



Written by [Bob Adelman](#) on July 16, 2013

## CFR Analyst Calls for Elimination of Restrictions on U.S. Crude Oil Exports

Sounding more like a free-market economist than the thoroughly establishment analyst that he is, Blake Clayton, writing for the Council on Foreign Relations (CFR) [in a paper published last week](#), built a carefully crafted case for the elimination of all federal controls on exporting crude oil. Clayton, who received two master's degrees from the University of Chicago and Cambridge University along with a doctorate from Oxford, was blunt: "Federal lawmakers should overturn the ban on exporting crude oil produced in the United States." He noted:



Removing all proscriptions on crude oil exports, except in extraordinary circumstances, will strengthen the U.S. economy and promote the efficient development of the country's energy sector.

He's referring to the 34-year-old ban on crude oil exports enacted during the 1970s, which reflected concerns about energy independence in light of the Arab oil embargo that led to high gasoline prices, shortages, and long waiting lines at gas stations. The series of enactments which began with the Energy Policy and Conservation Act of 1975, which was followed by the Export Administration Act of 1979. These acts have morphed into rules that are now referred to as "short supply controls," and have placed the final decision on the licensing of crude oil exports in the hands of the Bureau of Industry and Security (BIS), a department buried deep inside the Commerce Department. According to those rules, the BIS

will review ... applications to export crude oil on a case-by-case basis and ... will approve such applications if BIS determines that the proposed export is consistent with the national interest.

This is important to know, according to Clayton, because such a bottleneck, manned by unknown bureaucrats with little accountability deep in the bowels of a huge government agency, makes it nearly impossible for potential exporters to ship excess crude oil overseas. And as the United States continues to expand its ability to produce new supplies of crude, it will increasingly need to find foreign buyers. With the present cap in place, however, incentives to continue to explore and expand the country's potential oil shale resources will be dampened and diminished severely in the next couple of years. In a word, the bureaucracy could end the oil boom single-handedly.

Clayton explains:

Restrictions on crude oil exports are already beginning to undermine the efficiency of the U.S. oil economy. Much of the country's rapidly growing production of light crude oil ... comes from either areas where refiners are not interested in or able to process it, given that many U.S. refineries are configured to run lower-quality crude oil, or in parts of the country with inadequate transportation infrastructure. With few viable domestic buyers, producers are forced to choose between leaving oil



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in the ground and pumping it at depressed prices....

Today's export restrictions run the risk of dampening U.S. crude oil production over time....

Letting drillers reap extra profits from selling crude oil overseas, if the market dictates, would provide greater incentives for drilling, stimulating new supply. It would also encourage investment in oil and gas production in the United States rather than abroad. In oil-producing regions, more workers would be hired for oil exploration and production, as well as for local service industries. Greater policy certainty regarding exports would also catalyze the expansion of U.S. energy infrastructure....

Without compelling reasons for continuing to restrict crude exports, and given the potential benefits, Congress should liberalize the crude oil export regime.

This change in policy prescription was presented in February by Maria van der Hoeven, the executive director of the International Energy Agency, an autonomous intergovernmental organization established in 1974 to advise its members about imbalances in supply and demand and to recommend policy changes to rectify them. [Writing in the \*Financial Times\*](#), van der Hoeven said that this bottleneck "could threaten the economic viability of these new supplies, potentially stopping the boom in its tracks ... either US crude is shipped abroad or it stays in the ground."

An Austrian economist and professor of finance at the University of Michigan, Mark Perry [noted](#) that the United States now has nearly 60 billion barrels of technically recoverable shale oil, "an astounding amount considering shale oil production didn't exist a decade ago." Because of that new technology, oil production in the United States last year grew by a million barrels a day and is expected to grow by an additional three million barrels a day in the next five years. But only if there's a market for it. As Perry writes,

If we don't lift our ban on oil exports — a relic of the Arab oil embargo and Iranian Revolution in the 1970s — we run the risk of capping production and impeding our own economic growth....

By lifting the ban on U.S. crude exports, we have the opportunity not only to encourage domestic production and reap its economic rewards but to shape the global oil market. That's a position of strength we should seize.

Unwinding the labyrinthine complex of laws, regulations, rules, and guidelines that have been issued over the last three decades is going to take some doing, according to Benjamin Salisbury, a senior energy policy analyst at FBR Capital Markets Corporation. Politicians are known for waiting until the very last minute to address an issue, preferring to wait until a crisis is in full throat rather than remove its cause in advance. [Said Salisbury](#):

For politicians to do anything, the pain has to come first. You have to see the rig count fall and then and only then can we have a decision about whether we want to export crude.

When they do address the issue, politicians will be confronted with numerous noisy competing interests, including oil companies, citizens concerned about gas prices at the pump, foreign policy "experts" like Clayton representing the CFR, and common sense economists like Perry, each with an opinion and a point of view. Any change in the current regulations throttling the export of crude oil is likely to come slowly, painfully, and only long after the current boom in shale oil production has slowed significantly. Whether the opinion expressed by Clayton of the CFR represents a major policy shift for that [cabal that has controlled American foreign policy for decades](#) or is just the expression of a single opinion by a



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rogue researcher remains to be seen. But the impact of the clash between the laws of supply and demand and the government interference surrounding them will likely be felt very soon.

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