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Doug Bandow: A misguided export ban

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For years people have been told to expect a dismal energy future. But because of rapid market innovation, Americans can now look forward to a future of energy abundance. The U.S. could even become a leading exporter – if Washington gets out of the way.

President Ronald Reagan set the stage for today's energy advances by unilaterally eliminating oil price controls. An energy revolution currently is underway, with increasing supplies and falling prices. Even more could be done if Washington expanded access to federal lands and waters, freeing producers to make best use of what they extract.

Control of natural gas exports goes back to the Natural Gas Act of 1938. The 1970s were marked by various energy "shocks" and "crises," leading to passage of the Energy Policy and Conservation Act, which regulates oil as a "short supply" product.

Arbitrary restrictions bedevil energy exports. For instance, natural gas licenses are granted automatically for nations with free trade agreements – in this case Canada and Mexico – but otherwise the review process is lengthy and approval is rare. Last year, Energy Secretary Ernest Moniz announced that he was delaying decisions on a score of applications for political reasons even though the department had already concluded that such exports would benefit the U.S. economy.

The ban on oil is even tougher, with only small amounts being shipped to Canada. Few licenses have been issued under the law's "national interest" exception, and none since 2000.

Forbidding petroleum exports does not make additional supplies available to Americans. Rather, the ban prevents energy companies from saving money. For instance, it would be cheaper to sell Alaskan crude to Asia and purchase more oil from Latin America.

The export ban also risks halting the increase in domestic energy production. U.S. oil production is at a quarter century high, but the greatest supply increases have been of crude oil that is "lighter" and "sweeter" than usual. Most domestic refineries, especially in the Gulf Coast, are designed to handle "heavy" oil.

It is difficult to get the lighter oil to the right refineries, and there are not enough of them. Creating a domestic glut depresses prices in America, which means they have less incentive to invest more to produce more.

Moreover, a new report released by Sen. Lisa Murkowski, R-Alaska, warned of fears that “rising light crude production will soon exceed not only the nation's light refining capacity, but also the ability of refiners to adapt to the new production slate. When this point is reached, the U.S. oil resurgence will collide with the de facto ban on crude oil exports.” Maria van der Hoeven, executive director of the International Energy Agency, similarly worried that the export ban “could threaten the economic viability of these new supplies, potentially stopping the boom in its tracks.”

Supporters of the prohibition contend that it helps consumers and reduces foreign dependency. In fact, exporting natural gas and oil does not increase America's dependence on foreign imports, but merely reshuffles global supplies. Today, Americans are wasting money on extra transportation costs and failing to collect from higher-priced sales.

Exports also would be environmentally friendly. Instead of building more refineries to handle increased production, the U.S. would send more of its crude oil to other nations' facilities.

Finally, lifting the export prohibition would have little impact on consumer prices. The ban most directly benefits refiners, who are exporting record amounts of products. Today, a few lucky firms gain billions from an unfair and arbitrary subsidy – courtesy of Uncle Sam.

In fact, argued van der Hoeven, “American end-users do not benefit from this production windfall since U.S. retail product prices are still heavily influenced by international markets.” Energy remains a global marketplace. The best way to reduce prices would be for Uncle Sam to reduce domestic barriers to production and allow international markets to function. Economists believe that unleashing U.S. exports would have a noticeable impact on the price of light, sweet crude.

Trying to artificially hold down prices always has been bad energy policy. For years below market prices encouraged consumption and discouraged production.

Recently, Secretary Moniz expressed the administration's interest in relaxing the ban. Congress should eliminate energy export controls – or at least make licensing automatic. Second best would be to streamline the process, with a presumption in favor of granting licenses.

The energy boom is a great boon for Americans. Innovative markets have erased decades of rhetoric about shortages and scarcity. America's energy future will grow even brighter if only Uncle Sam stops getting in the way.

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