Lifting the Crude Oil Export Ban

Explainer I: Crude Oil Export Ban Overview

The Bipartisan Policy Center (BPC) prepared this overview as part of a series to promote greater understanding of the issues surrounding the crude oil export ban. Subsequent issue briefs will address potential domestic effects of lifting the ban and possible geopolitical implications. As BPC President Jason Grumet outlined in testimony to the House Foreign Affairs Terrorism, Non Proliferation, and Trade Subcommittee earlier this year, BPC supports lifting the crude oil export ban.

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Origin of the Crude Oil Export Ban

• In 1973, the Organization of the Petroleum Exporting Countries enacted an oil embargo as a reaction to America’s involvement with Israel in the Yom Kippur War.

• The Arab oil embargo took a significant toll on the U.S. economy, given that the United States imported approximately 28 percent of what it consumed, leading to an oil crisis as prices rose sharply.

• As a reaction to the oil crisis, ensuring U.S. energy security became a vital national goal, resulting in a series of policies from wage and price controls to the eventual passage of statutes that banned exports of crude oil, among other resources and products.

• An energy export ban was enacted in the hopes of increasing domestic reserves and diminishing reliance on foreign imports.

Current Status of the Export Ban

• Today, the energy export ban applies only to crude oil.

• The United States is the only member of the Organisation for Economic Co-operation and Development and the International Energy Agency that has effectively banned the export of crude oil produced domestically.

• Both the Energy Policy and Conservation Act of 1975 and the Export Administration Act of 1979, which grants the president the authority to withhold the exports of specific products as a matter of national security, largely prohibit U.S. crude oil exports.

• While the Export Administration Act expired in August 2001, President George W. Bush and President Barack Obama each extended it through executive order every year since then.

• There are some exceptions to the ban, and any crude oil exports that are allowed require a license from the Department of Commerce’s Bureau of Industry and Security. For example, limited crude oil exports are allowed to Canada for domestic refining and consumption.

• Exports may also be permitted on a case-by-case basis under certain circumstances, such as crude oil produced from the Cook Inlet or North Slope in Alaska, and California heavy crude shipped to Pacific Rim countries. Both were deemed to be in the national interest and received exemptions.

Why is Lifting the Crude Oil Export Ban Being Considered Today?

America’s Energy Landscape Has Shifted Drastically

• America’s energy position is very different today than it was in 1970s. The advent of hydraulic fracturing and shale oil and gas development, particularly in the Bakken (North Dakota) and Eagle Ford (Texas), has significantly increased U.S. energy production volumes. Indeed, oil production has grown more in the United States over the past five years than anywhere else in the world.
Increase in Domestic Production and Decline in Imports

- The unconventional crude oil energy revolution has led to a surplus supply of light crude oil in the United States, largely due to a number of technological innovations in drilling techniques.

- The United States is now producing more than nine million barrels per day (bpd) of crude oil, equal to almost 12 percent of total global production. By comparison, the United States was producing approximately five million bpd of crude oil in 2005, which contributed around 6 percent of the world’s production.

- Crude oil imports have fallen steadily from 11 million bpd in 2004 to roughly seven million bpd in 2015.
New Production is Not Well Suited to Domestic Refining Capacity

- In general, U.S. refineries are configured to most efficiently process heavier crude oils, rather than the light sweet crude oil that is produced domestically from shale.

- Refined oil products, such as gasoline and heating oil, are not subject to export restrictions, and U.S. exports of these products have nearly tripled since 2005. U.S. refiners have invested a significant amount of resources over the last few decades to reconfigure their plants so they can efficiently process heavier oil slates sold at a discounted rate from Canada, Mexico, and Venezuela.

- High volumes of domestic light sweet crude oil have created a mounting glut in certain areas of the country. If the glut continues, domestic oil production will likely slow down.

- Furthermore, the collapse in global crude oil prices has driven U.S. producers to reevaluate their investments, causing significant layoffs across the industry and forcing the number of American drilling rigs in operation to dramatically decline.

- Lifting the crude oil export ban will alleviate these inefficiencies, and allow U.S. crude to reach the refinery market abroad. Increased oil on the market will decrease market volatility and sustain America’s energy abundance.

Infrastructure Bottlenecks are Creating Market Distortions

- The conditions discussed above tend to result in domestic producers of light crude being forced to sell their product to domestic refineries at a discount.
• Infrastructure bottlenecks in the United States, including pipeline constraints, make it more difficult and expensive to ship crude oil to domestic refiners. These market dynamics weaken the prices oil producers receive and limit production growth.7

• The spread between West Texas Intermediate (WTI) prices (the U.S. reference crude price) and the North Sea Brent price (typically used as the global benchmark for crude) has expanded significantly since the onset of the shale revolution. This means that U.S. crude producers are selling domestically at a discount compared with what international crude producers receive on the global market.

• Removing the crude oil export ban has the potential to reduce this spread and allow the U.S. industry to compete in the global marketplace.
End Notes


7 Brad Plumer, “U.S. oil exports have been banned for 40 years. Is it time for that to change?” The Washington Post, January 8, 2014. Available at: http://www.washingtonpost.com/blogs/wonkblog/wp/2014/01/08/u-s-oil-exports-have-been-banned-for-40-years-is-it-time-for-that-to-change/.
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