U.S. Crude Oil Export Policy

EIA Energy Conference

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Current Crude Export Law

The Bureau of Industry and Security (Commerce Dept) grants licenses to export for:

- Shipments to Canada for consumption or use therein.
- Crude exported from Alaska’s Cook Inlet.
- Heavy California crude oil.
- Exports connected to refining or exchange of petroleum reserve oil.
- Re-exportation of non-comingled foreign crude.
- Exports of Alaskan North Slope crude.

Other restrictions (waived in the above cases) barring export of:

- Crude transported by pipeline over federal rights-of-way (with exceptions).
- Crude produced from OCS.
- Crude from Naval Petroleum Reserve.
In addition, the BIS can approve licenses if it decides in the national interest and the purposes of the EPCA. Such licenses will generally be approved if:

- They result directly in the importation of crude or refined product of equal or greater quantity or quality that is not less than the quantity or quality of product that would be derived from the refining of the crude oil being exported (swaps);

- The contract under which the crude is imported can be terminated if U.S. petroleum supplies are disrupted or seriously threatened; and

- Applicant can demonstrate that the crude could not be reasonably marketed in the United States for compelling economic or technological reasons.
US Will Not Be Net Exporter, So Why Are We Talking About Exports?

Source: EIA
All Growth in US Production in Form of Tight Oil

US Crude Oil Production Forecasts by Type
Million barrels per day

Source: EIA
Actual Production Tracks High Case Projections More Closely

Actual Production vs. EIA Projections
Million barrels per day

AEO 2014 High Resource
AEO 2014 Reference
AEO 2013 High Resource
AEO 2013 Reference
AEO 2012 High Resource
AEO 2012 Reference
Actual Production

Source: EIA
All Growth in Tight Oil is Light Oil

US Crude Oil Production by Type
Million barrels per day

- Light (API >35)
- Medium & Heavy (API <35)

Source: EIA
Imports of Light Oil Have Been Backed Out

**US Crude Import by Type**

- **Medium & Heavy (API <35)**
- **Light (API >35)**

% of total oil imports

Source: EIA
Most of That Light Oil Came from West Africa

**US Crude Oil Imports by Origin**
Million barrels per day

- **Other**
- **West Africa**
- **Middle East & North Africa**
- **Latin America**
- **Canada**

Source: EIA

COLUMBIA | SIPA
Center on Global Energy Policy
The US Has Two-Thirds of the World’s Coking Capacity

Distillation vs. Heavy Oil Coking Capacity
Million b/d

- US: 18.3 million b/d (Crude Distillation: 2.7 million b/d, Coking: 1.5 million b/d)
- Rest of the World: 77.2 million b/d

Source: Bloomberg
Was Fall 2013 Oil Price Differential During Turnaround Harbinger of What’s to Come?
WTI-Brent Spread Narrowed After BIS Condensate Decision

Source: Bloomberg
Results of Crude Export Impact Studies Vary Widely

- IHS assesses impact of lifting the export ban on US gasoline prices, while ICF assesses impact on weighted average wholesale petroleum product prices.

- Query Impact on Natural Gas Production: Associated gas production declines, but rigs shift liquids to gas.

Source: IHS and ICF Reports
US Gasoline Prices are Set in Global Product Market, So US Price Discount Does Not Pass Through to Consumers

**Spot Gasoline Prices**
Cents per gallon

**US Gasoline Prices vs. International and Domestic Crude Prices**
$ per barrel

Source: EIA, Bloomberg
Security Implications of Crude Export Restriction

- Are gross or net imports the key metric to energy security?
- What are the geopolitical and diplomatic impacts of energy trade restrictions?

### No Exports; Minimal Gross Imports

- Production: 19
- Imports: 1
- Exports: 0
- Consumption: 20
- Net Imports: 1

**Exports Restricted**

### No Net Imports

- Production: 20
- Imports: 10
- Exports: 10
- Consumption: 20
- Net Imports: 0

**Exports Permitted**
Security Implications of Crude Export Restriction

- US energy security enhanced by integration into global market
- Consistent with free trade principles and opposition to resource nationalism
- Support ongoing trade negotiations

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**Exports Restricted**

**No Net Imports**

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Don’t Underestimate Political Sensitivity of Pump Prices

<table>
<thead>
<tr>
<th>Anti-Export Statements</th>
<th>Pro-Export Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>“We must continue to keep domestically-produced crude here to lower prices for consumers”</td>
<td>“The prohibition on crude oil and condensate exports threatens record-breaking U.S. oil production and American jobs by creating inefficiencies, gluts, and other dislocations”</td>
</tr>
<tr>
<td>--US Senator Robert Menendez</td>
<td>--US Senator Lisa Murkowski</td>
</tr>
<tr>
<td>“[L]ifting the ban on crude oil exports...would enrich oil companies by enabling them to sell their oil at the higher world price, but it could increase domestic gasoline prices and reduce our energy security.”</td>
<td>“Trapping light, domestic crude within our borders only penalizes U.S. production, which could mean higher costs for refiners and consumers”</td>
</tr>
<tr>
<td>--Center for American Progress</td>
<td>--Erik Milito, API</td>
</tr>
<tr>
<td>“[A]s a refiner we believe that the U.S. has advantages keeping the bulk of the crude oil (and natural gas) here so it can be turned into value-added products for use domestically and overseas”</td>
<td>“These outdated crude export restrictions have prevented domestic oil exploration and production from achieving its full potential – slowing potential job growth”</td>
</tr>
<tr>
<td>--Valero Spokesman Bill Day</td>
<td>--Harold Hamm, Continental Resources</td>
</tr>
</tbody>
</table>
### Public Opinion Not Favorable to Crude Exports

<table>
<thead>
<tr>
<th>Question</th>
<th>Agree (%)</th>
<th>Don’t know (%)</th>
<th>Disagree (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much do you know about US oil production?</td>
<td>A great deal: 7%</td>
<td>A fair amount: 21%</td>
<td>A little bit: 46%</td>
</tr>
<tr>
<td>What do you think the US should do with all the oil we are producing?</td>
<td>Sell it abroad: 13%</td>
<td>Don’t know: 11%</td>
<td>Keep it for US consumers to lower US gas prices: 77%</td>
</tr>
<tr>
<td>US oil producers should be allowed to export crude oil</td>
<td>Agree: 39%</td>
<td>Don’t know: 22%</td>
<td>Disagree: 39%</td>
</tr>
<tr>
<td>US oil producers should be allowed to export oil even if it means gas prices go up</td>
<td>Agree: 18%</td>
<td>Don’t know: 12%</td>
<td>Disagree: 71%</td>
</tr>
<tr>
<td>The government should restrict gasoline exports</td>
<td>Agree: 57%</td>
<td>Don’t know: 19%</td>
<td>Disagree: 24%</td>
</tr>
<tr>
<td>The government should restrict gasoline exports to protect prices in the US</td>
<td>Agree: 76%</td>
<td>Don’t know: 13%</td>
<td>Disagree: 11%</td>
</tr>
</tbody>
</table>

Source: Reuters/Ipsos poll recorded in March 2014
Pathways to Ease Crude Export Restrictions

- Congressional modification of statute
- Flexible reading of existing regulation language
- Change to existing regulatory language
- Use of Presidential authority to find it is in national interest to allow crude exports in new category of cases (e.g., to free-trade agreement countries)
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Prospects very unlikely
Pathways to Ease Crude Export Restrictions

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Recent clarification ruling allowing export of condensate run through stabilizer with distillation tower

Potential applications for light oil similar processed, swaps, etc.
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E.g., definition of crude to exclude condensate (see recent Murkowski white paper)

Note recent signs from Admin, e.g., Podesta comments about Eagle Ford at Columbia, Moniz on “nature of crude oil we are producing”
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- Flexible reading of existing regulation language
- Change to existing regulatory language

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Authority previously used for exports to Canada, from Alaska, etc.

Politically heavy lift

Don’t underestimate political sensitivity of gasoline prices
Thank you

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