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As Oil Export Ban Disappears, Economists Say Good Riddance

Rob Garver

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Overturning the long-standing ban on exporting crude oil from the United States as part of the Omnibus tax and spending bill passed by Congress will mark the end of a policy that has been annoying economists for a generation.

About 40 years ago, in the wake of a 1973 oil embargo that left American consumers on edge, Congress passed a law that made it illegal, with some exceptions, to sell oil from U.S. wells to buyers outside the country. The move was deeply unpopular with economists, particularly of the free-market variety, because it created a class of producers who were effectively captive to a subset of buyers in a global market.

“By anyone’s light, this was very bad policy in the first place,” said Prof. Steve Hanke, who teaches applied economics at Johns Hopkins University and serves as a senior fellow at the Cato Institute. “If you have a stampede and a lot of public propaganda about an oil crisis…Washington feels obliged to do something about it. And they usually do stupid things, which they did. So that’s not unusual. What is unusual is that the darn thing has stayed around so long. No serious student of the ban has ever concluded that it’s a great idea. All the serious work has concluded this a very bad idea.”

The impact of forcing U.S. producers to sell into a restricted market has never been more apparent than in the past few years. Much of the oil extracted from the ground in the U.S. is classified as “West Texas Intermediate” blend, or WTI, a type of crude oil well-suited for refining into gasoline. On the global market, the rough equivalent is “Brent” crude, which is extracted mainly from the North Sea.

In a global marketplace, two commodities with essentially the same characteristics ought to be sold for similar amounts. But for several years, Brent has traded at a significant premium to WTI — partly because of a huge supply glut of the latter, which producers are restricted from selling into that global market.

The result has been that WTI that sells for less in the U.S. than it could abroad, creating a real benefit for refineries but stunting the profitability of extraction firms.

Refiners, said Hanke, “have been getting a good deal because of the governmentally imposed constraints on exports. As a result of the shale revolution and the export ban, that double whammy has put refiners in the U.S. in a sweet spot. There’s a lot of cheap WTI floating around the market and being stored.”

Hanke cautions that to the typical American, the impact of lifting the export ban will be difficult to see. Oil producers will begin getting a better price for WTI, but Brent crude may become more attractive too, as its price falls in response to added U.S. supply.

The refining industry, he said, will probably take the biggest hit: “The margins would go down at the refiners. Profitability could go down. There could be less investment down the line in domestic refining.”

Hanke said that, in theory, a case could be made that lifting the ban might result in a small increase in gas prices, but that would require what he called a “long chain of reasoning” to get to. With so many variables at this point, any such conclusion would be speculative at best.