Commerce Department Loosens Ban on Oil Exports

After eight months of delay, the Commerce Department on Friday told Congress that it had finally approved an application from Pemex, Mexico's national oil company, to allow it to "exchange" heavy Mexican crude oil for light American crude from some U.S. producers. This will allow Mexico's aging refineries to be more efficient, refining light crude, and it will take pressure off American refineries that have been flooded with light crude from Texas, Colorado, and North Dakota.

The "handful" of licenses issued by the Commerce Department are only good for a year, and they require that the oil be refined and used in the receiving country, and not be exported elsewhere. The amount of crude involved is minimal, about 100,000 barrels a day or about one percent of current U.S. output.

But the decision opens wider the door that was shut 40 years ago, following the 1973 oil embargo crisis. This decision complements one from last year wherein Commerce granted a few producers clearance to export some forms of super-light crude oil, and then issued guidelines on what can be sold without obtaining a special permit to do so.

Two Republican Texas congressmen, Will Hurd and Henry Cueller, were delighted with Friday's news:

> The American energy renaissance that flourished in Texas due to Eagle Ford, Permian Basin and Barnett shale exploration will continue to strengthen because of this decision.

Daniel Yergin, author of *The Prize: The Epic Quest for Oil, Money and Power*, and *The Quest: Energy, Security and the Remaking of the Modern World*, agreed: "It's pretty clear where things are headed. This ban becomes more and more awkward and ill-fitting. It doesn't fit reality."

Since opening the door a crack last year, some 3.5 million barrels of ultralight oil have flowed overseas, most to Asia and Europe. Countries from Japan and South Korea to Poland have long sought the chance to buy American crude, not only because global prices have ranged between $6 and $20 a barrel higher than American prices, but because they are nervous about relying on their present suppliers, Russia and Iran.

At present the Commerce Department operates under the constraints of laws passed in 1975 but has found wiggle room allowing the Mexican-American exchange. But real change — elimination of those laws altogether — is being met with resistance by environmentalists who would prefer that all oil stay in the ground. They see the economic implications of expanding the market for crude: It would further incentivize U.S. oil producers to develop and ship more crude worldwide. A recent report from Oil Change International claims that more oil means more pollution, especially CO_2 emissions that they claim are responsible for global warming, or cooling, or climate change:

> In order to play its part in meeting global climate goals, it is imperative that the United States maintains the ban on crude oil exports and does everything that it can to decrease, rather than

> increase, the global pool of fossil fuel reserves that are [being] exploited.

But this argument is losing traction with the passage of time. Yale Climate Connections explained that CO2 emissions had fallen nearly 12 percent between 2008 and 2013, bringing them down to levels not seen since 1996, approaching the target in the long-abandoned 1990 Kyoto Protocol. Wrote Zeke Hausfather in his report for Yale:

> A close examination of energy use in different sectors suggests that the transition from coal to natural gas for electricity generation has probably been the single largest contributor to the decline.

If the ban were eliminated, it's likely that the cost of energy from fossil fuels would decline even further, making the shift from coal to natural gas even more attractive.

But that's not the only factor behind the continuing decline in CO_2 emissions: People are driving and flying less, using less electricity and driving more fuel-efficient cars.

The environmentalists are pushing against another force: the establishment, which has decided that allowing crude oil exports is a good thing after all. In addition to the Yale study published in 2013, Blake Clayton, a fellow for energy and national security at the Council on Foreign Relations (CFR), also built a persuasive case that same year for eliminating the ban:

> Removing all proscriptions on crude oil exports … will strengthen the U.S. economy and promote the development of the country's energy sector….
>
> Were the ban overturned today, crude exports would immediately rise by several billion dollars a year … likely surpassing five hundred thousand barrels per day by 2017.

Sounding like he was schooled at the knee of free-market economist Ludwig von Mises, Clayton went on:

> Letting drillers reap extra profits from selling crude oil overseas … would provide greater incentives for drilling, stimulating new supply.
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> It would also encourage investment in oil and gas production in the United States rather than abroad.
>
> 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.

Given the increasing failing arguments for continuing the ban from environmentalists and the support for its elimination from establishment sources such as Yale and the CFR, Congress is increasingly likely to look favorably on it when it considers the matter following its summer recess.

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