Stacked rigs are seen along with other idled oil drilling equipment at a depot in Dickinson, North Dakota, June 26. As Big Oil again confronts the prospect of $20 oil for the first time in more than a decade, it’s no longer content to fall back on dog meat—instead it’s counting on the repeal of America’s 40-year ban on oil exports.

ANDREW CULLEN/REUTERS

In the past, when faced with financial hardship, the world’s major oil companies have tried just about everything to stay afloat, dabbling in mobile phones, nuclear, even button manufacturing.
During the 1980s, when the price of a barrel of crude slipped into the $20s, BP bought a dog-food factory, Occidental Petroleum bought Iowa Beef Processors and Gulf Oil considered buying Barnum and Bailey Circus. “We think food will be in the 1990s, what energy has been in the 1970s and 1980s,” Occidental’s president, A. Robert Abboud, trumpeted at the time. Maybe Gulf should have thrown in with the circus after all; BP and Occidental survived but, by the mid-1980s, Gulf’s operations were absorbed into Standard Oil of California.

As Big Oil again confronts the prospect of $20 oil for the first time in more than a decade, it’s no longer content to fall back on dog meat—instead it’s counting on the repeal of America’s 40-year ban on oil exports.

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The White House, which had insisted in October that it “strongly opposes” eliminating the crude oil export ban, and urged Congress to focus its efforts on “supporting our transition to a low-carbon economy,” did an about-face this week, withdrawing a previous veto threat. The proposal to lift the ban, now the centerpiece of a $1.15 trillion end-of-year spending and tax package to keep the U.S. government running through the 2016 budget year, has yet to be passed by Congress. But it seems the key deals needed to push it through have now been cemented and President Barack Obama’s signature appears assured. This, while oil prices hover in the $30s, but keep testing lower, against the backdrop of a mild U.S. winter and a global oil glut.

Republican Senate Majority Leader Mitch McConnell from Kentucky said this week Obama and the White House played a pivotal role in the negotiations on Capitol Hill, telling reporters, “The president in our system is not irrelevant; he’s the guy with the pen.” The repeal of the nation’s longtime oil export ban was heralded by Republicans as a “huge win,” sealing the terms of the omnibus spending and tax package—and a measure for which at least a dozen oil companies have lobbied for years, including Hess, ConocoPhillips and Continental Resources.

In exchange for a deal, Democrats won five-year extensions on wind and solar credits and a permanent extension of the child care tax credit, successfully defended Obama-mandated environmental regulations that Republicans wanted to roll back and reauthorized a conservation fund.

Ending the ban on oil exports—imposed in 1975, in the wake of the Arab oil embargo, which led to devastating oil price shocks—removes what many see as a relic that impedes the progress of the nation’s booming energy market. Removing the ban will allow oil producers sell to buyers overseas, not just domestically as they must, by law, do now, says Campbell Harvey, professor of finance at Duke University and an investment strategy adviser for Man Group, the world’s largest listed hedge fund manager and a trader of commodities.

“The ban creates market friction, and that’s never a good thing,” he tells Newsweek, noting that repealing the oil export ban also would give U.S. producers, crushed by weak oil prices in recent years, a much-needed boost. “The structure of the market is far different today than when this ban was implemented. It’s interfering with market mechanisms and that makes it distortive. It’s hard to see any scenario under which lifting the ban could be bad for U.S.”

Indeed, critics of the ban feel it’s a blight on America’s free-market principles. But there’s one scenario that might not work out so well for U.S. consumers: If they end up saddled with higher energy prices at home as a result of the U.S. shipping oil to buyers overseas willing to pay more.

A number of lawmakers have assured voters that won’t happen, such as Senator Heidi Heitkamp, a Democrat from North Dakota, a state that’s benefited enormously from shale oil drilling in recent years. “If people think this is going to drive prices up over $40 a barrel, that’s not my judgment,” she observed, noting that high oil inventories are keeping a lid on prices.

History would disagree with Heitkamp. If an oil major can turn a higher profit for oil from an overseas buyer, rather than an American one, the overseas buyer wins. This has been shown time and time again in how the U.S. oil industry already conducts itself in trading refined products, such as gasoline, with other nations—which is legal, and which has more than tripled in quantity since 2005. U.S. oil producers are also exporting nearly 400,000 barrels of oil a day to Canada under an exemption to the oil-export ban, more than nine times what they sold to the country in 2008, before the nation’s energy heyday.

In other words, expect a lot of oil to leave the U.S. if the oil export ban is finally lifted, which will limit any downside for the nation’s oil prices, just as it has limited the downside for gasoline.

U.S. producers, which are drowning in oil and cutting rigs and jobs to compensate, have a lot to ship. Oil inventories in the U.S. are set to close out the year near the 500,000-barrel mark (this excludes barrels in the Strategic Petroleum Reserve), which in December grazed the record high
set in April. How low do oil inventories need to go before oil prices rebound? “In the past, it used to be that 300,000 barrels was seen as the benchmark for determining we were getting low,” says Douglas MacIntyre, director of the office of petroleum and biofuels statistics at the Energy Information Administration (EIA), the data branch of the U.S. Department of Energy. That may not be the case today, though, he says. The shale revolution makes it a new world.

This autumn, Goldman Sachs sounded a warning about the dangers of the nation’s high inventories, saying if its “surplus breaches logistical and storage capacity,” there could be a collapse in prices to the cost of production. It added, “The potential for oil prices to fall to such levels, which we estimate near $20 a barrel, is becoming greater as storage continues to fill.”

John Hess, chief executive of oil and gas company Hess, has argued all year in favor of removing the export ban to relieve the oversupply. “Part of the reason inventory has ballooned is that crude produced in the U.S. is literally trapped here, because American firms are not allowed to sell it overseas,” he wrote in an editorial earlier this year.

Republican Representative Kevin Cramer of North Dakota says he plans to vote for the spending and tax package hammered out this week after stressing in recent days that, for national security reasons if nothing else, the U.S. needs to retake its position as a dominant energy superpower.

The oil boom “is now being felt far beyond the homes and coffee shops of America,” he said in a statement earlier this month, adding, “Our nation’s inability to export crude oil threatens our national security as well the safety and security of our allies.”

Current laws and regulations allow for unlimited exports of refined products like gasoline, but require licensing of crude oil exports. Notably, even as lawmakers and the oil industry urge the repeal of the export ban, net imports to the U.S. continue to represent 26.5 percent of total petroleum and other liquid fuels consumed inside the country in the latest full year of data, 2014. At the same time, this is the lowest percentage on record since 1971.

“Increased U.S. crude oil production has replaced some crude oil imports, while increased [refining] and global demand growth for petroleum products resulted in increased U.S. petroleum product exports,” the EIA said in a report this week. “As a result, the U.S. remains a net importer of crude oil but less so, and is increasingly a net exporter of petroleum products.”

Pretty soon, it may be a net exporter of crude as well, although how this will affect prices at home remains to be seen. At least until the 2016 driving season, many on Wall Street expect prices to remain under pressure, as Iran prepares to dump barrels on the global market and the Organization of Petroleum Exporting Countries engages in an all-out war for market share.

“OPEC is no longer the swing producer, U.S. shale is,” says Adam Crook, managing director at Goldman Sachs in a market note this week. “And inventory levels remain at all-time highs. If we have a mild winter in the U.S., we may see further stress in the oil market” in the first quarter.

In response to requests from Congress and the Obama administration, the EIA did a series of studies and released a report in September detailing what the effect would be on prices if the U.S. were to repeal the oil export ban. Lynn Westfall, one of the managers of the study and director of the office of energy markets and financial analysis for the EIA, tells Newsweek that by using its own internal models and working with live data, the EIA concluded that lifting the ban would either lower U.S. refined product prices—including gasoline—or leave them unchanged. This is because as more U.S. oil hits the global market, it should have the effect of putting a lid on prices, he says.

“Right now, domestic crude production is just over 9 million barrels a day,” Westfall says. “Once we reach around 11 million to 11.5 million barrels a day of domestic crude, that’s production we will not be able to fully absorb into our refining system.” The U.S. is about 2 million barrels away from that tipping point, he notes, but if production continues on the same upward trajectory, the U.S. will need to offload some of its barrels.

The oil market has a notoriously short memory and prices can rise, as well as fall, very rapidly. As recently as 2008, oil prices nearly hit $150 a barrel as the nation teetered on the brink of financial collapse—and this was with the oil export ban in place. What will happen if the oil ban is lifted may not be so easy to model, but the fact that Big Oil is so eager to repeal it should give Americans an inkling as to whether it expects to profit.
U.S. on the Verge of Lifting 40-Year Oil Export Ban

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