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Attorneys at Law

CRUDE OIL EXPORT BAN: ONE FOR THE HISTORY BOOKS?

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For the last twelve months, we read off and on in the news that there is momentum to lift the 1970s-era ban on the export of crude oil. *The Wall Street Journal* reported a year ago that the oil industry is “gearing up” to remove the U.S. ban. One year later, several pieces of legislation have been introduced to permit the export of domestic crude oil. It is possible that the U.S. House of Representatives may vote on legislation in the next few weeks.

Oil companies have been lobbying Congress over this past year that the exportation of our domestic produced crude would stimulate the economy and streamline production. It is mainly the refinery industry that is against lifting the ban. In order to understand this debate, the fact that refined products can be exported is crucial to the analysis. Crude oil can only be exported in limited circumstances such as with a special license from the U.S. government and in limited amounts from the Alaskan North Slope production if exported on a U.S. flag vessel.

Naturally then, U.S. refinery owners are in favor of a continued ban since the increase in the supply of crude oil in the U.S. has increased the profits of refineries. Foreign refineries could benefit to the detriment of U.S. refineries if the ban is lifted. Opponents of lifting the ban assert that it may cause U.S. refinery shutdowns.

It has been argued by the refineries and others that lifting the ban would cause gasoline prices at the U.S. pumps to rise. The U.S. Energy Information Administration released a report in early September 2015 that stated that eliminating the ban would not increase U.S gasoline prices. (www.eia.gov) Several independent studies reportedly state that gas prices may be lower for consumers and positively impact trade and the U.S. economy.

Free trade advocates favor lifting the ban and U.S. trading partners are getting anxious that nothing is happening to end the ban. There has been some easing of the restrictions, however. Last summer the Commerce Department approved the export of unrefined oil known as “condensate.” There is a soaring volume of this ultra-light oil from shale formations. This was the beginning of a loosening of the policy. The Commerce Department recently stated it would allow companies to exchange U.S. crude with Mexico. Export of crude oil to Canada is already permitted.

On September 29, 2015, the Congressional Budget Office released a report on H.R. 702 (www.cbo.gov/publication/50854). The CBO report concluded that lifting the ban would reduce “net direct spending by \$1.4 Billion over 2015-2025 period by increasing offsetting receipts from federal oil and gas leases.”

One impact of lifting the ban is on the transportation industry, including particularly the maritime trade. In order to export crude oil, the oil must move by ship to overseas markets. Would the legislation that is eventually passed require that the U.S. crude oil must be transported on U.S. flagged ships? More tankers would be needed, qualified crew would need to be hired, and construction would get a boost (although not necessarily in U.S. yards since presumably these tankers would not need to be Jones Act qualified). Domestic maritime issues would also be affected by increased movement of U.S. crude by vessels on the inland waterways instead of by pipeline and rail since there would presumably be an increase in demand for the U.S. crude. Increase in demand would translate to an increase in movements including by water.

About Sandra L. Knapp

Sandra L. Knapp represents clients in a broad range of transactional and general corporate matters, including asset-based lending transactions, mergers and acquisitions, marine finance, U.S. based joint ventures for international companies, real estate, sale-leaseback transactions, construction contracts, leases and charters. She is frequently involved in multimillion-dollar financing and acquisition transactions for companies both nationally and internationally. Ms. Knapp has practiced in the Philadelphia area for over 28 years, representing clients throughout the United States and abroad.

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