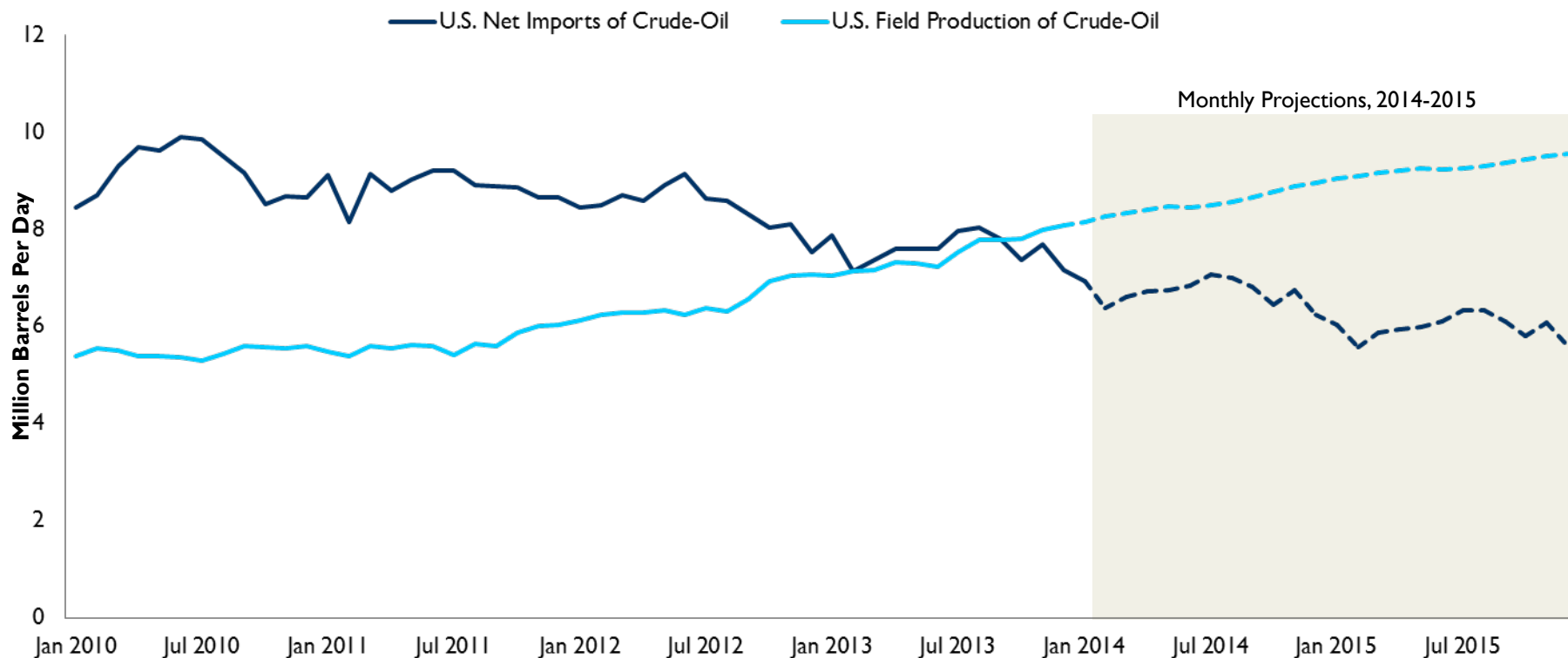
### Analysis

- According to the Energy Information Agency, monthly crude-oil production surpassed imports in October 2013 for the first time since 1995
- Production averaged about 7.74M barrels a day, while crude-oil net imports averaged about 7.57M barrels a day, which is 0.35M barrels a day less than September's net imports
- U.S. oil production has grown by 34.3% between Jan. 2010 and Nov. 2013, while U.S. imports have decreased by 6.13% between the same time period

Sources: Energy Information Agency, 2014; Moming Zhou, "U.S. Crude Production Beat Imports in October, EIA Says," Bloomberg, November 13, 2013.

# Production and Import Gap Projected to Widen

## U.S. Monthly Crude-Oil Production and Crude-Oil Net Imports, 2010 - 2015



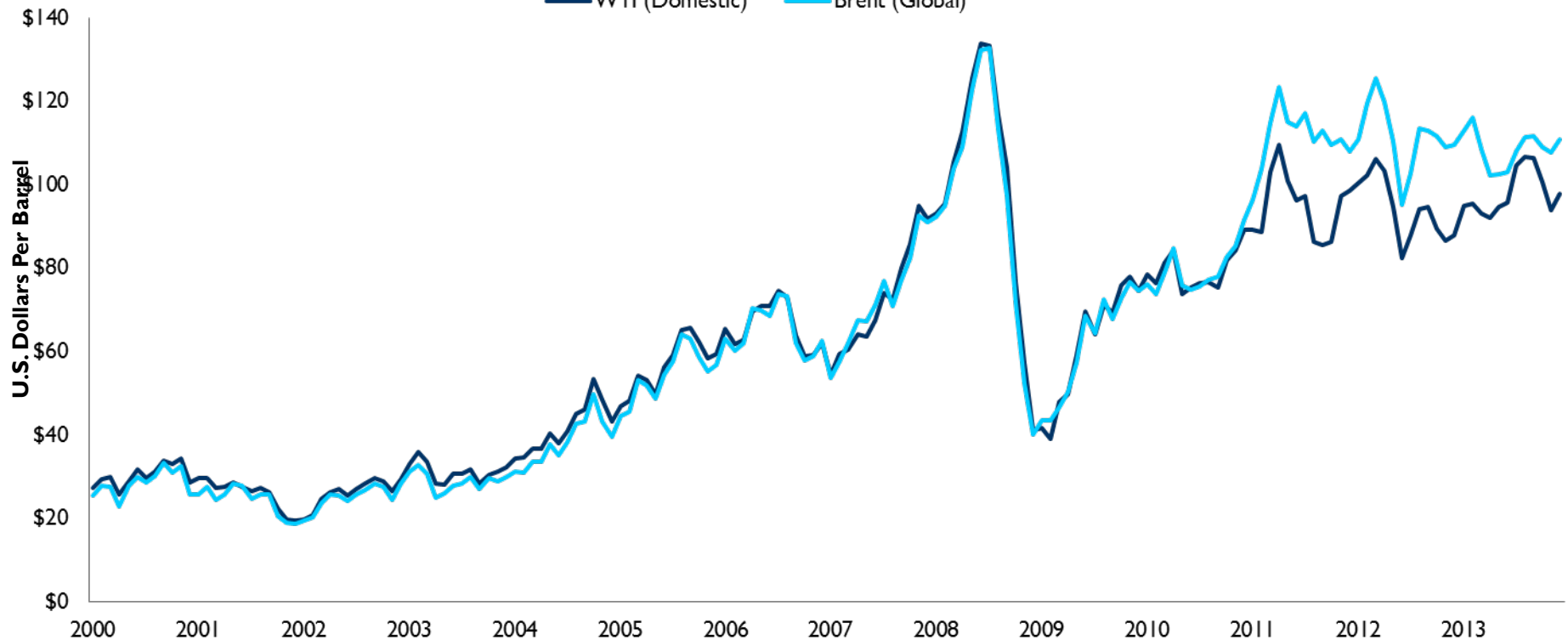
### Analysis

- The Energy Information Agency projects that by the fourth quarter of 2014, monthly crude-oil production will reach 8M barrels per day, while net crude-oil imports will fall below 7M barrels per day
- If projections are correct, U.S. crude-oil production will increase by 18.17% from Jan. 2014 to Dec. 2015, while net imports will decrease by 21.79% in the same time period
- The change in the energy landscape is primarily caused by the rise of U.S. crude-oil production from shale and other tight rock formations in North Dakota and Texas

# Surge in Production Suppresses Domestic Crude Prices

## Brent-WTI Monthly Price of Crude, 2000-2013

— WTI (Domestic) — Brent (Global)



### Analysis

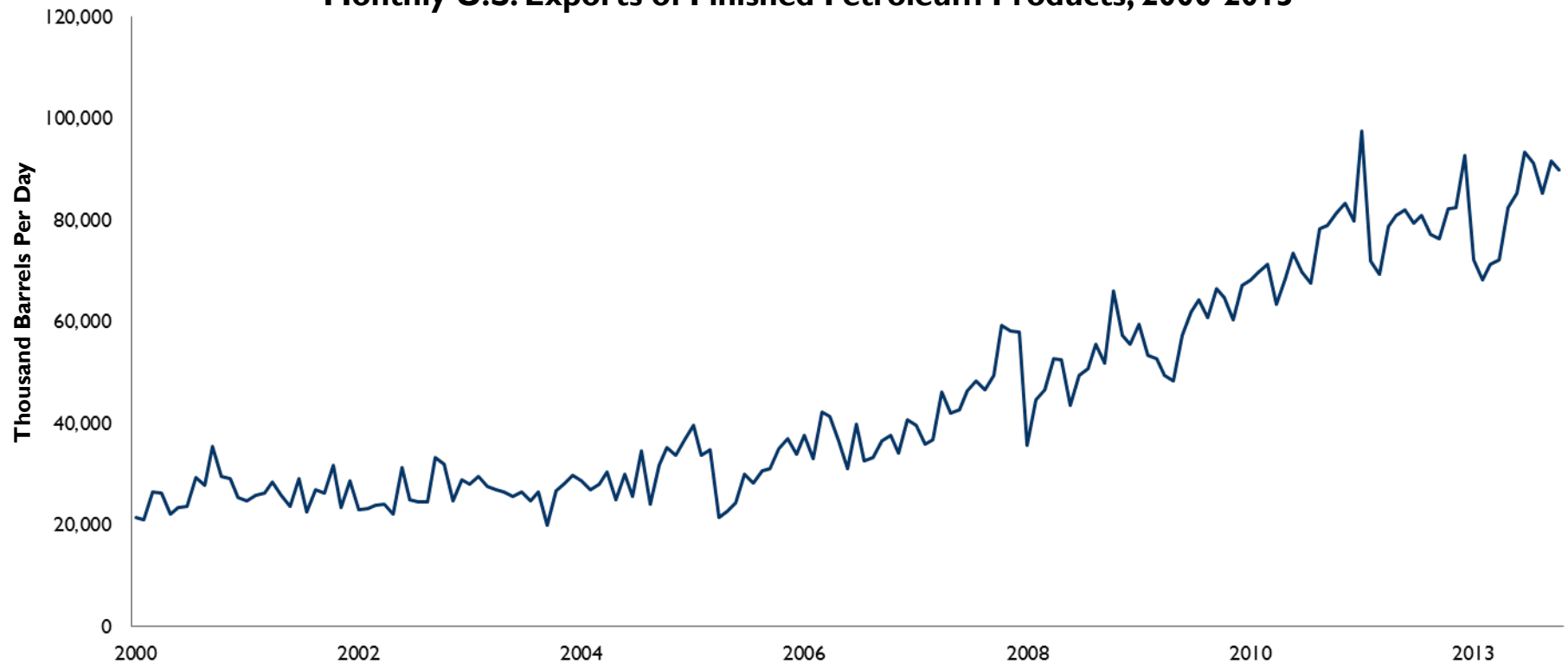
- The surge in domestic oil production has created an oversupply of crude oil, suppressing U.S. crude-oil prices
- Up until 2011, WTI price of crude followed the same pattern as the Brent price; after the shale oil boom, however, global and domestic prices diverged, causing the WTI price to hover about \$10 lower than Brent
- This has prompted some oil companies to call for a lift of the crude export ban in order to sell off the crude-oil for higher prices

Sources: Energy Information Agency, 2014; Editorial Board, "Lift oil export ban: Our view," USA Today, February 4, 2014.



# Low Crude Prices Hurt Producers, Help Refineries

## Monthly U.S. Exports of Finished Petroleum Products, 2000-2013



### Analysis

- Oil refineries buy crude-oil at the domestic price and use it to produce and export finished petroleum products like fuel oil, gasoline, jet fuel, and kerosene
- Due to the low domestic price of crude oil, U.S. refineries have adequate margins to compete with refineries that use foreign crude oil, causing companies to invest in expanding or opening up new refineries
- However, if the ban is lifted, many refineries believe that domestic oil supplies will decrease, which will cause prices to spike, making it difficult for refineries to compete with foreign refineries

# Lawmakers Debate Lifting Crude-Oil Ban

## Lawmakers who Support Lifting the Ban



### Sen. Murkowski (R-Alaska)

- Says the U.S. may reach a point of oversupply in two years if the ban is not lifted
- Represents a state with a reason to be concerned if the ban is not lifted: Alaska's North Slope oil may have to compete for West Coast refinery space, which will drive its profit margins down



### Sen. Landrieu (D-La.)

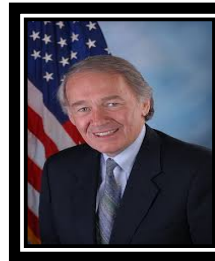
- Represents a state with ties to an oil industry that mostly supports lifting the ban
- Faces a tough reelection in the 2014 midterms and has already made promises appealing to oil industry interests

## Lawmakers who Oppose Lifting the Ban



### Sen. Menendez (D-N.J.)

- Believes that lifting the ban would be a great win for oil companies, but would eventually hurt American consumers
- Advocates that crude-oil produced in the United States should be used here to help lower prices



### Sen. Markey (D-Mass.)

- Believes that the push from the oil industry to export crude-oil will hurt national security
- Wrote a letter to the administration noting that the Commerce Department does not have the "authority to authorize new categories of crude exports on its own"

## Analysis

- On January 30, 2014, the Senate Energy Committee held its first hearing to lift the crude-oil export ban – this was the first time that the issue has been formally considered in 25 years
- No legislation has been introduced, however, Sens. Landrieu (D-La.) and Murkowski (R-Alaska) seem ready to pass a bill once Sen. Landrieu settles into her new role as Chairwoman of the Senate Energy and Natural Resources Committee
- Even so, the issue will most likely be debated for months due to an anticipated lobbying battle between oil producers and refiners, as well as the fact that Congress remains divided over energy policy