Why lifting oil export ban can help U.S. foreign policy

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A House of Representatives bill is due to go to the floor this week, one step closer to lifting the 40-year-old ban on the export of U.S. crude oil. The window of opportunity was opened by the continuing plunge in oil prices, now at a six-year low, as falling demand and booming production have created an overabundance of global supply.

Congress must seize this opportunity: Lifting the ban on crude oil export would not only be good for the economy, it could also benefit U.S. foreign policy.

U.S. firms have been unable to export crude oil since 1974 — a legacy of the energy security fears in the wake of the Arab oil embargo. The only exceptions are crude oil exports to Canada, and oil produced in Alaska. There are similar, if less draconian, export restrictions on natural gas, which requires a Department of Energy waiver.

These restrictions were an overreaction. But recent changes in the global oil market have made matters worse. Over the past decade, new technologies — particularly hydraulic fracturing or "fracking" — have enabled the extraction of oil and natural gas in previously inaccessible areas. The result has been a shift away from some traditional energy-producing countries — such as Russia or members of the Organization of Petroleum Exporting Countries – and toward newer producers.

The biggest beneficiary of these technological advances has been the United States, now the world's largest producer of oil and natural gas. Even under current restrictions, U.S. crude exports to Canada have risen dramatically, from essentially zero in 2007 to more than 100,000 barrels a day by March 2013. U.S. producers could contribute far more globally, but are largely prevented from doing so under the current bans.

The new oil produced is also at odds with U.S. refining capacity, which complicates domestic consumption. Fracking usually produces light sweet crude oil. U.S. refineries, however, are primarily set up to process heavier crude oils from Mexico and Venezuela.

This has led to domestic market distortions. Refiners can buy oversupplied crude on the cheap, but then charge consumers world market prices for gasoline, pocketing the difference.

Various studies have shown, however, that ending the ban would help the U.S. economy. It would add an estimated 630,000 jobs, increase manufacturing and boost the gross domestic product in the long-term. Though some supporters of the ban argue that lifting it could raise pump prices, as more oil it made available for export, it is most likely to lower them in the long run.

A lack of domestic refining capacity now discourages production by lowering the prices that refineries pay for crude oil. If producers are instead able to export their excess crude oil, they would likely increase production, which would lower global oil prices.

Lifting the ban would also produce real benefits for U.S. foreign policy. Authoritarian regimes would no longer be able to cite Washington's reluctance to open its energy markets to free trade as an excuse for their own unfair practices. It is harder, for example, for the United States to chide China on issues like currency manipulation while maintaining protectionist economic policies like the crude export ban.

More important, exporting U.S. oil and natural gas increases diversification within world energy production. Though energy security concerns can be overblown, increasing production in the United States would reduce global reliance on oil from volatile regions like the Middle East.

It's certainly true that today's low oil prices may make increased production less attractive to U.S. producers in the short-term. Yet states like those in Eastern Europe may well choose to switch to U.S. suppliers from Russia for non-economic reasons. Then, once oil prices rise again, the influx of U.S. oil and natural gas into the world market from new domestic production would certainly keep prices lower than they would have been otherwise. That would reduce the income and influence of various authoritarian states, which have long been among the world's biggest producers of oil, such as Venezuela or Russia.

Lifting export bans on liquefied natural gas would be particularly helpful for U.S. allies in Central and Eastern Europe. These states rely on Russia for the majority of their energy, which limits their range of political and economic responses to Moscow's recent aggression. By building liquefied natural gas terminals, these states would be able to import U.S. liquefied gas, and divest themselves of dependence on Russian gas over the long-term.

There has been other recent momentum in Congress on lifting the export ban. A bill passed the Senate Energy and Natural Resources Committee this summer, and is awaiting full hearings. House Speaker John Boehner (R-Ohio) in July had also signaled his support for ending the ban, comparing it to the sanctions on Iranian oil and gas producers.

Today's depressed oil market is an ideal time to remove these outdated export restrictions. With oil prices so low, any protests about potential increases in gasoline prices would be muted. Lifting the ban on crude oil exports is long overdue. Increased U.S. production has also removed any solid justification for keeping it. Congress should seize the opportunity now to lift the ban, and reap the economic and foreign policy benefits so sure to follow.

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