

# The Economic Case for Lifting the Crude Oil Exports Ban

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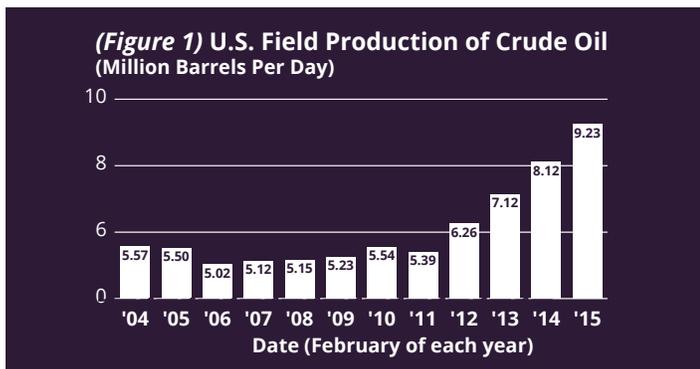
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# INTRODUCTION

Oil and natural gas development in the United States is expanding at record levels. In the last week of February 2015, the U.S. produced more than 9.2 million barrels of oil per day (bpd), up 14% from a year ago (*Figure 1*).<sup>1</sup> U.S. natural gas production was almost 31.9 trillion cubic feet in 2014, an increase of 29% since 2007. Consider these facts and figures in the context of the events of the 1970s when the ban was established: today, the United States is an energy powerhouse poised to become a key influencer in global markets.



In Washington, a debate around our country's ban on crude oil exports – a policy dating back to the energy crises of 1973-1979 – has emerged around this new energy landscape. The Administration has recently taken steps to modify the ban by permitting energy companies to ship slightly refined crude oil condensate abroad. In December, the Commerce Department granted export licenses to a select few companies (easing the backlog of condensate export requests) and issued a document outlining what types of crude oil could be legally shipped abroad, clearing the way for the export of up to one million barrels per day of ultra-light U.S. crude.<sup>3</sup>

Political momentum to overturn the decades-long federal ban on crude oil exports has gained significant traction over the last year with numerous members calling for a clear change in policy. A chorus of voices including Senate Energy and Natural Resources Committee Chairman Lisa Murkowski and House Majority Whip Steve Scalise, have expressed firm support for removing the ban. Most recently, Colorado Gov. John Hickenlooper became the first Democratic governor to encourage the Commerce Department to eliminate the ban.

An examination of expert reports released over the last year illustrates the economic benefits inherent in eliminating the ban and exporting American crude overseas.

While many groups have opined, five macroeconomic studies explain how lifting the ban on U.S. crude oil exports will have multiple positive effects on our economy (See Appendix A).

## Lifting The Ban On U.S. Crude Oil Exports Would:

- Create Good Paying U.S. Jobs
- Boost U.S. Investment and GDP
- Put Downward Pressure on Fuel Prices
- Strengthen Geopolitical Ties

In this report we examine studies by the Brookings Institution (Brookings), Resources for the Future (RFF), ICF International, The Aspen Institute, and IHS. We highlight the unanimous conclusion of these reports that lifting the crude oil exports ban will provide measurable economic advantages, namely;

- Job creation
- A boost in investment at home and increased Gross Domestic Product (GDP)
- The narrowing of our international trade deficit, and
- Downward pressure on fuel prices.

In addition, government reports by the U.S. Department of Energy's Energy Information Administration (EIA) and the General Accountability Office (GAO) conclude that allowing crude oil exports from the U.S. will tend to reduce domestic fuel prices.

Finally, along with the accompanying economic benefits discussed, lifting the crude oil exports will also strengthen ties with our trading partners and uphold the principles of free trade, the very foundation that is the basis of our country's economic philosophy.

# INCREASING AMERICA'S GROSS DOMESTIC PRODUCT

GDP is the most commonly used indicator to assess America's economic health. The investment, ingenuity and output of the hard working Americans are what keep our economic engines running. It is therefore significant to note that each independent report predicts that unlocking crude oil exports will substantially increase GDP. Four of the expert reports quantify this positive impact. Brookings, The Aspen Institute, ICF International and IHS predict GDP increases ranging from:

- Brookings – the present discounted value of increases in GDP over the 2015–2039 period range from \$550 billion to \$1.8 trillion;<sup>4</sup>
- The Aspen Institute – annual increase in GDP of \$105 billion in 2017 under the low export case to as much as \$165 billion in 2021 under the high export case;<sup>5</sup>
- ICF International – the annual increase in GDP over the 2015 to 2035 period averages between \$10.1 billion and \$14.8 billion in the low differential scenario, and between \$18.6 billion and \$27.1 billion in the high differential scenario;<sup>6</sup>
- IHS – annual increase in GDP over the 2016 -2030 period averages \$86 billion under the base case and \$170 billion under the high production case.<sup>7</sup>

As Brookings notes, “there are very few actions that the U.S. government can take that as a long-term instrument of economic policy would make as measurable a difference in the economy.”<sup>8</sup> Yet it is important to note that these numbers are a direct result of increased U.S. crude oil production and depend on our nation’s energy renaissance to continue into the near future. Analysis by Columbia University shows that lifting current crude export restrictions could increase U.S. crude production by up to 1.2 million barrels per day between now and 2025.<sup>9</sup> Therefore, by removing this outdated policy we will incentivize production for years to come and ensure these economic predictions are fulfilled.

Some opposed to lifting the ban argue that we should keep U.S. crude for domestic processing into heating oil, gasoline and other energy products. Yet the analysis by academics, think tanks and economic modeling firms predict that exporting U.S. crude will provide substantial economic benefits to American consumers; the increases in consumer welfare will trump potential harm industry stakeholders may suffer in having to pay world oil prices rather than the current artificially low, trade-protected domestic prices. In fact, a recent study by Rice University highlights the stability that adding U.S. crude oil to the market will generate, stating, “The research shows that removing the [export] ban yields positive impacts by providing a more stable and secure source of oil to the world. That greater stability would lessen price volatility that U.S. consumers face and thus improve U.S. energy security.”<sup>10</sup>

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# DRIVING JOB CREATION

Based on the consensus view in the series of studies released last year, lifting the crude oil export ban would promote job growth. The predicted employment gains occur in a variety of sectors, from the traditional jobs that are directly related to extraction, construction and manufacturing sectors to indirect gains in professional services and consumer-related industries.

Four of the reports examined forecast significant job growth if the crude oil export ban were lifted. Brookings, The Aspen Institute, ICF International, and IHS quantify their predictions for employment gains as follows:

- Brookings – unemployment will fall by an annual average of 200,000 - 400,000 jobs between 2015 and 2020;<sup>11</sup>
- Aspen Institute – between 495,000 and 630,000 more jobs in 2019 in the high exports scenario;<sup>12</sup>
- ICF – increase of as many as 300,000 new jobs in 2020;<sup>13</sup>
- IHS – create between 394,000 and 859,000 new jobs every year nationwide.<sup>14</sup>

Beyond the thousands of Americans directly employed by oil and natural gas companies, the energy boom has yielded job creation and stimulated the growth of businesses across the economy. The Aspen Institute, focused on the employment benefits in these non-traditional industries as a result of lifting the ban. Looking at various sectors and timeframes, the Aspen Institute forecasts that new construction will result in 216,000 new jobs by 2017; the manufacturing sector will gain an average of 37,000 jobs per year through 2025; and, finally professional services related to the oil and fuels sector will increase by an average of 148,000 jobs per year through 2025.<sup>15</sup>

Opponents argue that the “added value” of refining crude oil here at home will be transferred abroad if we allow companies to export crude oil. This notion fails to take into account that exporting crude oil will increase domestic production and in turn produce more jobs, adding significant value to the American economy. According to a study by the Small Business Entrepreneurship Council, the domestic oil and gas sector is overwhelmingly comprised of small and medium sized businesses – meaning that the benefits of new jobs and good wages resulting from smarter trade policy will extend well beyond the large companies typically associated with the industry.<sup>16</sup>

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# DOWNWARD PRESSURE ON FUEL PRICES

The price of fuel is a key factor in determining economic growth rates. Any policy effort that has the potential to reduce fuel prices are worthy of careful examination. Basic economic principles would dictate that if we diversify supply and increase the amount of crude oil flowing into global markets, assuming international demand remains constant given the integration of efficient technologies, the world price of crude would fall. When that price falls, U.S. gasoline prices are predicted to decline because U.S. gasoline prices are tied primarily to the global market for crude oil. While this is not a simple black and white scenario as a result of constantly changing demand forces, the principle used in the econometric models of these reports suggest allowing crude oil exports will benefit consumers at the pump.

The five reports we examined in this paper predict that removing the crude oil exports ban will reduce consumer fuel prices, including heating oil, gasoline and diesel. When looking at gasoline, the savings per gallon differ based on the conditions each expert group used to create their forecasting model. What remains constant is that all five reports reach the same conclusion of consumer benefits, lending credence to the argument that lifting the ban will lower prices under certain market conditions.

**“Basic economic principles would dictate that if we diversify supply and increase the amount of crude oil flowing into global markets, assuming international demand remains constant given the integration of efficient technologies, the world price of crude would fall.”**

Brookings, RFF, ICF International and IHS go so far as to quantify their conclusions, predicting that removing the crude oil exports ban will lower gasoline prices by the following amounts:

- Brookings – \$0.09 to \$0.12 per gallon by 2015;<sup>17</sup>
- RFF – \$0.02 to \$0.05 per gallon;<sup>18</sup>
- ICF International – \$0.023 to \$0.038 per gallon by 2017 (including heating oil and diesel);<sup>19</sup>
- IHS – average of \$0.08 per gallon between 2016-2030.<sup>20</sup>

The primary factor driving this downward price trend, according to the studies' conclusions, is the result of gasoline prices being linked to the international market. Brookings asserts that gasoline prices “decline when the ban is lifted because they are set in the international market,”<sup>21</sup> a point that the GAO<sup>22</sup> and the Congressional Budget Office (CBO)<sup>23</sup> both confirmed in two separate reports last year. Similarly, the Aspen Institute says that because “petroleum products like gasoline are more closely linked to the world price of oil, the price of imported and domestically refined gasoline is expected to fall slightly” if export restrictions are relaxed or eliminated.

The IHS report notes that since “U.S. gasoline is priced off global gasoline prices, not domestic crude prices, the reduction will flow back into lower prices at the pump”<sup>24</sup> and predicts motorists will save “\$265 billion over the 2016-2030 period” as a result of lifting the crude oil exports ban. *The Wall Street Journal* recently explained this point, saying “the oil market is global. What matters for prices are global supply and demand. To the extent more U.S. crude makes it to the global market, prices will be lower, other things being equal.”<sup>25</sup> Finally, since all fuel pricing – not just gasoline – is determined on an international scale, the report by ICF predicts American consumers will save up to \$5.8 billion per year, on average, from 2015 to 2035 as a result of lowered prices on all petroleum products, like heating oil.<sup>26</sup>

## GEOPOLITICAL IMPACTS

Columbia University's analysis suggests that there could be significant political and diplomatic benefits for the United States if the ban on exports is lifted. The report notes that “[o]il importing countries, from the United States to Japan, have long attached special importance to their bilateral relationship with crude trading partners. The importing country is often seen as the subjugate in such relationships, though, ironically, Chinese oil imports are generally seen by the West as providing Beijing with geopolitical leverage. Yet like all freely entered commercial engagements, the benefits of trade are mutual. Beyond the direct economic gains, trade generally improves bilateral relations more broadly, opens new lines of communication and reduces the odds of conflict. Lifting crude export restrictions extends U.S. geopolitical influence by maintaining current trade relationships on the import side and generating new ones through exports.”<sup>27</sup>



## UPHOLDING U.S. PRINCIPLES OF FREE TRADE

One of the most well-established principles in the United States is our commitment to free trade. Therefore, in addition to the economic benefits and pricing implications that lifting the crude oil exports ban will have, exporting is mandated by our country's founding principles. The United States, traditionally seen as one of the foremost promoters of free trade, stands to violate its own policies and international trade regulations if it continues to restrict exports of crude oil. Crude oil should be treated no differently from the billions of

dollars' worth of products Americans buy and sell every day through free and open exchanges in the global economy. It makes no more sense to restrict a product like crude oil than it does to forbid the export of wheat or automobiles for fear that their prices will rise. The United States must live up to its word and reputation as a champion of free trade by lifting the ban. To do otherwise would diminish American influence and credibility in key regions of the world and leave certain strategic allies exposed to market volatility.

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## CONCLUSION

The outdated ban on crude oil exports fails to serve our national interest and only threatens to undercut economic gains dependent on efficient energy markets. Policies simply must be updated or changed to align with current events and advances in technology. American ingenuity has brought us the abundant resources of oil and gas that we have today – unthinkable in the 1970s, particularly when coupled with dire predictions of “peak oil.” Technology constantly evolves, and production methods are becoming more efficient and economic over time; energy policy should evolve in tandem. While some slightly positive developments have materialized, experts predict that half-measures, such as allowing only condensate exports, will reduce the benefits for small businesses and American consumers by 60 percent versus completely lifting the ban on crude oil exports altogether.<sup>28</sup> The economic data presented by

the reports we reviewed provides a compelling case for an evolution in policy which takes the present and future into account.

It is now well-established that lifting the crude oil export ban will grow our economy, provide jobs, enhance U.S. national security, and expand our influence in global energy markets. Economists and policymakers alike are calling for a policy change that embrace our new paradigm of energy abundance. (Figure 2.)

The President and members of Congress have an opportunity to respond to constituent interests and do what is right for the American people. The numbers don't lie. It is time the U.S. tells the world that we are ready to do business by repealing existing restrictions on crude oil exports altogether. ■

### (Figure 2.) Bipartisan Voices Support Lifting the Ban on Crude Oil Exports



**Senator Lisa Murkowski (R-AK):** “America has entered an era of energy abundance... The United States has a general prohibition – a ‘ban’ – on exports of domestic crude oil. To me, this equates to a sanctions regime against ourselves. It hurts American producers, who have to sell oil at a significant discount to Brent, and it hurts American consumers, whose prices at the pump are higher than they would otherwise be.” (*Senate ENR Press Release*, 4/04/15)



**Governor John Hickenlooper (D-CO):** “...We believe that continuing to build upon the [Bureau of Industry and Security] decision by ending the outdated and counterproductive ban on crude oil exports is the next logical step to ensuring that domestic producers continue to invest and the energy consumer benefit.” (*Official Letter to Department of Commerce*, 4/30/15)



**Representative Steve Scalise (R-LA):** The crude oil export ban is “a relic of the 1970s whose time has come to pass.” (*Dallas Morning News*, 4/30/15)



**Senator Heidi Heitkamp (D-ND):** “We now live in a global world and it's past time that we end an outdated policy from a bygone era by lifting the ban on exporting American crude oil... we need to be able to step up, compete on a level playing field, and get the best price on the world market... We have a real opportunity to make a needed change that supports our country, our economy, and our security.” (*Official Press Release*, 4/1/15)



**Representative Michael McCaul (R-TX):** “Lifting the outdated ban on crude oil exports will result in more production, create new jobs at home and boost America's energy security while giving us a powerful new foreign policy tool. Ending self-imposed energy trade restrictions should be a top priority of the new Congress.” (*Official Press Release*, 1/8/15)



**Representative Henry Cuellar (D-TX):** “It's time the crude oil ban is lifted, allowing the U.S. to compete in the global marketplace and reap the benefits of doing so, including hundreds of thousands of jobs—many of which right at home in Texas...Free trade and free markets are the goal--that is what is best for America and for Texas.” (*Official Press Release*, 4/20/15)

## APPENDIX: EXPERT STUDIES' SUMMARY

Below is a charted summary of the recurring themes discussed in the various crude oil export studies and the specific findings reached by each report:

Themes	Study	Analysis
<i>Increase Oil Production</i>	<b>IHS</b>	Production increase averages 1.2 million barrels per day in the base production case and 2.3 million barrels per day in the potential production case
	<b>Brookings</b>	By 1.1 million barrels per day; in a "high oil and gas resource case" by 1.5 million barrels per day
	<b>ICF International</b>	By 500,000 barrels per day by 2020
	<b>GAO</b>	By 8 million barrels per day in April 2014
<i>Increase Investment</i>	<b>IHS</b>	\$750 billion
	<b>ICF International</b>	\$15.2 – 70.2 billion in additional investment between 2015 and 2020
<i>Increase Oil Exports</i>	<b>Brookings</b>	In a "high oil and gas resource case" exports could increase as much as 2.5 mbd in 2015, rising to 5.2 mbd in 2035
<i>Cut U.S. Import Bill</i>	<b>IHS</b>	By an average of \$67 billion/year, a 30% reduction from the 2013 level
<i>Create Jobs in America</i>	<b>Brookings</b>	200,000 on average from 2015-2020 and in the "high oil and gas resource case" by 400,000 on average between 2015-2020
	<b>IHS</b>	On average, creation of 394,000 jobs in the "base production case" and 859,000 jobs in the "potential production case" over the 2016-2030 period Add 964,000 jobs at peak production in 2018 in the "base production case" and 1.537 million jobs in 2018 in the "potential production case" An increase of almost 124,000 supply chain jobs, on average in the "base production case" and 240,000 jobs in the "potential production case" during 2016-2030
	<b>ICF International</b>	Up to 300,000 potential job gains in 2020
	<b>Aspen Institute</b>	630,000 jobs added at the peak in 2019, including: <ul style="list-style-type: none"> <li>• Jobs in mining (including oil and gas) up by average 43,000 per year through 2025</li> <li>• New construction jobs peak at 216,000 in 2017</li> <li>• All manufacturing jobs see average gain of 37,000 per year through 2025</li> <li>• Related professional services jobs increase by average 148,000 per year through 2025</li> </ul>

<b>Themes</b>	<b>Study</b>	<b>Analysis</b>
<i>Increase Incomes for Americans</i>	<b>IHS</b>	Disposable income averages \$238.00 per household in the “base production case” and \$466.00 per household in the “potential production case”  On a per household basis, the net benefit of a U.S. free trade policy for crude oil translates to an average gain of \$158 in labor income per year in the Base Production Case and \$285 in the Potential Production Case in 2016-2030
	<b>Aspen Institute</b>	\$2,000 to \$3,000 higher per household in 2025, an increase of 2.2%, and reaches a peak of 2.5% on a per household basis in 2019
<i>Increase U.S. GDP</i>	<b>ICF International</b>	\$38.1 billion in 2020
	<b>Aspen Institute</b>	\$165 billion in 2019-2021 or a increase of 0.93% and levels off at approximately 0.74% higher, or about \$141 billion in 2025
	<b>Brookings</b>	\$600 billion and in a “high oil and gas resource case” it could exceed \$1.8 trillion through 2039
	<b>IHS</b>	GDP increases annually by an average \$86 billion under the “base-production case” and \$170 billion under the potential production case over the 2016–2030 period
<i>Gains for U.S. Industrial Sector</i>	<b>Aspen Institute</b>	Various industrial sectors will see gains from exports including: <ul style="list-style-type: none"> <li>• Production of durable goods and materials gains 1.4 percent (\$8 billion) by 2017</li> <li>• Machinery production gains 3.3 percent (\$12.4 billion) in 2017</li> <li>• Agriculture, Mining, and Construction Equipment gains 6 percent (\$6.1 billion) in 2017</li> <li>• Capital Investment for Machinery—exploration and development—up by \$7 billion in 2020 and for construction and mining machinery by \$3.6 billion</li> </ul>
<i>Lower Gasoline Prices</i>	<b>IHS</b>	Annual savings of 8 cents per gallon, saving motorists \$265 billion from 2016-2030
	<b>Brookings</b>	Savings of 9 cents per gallon in 2015; in a “high oil and gas resource case” savings could reach 12 cents per gallon, sustained until 2035
	<b>ICF International</b>	Annual savings of 2.3 cents per gallon on petroleum products, including gasoline, heating oil, and diesel with the greatest potential annual decline is up to 3.8 cents per gallon in 2017
	<b>RFF</b>	Decrease by \$0.02 to \$0.05 per gallon depending on how quickly additional oil is produced in the U.S. and how quickly industry is able to shift its crude oil supplies between refineries

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