Oil Export Ban: Holding America Back

By Robert Bradley

“Without compelling reasons for continuing to restrict crude exports, and given the potential benefits, Congress should liberalize the crude oil export regime. Republicans and Democrats alike, including President Obama, express support for boosting U.S. exports in general. Crude oil should be no exception.”


“Because relatively free trade in petroleum products is allowed, the crude oil ban introduces artificial bottlenecks in the refining sector that paradoxically drive up the world (and hence U.S.) price of gasoline…. Ironically, the very people supposedly helped by the export ban—American motorists—are among those hurt by it.”


Oil tanker BW Zambesi made history last month by carrying $40 million in unrefined American oil from Texas to South Korea. The voyage marked the first time the United States has sold crude oil overseas since Congress banned such exports in the 1970s.

But what’s more remarkable than this landmark event is that the United States — now the world’s leading oil producer — continues to enforce a decades-old prohibition on crude exports. Repealing this arcane policy would drive down domestic fuel costs and create many new high-quality jobs, while spurring growth across the U.S. economy.

The federal ban on crude exports was an example of government intervention trying to solve the problems created by prior intervention. Congress enacted the prohibition in 1975 with two goals in mind. The first was to preserve domestic price ceilings by preventing U.S. producers from receiving higher world-oil prices. The second was to preserve believed-to-be depleting domestic reserves for the domestic market. “We have a classic Malthusian case of exponential growth against a finite source,” President Carter’s energy czar James Schlesinger infamously said.

The real problem was not a shortage of oil but a surplus of regulation. Lawmakers mistook regulatory-induced shortages with physical depletion. Energy economist Joseph Kalt estimated that without price controls, U.S. crude-oil production would have been as much as 1.4 million barrels per day higher, displacing imports and reducing prices from OPEC. Alas, instead of deregulation, the nation got petroleum allocation regulation and a ban on crude-oil exports.

The oil world has flipped since 1975. Federal price controls on oil were abolished by President Reagan in 1981. And breakthroughs in oil extraction techniques, with none greater than hydraulic fracturing and horizontal drilling, have boosted domestic production to levels not seen in decades.
Indeed, the United States will be the world’s leading oil producer this year, developing more of
the resource than both Saudi Arabia and Russia. And according to the U.S. Energy Information
Administration (EIA), by 2019, crude oil production will reach 9.6 million barrels a day, tying
the all-time record set in 1970. Yet despite growing domestic production, companies are still
prohibited from exporting crude except by special authorization by the U.S. Department of
Commerce.

Such restrictions on crude exports have no public purpose. It is fallacious to believe, as Senator
Robert Menendez (D-NJ) recently wrote in a letter to the president, “We must continue to keep
domestically-produced crude here to lower prices for consumers . . .” In fact, export restrictions
prevent U.S. consumers from enjoying the full benefits of our domestic energy boom, including
lower fuel prices.

Case in point: Since there is no ban on exporting gasoline and other oil products, Americans pay
the world price at retail, despite the fact that U.S. refiners have lower crude costs. After all, why
pass on the savings to American drivers, when foreign consumers are willing to pay a premium
for the same gasoline?

Lifting export restrictions would drive down prices at the pump by correcting this market
distortion. A study chaired by Daniel Yergin found that removing the export ban could lower
U.S. pump prices by an average of 8 cents per gallon from 2016 to 2030. This savings would be
$265 billion over the same period.

The impetus for crude exports reflects the current reality of the U.S. refining industry. Our
refineries are better equipped to process heavier, imported oil, as opposed to the lighter-grade
crude produced here in the United States. This situation has created a refining bottleneck that
artificially suppresses crude-oil production.

By unleashing global demand for U.S. crude, a repeal of the export ban would lead to an
additional 1.2 million barrels a day in domestic production, according to Yergin’s IHS study.
This translates into hundreds of thousands of new jobs and hundreds of billions of dollars in new
investment. Free trade does just this, as economists from Adam Smith to Robert Murphy have
explained.

The ban makes even less sense at a time when leaders in both parties are eager to boost exports.
Back in 2010, in fact, President Obama promised to double U.S. exports by 2015. Abolishing the
oil export ban would bring the United States far closer to meeting this goal given that petroleum
products are among the fastest-growing exports.

The Obama Administration is still considering an end to the ban, while the EIA is scheduled to
release several reports on the issue in the coming months. Eliminating an antiquated regulation
that suppresses job growth and raises fuel costs should be an easy choice.

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