



Oil Shock Paranoia Foments Protectionism 40 Years Later

US Commerce Department Plays Word Games to Begin Exporting Crude Oil

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July 2, 2014

This past week, the US Department of Commerce finally gave in to pressure to allow limited exports of crude oil — [sort of](#). The department took steps to redefine some ultra-light forms of oil, known as condensates, that have been partially processed as “refined products” as opposed to “crude oil.”

The move was not particularly shocking, as condensates sell at a premium in Europe, while condensate refining capacity in Texas, near the fields, is limited. As such, producers have been pushing for months to loosen the 1970s era ban on crude exports to end the Texas condensate glut. The move makes sense, and even the *Washington Post* [editorial board](#) has endorsed it.

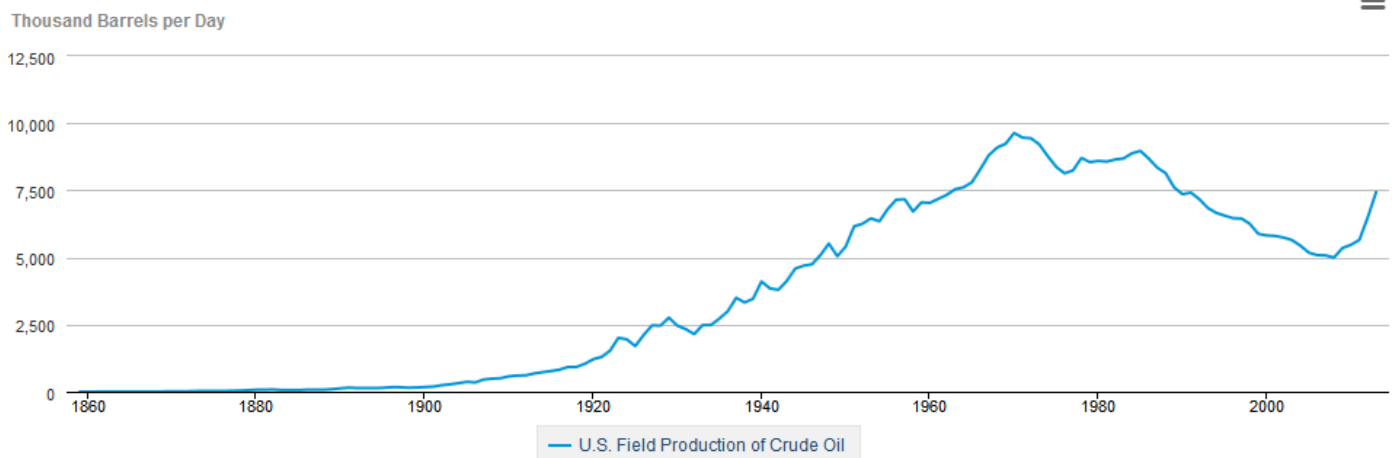
Regardless of the change, the fact that the Department of Commerce had to tweak definitions, as opposed to Congress legalizing crude oil exports outright, hints at the problems with a system that has been broken from the outset. US energy policy was born out of the 1970s oil crises. Like most policy that results from crisis, it is full of misguided goals. Moreover, for more than 40 years the United States has based much of its policy on clear misunderstandings of how energy markets work and react to policy change.

MIT Professor M.A. Adelman, one of the foremost experts on energy policy of the 20th century, laid out many of these misunderstandings in his 1996 book *The Genie out of the Bottle*. The book recounts more than 20 years of energy market upheaval and the resultant policy, and it makes a number of points that are still salient today.

The most prominent of these points is the concept of energy scarcity. The layman's understanding of natural resources can be summed up as some form of "we're running out of X resource, and have Y number of years left of it at current use rates." Adelman makes clear that this view is nonsense. Just like any other product, the laws of supply and demand apply to oil. As cheap and easy to access sources of crude are exhausted, the prices will rise, providing a greater incentive to search for new fields, or making previously-marginal fields profitable.

Moreover, as prices rise, there is even greater incentive to innovate, and find new ways to either use less oil, find oil substitutes, or find new ways to get more out of known fields. Knowing this, it is not shocking that US production has risen after years of high prices.

U.S. Field Production of Crude Oil



eia Source: U.S. Energy Information Administration

US Field Production of Crude Oil. ([US Energy Information Administration](#))

Another important point Adelman makes is that the need for "access to oil" is an entirely misguided foreign policy goal, and is the impetus for inordinate amounts of bad policy. This idea of oil protectionism is behind the export ban and much of US foreign policy in regions such as the Middle East. The fact is that in the era since the 1970s, there has been a unified world crude oil market.

Having "access to oil" does not mean that the nation needs to be "energy independent," as many conservatives dream, or that we must pander to oil-state monarchs. Even when the United States faced embargo in 1973, [oil simply moved](#) from OPEC to non-embargoed countries and was re-sold to the United States. The threat of being cut off from the supply of oil is a myth, disproved by 40 years of history.

These two factors, combined with the American people's natural aversion to high gas prices, form a dangerous cocktail for public policy. Memories of the gasoline lines during the oil crisis of the 1970s still linger in the public consciousness, while the fear that we are "running out of

oil” persists. The desire for energy protectionism is common, as seen with the slow movement on opening crude oil exports, and the parallel opposition to natural gas exports.

The *Wall Street Journal* [notes](#) that opponents of exports cite increased domestic energy prices as a primary reason to continue the ban. The new steps to open oil markets are a good thing, but more steps must be taken to bring about sound energy policy in the United States. We’ve lived 40 years under an energy regulation regime that was meant to stop a nonexistent threat. It’s time to reform, and truly open the US energy market.