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Crude Oil Exports from the US: Current Issues and Future Outlook

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After 40 years in place, President Barack Obama lifted the ban on exporting crude oil from America on Dec. 18, 2015. Some of the largest oil companies in the U.S. had aggressively lobbied Congress to end the ban since at least October 2014, when the lobbying group called Producers for American Crude Oil Exports (PACE) was formed. Congressional Democrats withheld support until Republicans agreed to a package of tax credits worth about \$680 billion over 10 years related to certain environmental priorities, including renewable energy tax credits. Despite the initial excitement in the oil industry due to the lifting of the ban, the uptick in oil exports has been mild.

Following the 1973 Arab oil embargo that sent domestic gasoline prices skyrocketing, in 1975 Congress banned oil exports from the U.S. under most circumstances. Since then the U.S. energy industry has undergone a dramatic transformation, and the increased use of fracking and other drilling technologies has caused U.S. oil production to shoot up nearly 90 percent since August 2008. The surge in production has had many positive effects, including reducing gasoline prices to historic lows and the creation of as many as 1.7 million jobs, according to a U.S. Chamber of Commerce study. When the price of oil started sliding in June 2014, and then continued its rapid descent through October of that year, PACE was organized to begin lobbying for the removal of the export ban.

PACE's fight to end the ban was joined behind the scenes by many oil companies, both Texas senators, most of the Texas Congressional delegation, other members of Congress with upstream activity in their districts, and trade groups including the American Petroleum Institute. Opponents to ending the ban included many refiners and downstream companies, many companies in the petrochemicals industry that use crude oil as a feedstock, some members of Congress with refining in their districts and environmental groups such as the Sierra Club.

Historically there were certain exceptions to the crude oil export ban, including that for the export of ultralight "condensate," some exports to Canada and some exports from Cook Inlet in Alaska. The Canada exception, in particular, was a relic of an era in which Canadian refiners at the border relied heavily on U.S. light crude. Just as the ban on crude exports had exceptions, the lifting of the ban also has certain exceptions. For example, the 2016 act lifting the ban preserves the president's power to restrict crude exports in response to a national emergency or to enforce trade sanctions.

The mild industry response to the removal of the ban is best explained by basic economics: There is simply too much supply on the global oil market. High supply combined with weak global demand growth has meant persistently low prices, which is not particularly conducive to overseas sales. The global oil glut has also sent a number of U.S. drillers into bankruptcy, causing lower domestic production and less potentially exportable U.S. oil in recent years. This reduced production probably

cannot recover significantly until prices rebound. These conditions have set the stage for what the U.S. Energy Information Administration calls "sporadic" shipments of U.S. oil to overseas buyers, and most of these shipments have been test sales meant to demonstrate the high quality of American oil rather than representing new sources of long-term demand. In the months and years leading up to the lifting of the ban and at the time it was lifted, many industry experts predicted that the United States could be a net exporter of oil by the year 2022. However, if current market conditions and certain regulatory burdens persist, it is less clear whether U.S. producers will have the capacity to produce in sufficient quantities to export large amounts of crude by then.

There are some indications that exports may now be starting to rise. Global oil trading company Trafigura recently announced it is moving 5 to 7 million barrels of crude from the U.S. gulf coast to the U.K. and the Netherlands. The same company recently opened an office in Midland, Texas, where it will focus on moving Permian Basin-produced oil "around the globe to the best market," according to the company's director of North America operations. Whether exports will begin increasing more rapidly depends on the economics. If U.S. production remains low, and the gap between the price of West Texas Intermediate (the U.S. benchmark) and Brent crude (the global benchmark) remains narrow by historical standards, it is difficult to see how exports really take off. However, if the price of WTI returns to something lower relative to Brent, exporting more crude may begin to make sense for more players in the market.

Some energy analysts have suggested there is an opportunity for expanded exports from the U.S. due to the June 26 expansion of the Panama Canal. This past summer the Panama Canal Authority inaugurated a new set of locks which allow for the transit of larger ships. This was the first such expansion since the canal was completed in 1914. Despite some speculation to the contrary, the expansion of the canal is unlikely to have a major impact on crude oil flows. This is because crude is typically loaded on vessels classified as Very Large Crude Carriers (VLCCs) or Ultra-Large Crude Carriers (ULCCs), both of which are still too large to transit the Panama Canal even with the new locks. Some petroleum products including propane are often loaded on smaller vessels, some of which can transit the existing and new canal depending the ship's hull design. Therefore, although the canal expansion may increase exports of certain petroleum products, there is unlikely to be a major impact on crude exports.

Now that the ban has been (mostly) lifted, other regulatory hurdles and deteriorating domestic hydrocarbon infrastructure have come into focus. Removing the ban has theoretically removed artificial trade impediments which caused international energy market distortions, but without the removal of certain barriers to domestic production including drilling on federal lands and offshore and the expansion of pipelines and other infrastructure, the full potential of lifting the export ban will be difficult to realize.

The crucial element in the months and years ahead is for Congress and the next president to allow industry to improve America's energy infrastructure, which can be done at very little cost to the taxpayer. Various regulatory hurdles to production remain, and the industry must now focus on having permits for new pipelines and LNG terminals approved, as well as gaining new approvals for oil and gas drilling on public lands. The stakes are high, since pro-energy policies could result in as much as \$150 billion more in GDP a year according to some economists, increasing growth from 2 percent to about 3 percent. For the U.S. to enjoy the full potential benefits of lifting the export ban, though, lawmakers must roll back some of the more burdensome regulations on domestic exploration, production and transportation of oil and gas.

There is no doubt that the lifting of the crude oil ban late last year was a major development from a regulatory and foreign policy perspective. However, the impact has been much more limited from an economic perspective—we simply have not seen the increase in the volume of exports that some predicted. There is some evidence that this may be changing and more producers may be expanding their export operations and facilities, and this expansion may increase if the gap between WTI and

Brent prices returns to historical norms rather than the current, narrow gap. Two things are certain: The underlying market conditions are driving the development of U.S. crude oil exports, and those market conditions are constantly changing in this industry.

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