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SUBCOMMITTEE ON ENERGY AND POWER

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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the history of the U.S. ban on crude oil exports and to contrast the market conditions at the time of the ban with those of today.

The U.S. Energy Information Administration (EIA) is the statistical and analytical agency within the U.S. Department of Energy. EIA collects, analyzes, and disseminates independent and impartial energy information to promote sound policymaking, efficient markets, and public understanding regarding energy and its interaction with the economy and the environment. By law, EIA's data, analyses, and forecasts are independent of approval by any other officer or employee of the United States Government, so the views expressed herein should not be construed as representing those of the Department of Energy or any other Federal agency. As discussed in my testimony, EIA is active in providing both data and analysis that bear directly on the issue of crude oil exports.

Current limitations on U.S. exports of crude oil are based on the Energy Policy and Conservation Act of 1975 (EPCA), which in addition to other key provisions reviewed below, directed the President to promulgate a rule prohibiting the export of crude oil while also providing authority to exempt from the prohibition such crude oil which the President determines to be consistent with the national interests and the purposes of the legislation.

Oil market conditions at the time of EPCA's enactment are very different from those today. Total net imports of petroleum were rapidly rising in the 1970s, reflecting both rapid growth in consumption and declining domestic production. U.S. net petroleum imports nearly doubled between 1970 and 1973

(from 3.2 to 6.0 million barrels per day), with continued growth to 8.6 million barrels per day in 1978 (see Figure 1). As a result, net imports as a share of total oil consumption grew from 22 percent in 1970 to 47 percent in 1978.

In 1973, several members of the Organization of the Petroleum Exporting Countries (OPEC) responded to U.S. support of Israel in its 1973 war with several Arab states by instituting an oil embargo against the United States. Immediately before the embargo, 65% of U.S. crude oil imports were sourced from OPEC countries. Total U.S. crude oil imports fell sharply over a 4-month period from December 1973 through March 1974, and then recovered quickly.

With minimal global excess production capacity available outside of OPEC, the embargo highlighted growing U.S. dependence on imported oil, spurring the enactment of legislation over the next several years that had a significant impact on all aspects of the petroleum industry.

The Emergency Petroleum Allocation Act of 1973, enacted in November 1973, established a two tier pricing system for domestic crude oil; “old” oil from properties producing at or below their 1972 levels was subject to a price ceiling while “new” oil was allowed to be sold at market prices. The price of imported oil remained unregulated. As a result of these provisions, domestic refiners paid significantly less for domestic crude oil than for imported crude oil. In 1973, refiner acquisition costs of domestic and imported crude were roughly equal; in 1974, the acquisition cost of domestic crude was roughly 40% lower than the acquisition cost of imported crude (see Figure 2). This pricing regime discouraged investment to maintain production in existing U.S. oil fields, which had already been in decline since 1970. Crude oil production in the lower-48 states declined from 9.0 million barrels per day in 1973 to just under 7.0 million barrels per day in 1980, a 23% reduction (see Figure 3).

Beyond its provisions limiting crude oil exports, EPCA established the Strategic Petroleum Reserve and the first Corporate Average Fuel Economy standards. It also established a new formula for “old” oil and brought “new” oil under price controls, rather than allowing sales at market prices. Old oil was now to be priced at its May 15, 1973 price plus \$1.35 per barrel and new oil prices were set at their September 30, 1975 levels less \$1.32 per barrel. The provisions limiting crude oil exports were likely intended to prevent domestic crude producers from circumventing these price controls by selling into the higher priced global market.

In early 1981, price and allocation controls on the oil industry were removed. For the first time in over a decade, market forces replaced regulatory programs and domestic crude oil prices were allowed to rise and become more aligned with foreign crude oil prices. In 2014 dollars, domestic crude prices rose from \$28 per barrel below imported crude oil in 1980 to about one dollar below in 1985 (see Figure 2).

Restrictions on crude oil exports remained in place, but over time they were modified to allow for exports under certain conditions:

- U.S. exports to Canada (1985)
- Exports from Alaska’s Cook Inlet (1985)
- up to 50,000 barrels per day of oil moved through the Trans Alaska Pipeline System (TAPS) to Canada (1988)
- up to 25,000 barrels per day of California heavy crude (1992)
- Unlimited TAPS crude to any destination, subject to specific transportation requirements (1996)

With these modifications allowing for exports in particular situations to take advantage of economically attractive export opportunities, the remaining general restrictions on crude oil exports were largely immaterial due to prevailing market conditions, as characterized by the following trends between 1980 and 2008:

- U.S. domestic crude production fell by 3.6 million barrels per day (42%)
- U.S. gasoline demand rose by 2.4 million barrels per day (36%)
- U.S. crude imports rose by 4.5 million barrels per day (85%)
- The import share of the overall U.S. crude supply rose from 39% to 67%
- Net imports as a share of total U.S. petroleum consumption, which declined between 1980 and 1985, rose above 60 percent in 2005, with a slight decline to 57 percent in 2008

Since 2008, however, these conditions have been reversed partly as a result of advances in domestic horizontal drilling and hydraulic fracturing. From 2008 through August year to date 2014:

- U.S. domestic crude production has increased by 3.4 million barrels per day (68%) to its highest level since 1986 (see Figure 3)
- U.S. gasoline demand has fallen by 100,000 barrels per day (1.1%)
- U.S. crude imports have declined by 2.4 million barrels per day (24%), the lowest level since 1995 (see Figure 1)
- The percentage of U.S. crude demand supplied by imports has fallen from 67% to 47%, the lowest level since 1992
- net imports as a share of total U.S. petroleum consumption has declined sharply to roughly 26% in 2014
- the United States, which was the world's largest net importer of petroleum products a decade ago, is now the world's largest net exporter of these products (See Figure 4).

As a result of these changes, as well as logistical constraints and increasing Canadian crude production, prices for domestically produced crude have varied widely. In 2008, WTI crude sold for a \$2.73 per barrel premium to Brent crude but has averaged a \$6.25 per barrel discount to Brent for 2014 through October.

In addition, the Bureau of Industry and Security (BIS), part of the Department of Commerce, is reported to have issued one or more responses to classification requests that have classified lease condensate that has been processed through a distillation tower as a petroleum product. Petroleum products, unlike crude oil, do not require an export license.

EIA's latest Short Term Energy Outlook forecasts that the recent trends in the U.S. petroleum market will continue into 2015. Our current forecasts for 2015 expect domestic crude production to average 9.42 million barrels per day (10% above the 2014 level), gasoline demand at 8.83 million barrels per day (2% below the 2014 level), and net imports as a share of domestic consumption to be 21%, slightly below its level in 1970 . Of course, the recent dramatic declines in crude prices may affect our outlook in the coming months.

As I said at the beginning of my testimony, petroleum market conditions today are much different than they were in the 1970's when the ban on crude oil exports was enacted.

Internationally:

- Oil production is far less concentrated, with OPEC's share of production declining from 53% in 1973 to about 35% today as new entrants such as Brazil, Former Soviet Union countries, and the United States now have significant crude production
- There is much more price transparency with the development of benchmark crudes and futures markets
- There is much more basic data available from both the Energy Information Administration and the International Energy Agency

Domestically:

- U.S. crude production may soon hit an all-time high surpassing the previous record of 9.6 million barrels per day set in 1970
- U.S. gasoline demand is down 4.4% from its peak in 2007 and is likely to decline even further as vehicles compliant with more stringent fuel economy standards become increasingly dominant in our vehicle fleet

EIA remains actively engaged in monitoring and reporting on matters related to domestic crude oil production and market reactions to recent increases in supplies. So far in 2014, EIA has issued:

- An analysis and forecast of U.S. crude production by quality (API gravity)
- A paper examining the determinants of U.S. gasoline prices that includes a statistical study of the relationship of U.S. gasoline prices to both domestic and international crude prices and an examination of recent shifts in U.S. regional and international gasoline price relationships
- An online tool to enable the analysis and data visualization of crude oil imports by date, grade, source, port of entry, refiner and other criteria

In addition to these studies, EIA hosted two workshops this fall with government, industry, and academic participants to discuss our work on gasoline price determinants and condensate markets. EIA is undertaking further analyses that will examine other issues relevant to discussions surrounding oil exports and expects to report additional results over the coming months.

Finally, EIA is actively pursuing a number of important initiatives to the timeliness and detail of oil market data. Next spring, EIA will be launching its first-ever monthly survey to collect oil production data directly from operators. This survey will include information on the quality of oil being produced, which is important to markets and policymakers, as well as data on the overall volume of production. EIA had previously obtained this data from the states, which have varying lags and gaps in their own data collection programs. EIA will also begin publishing monthly information on the movement of crude oil by rail, which has grown dramatically in recent years. Both of these efforts, which respond to questions posed by policymakers and others, will also advance EIA's commitment to provide timely, accurate, and relevant information at a time when there are many new developments in the energy sector.

Thank you again for the opportunity to testify before the Committee.

Figure 1
U.S. petroleum net imports
million barrels per day

percent of domestic consumption

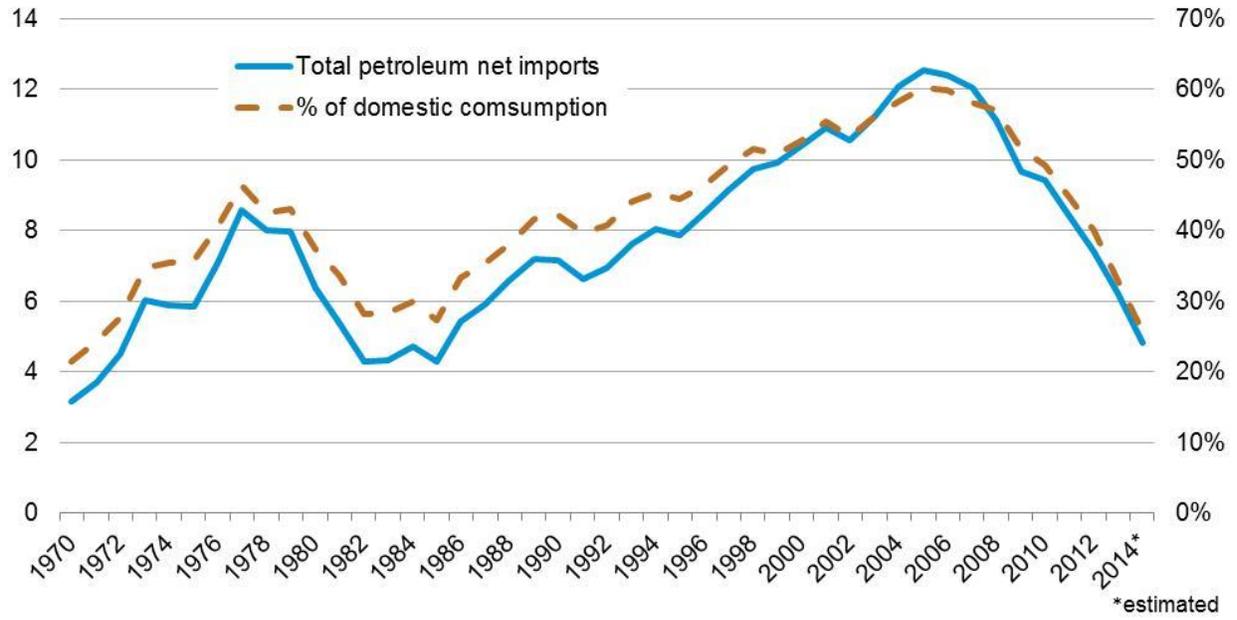


Figure 2
Refiner acquisition costs
dollars per barrel (2014 dollars)

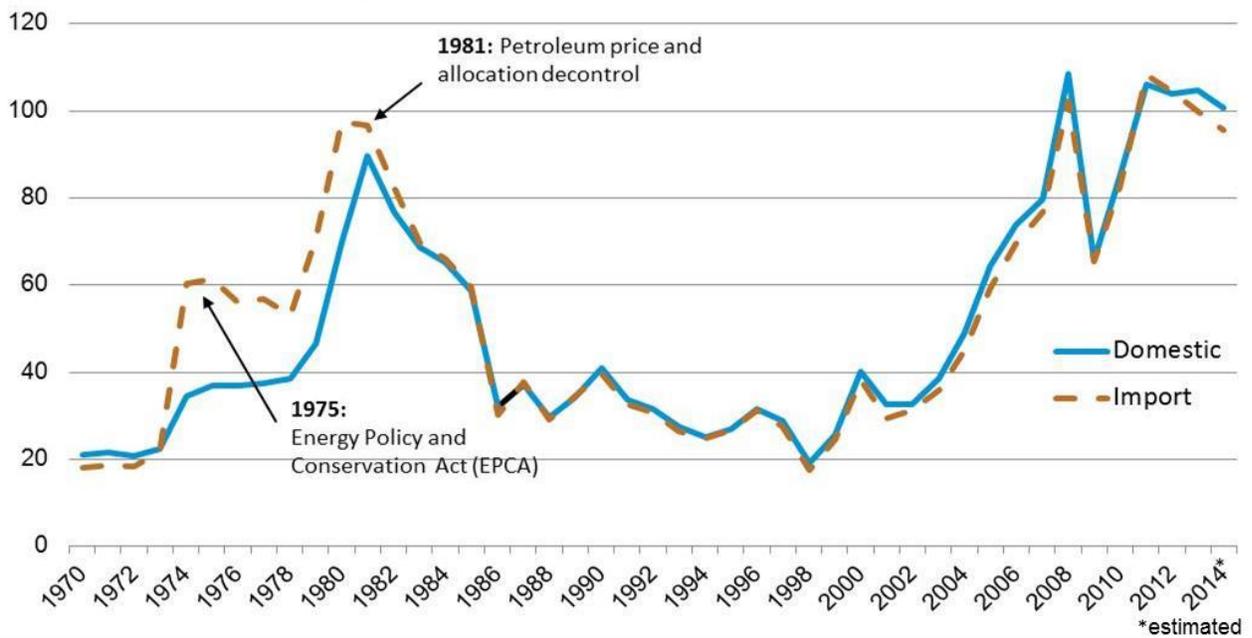


Figure 3
U.S. crude oil production
million barrels per day

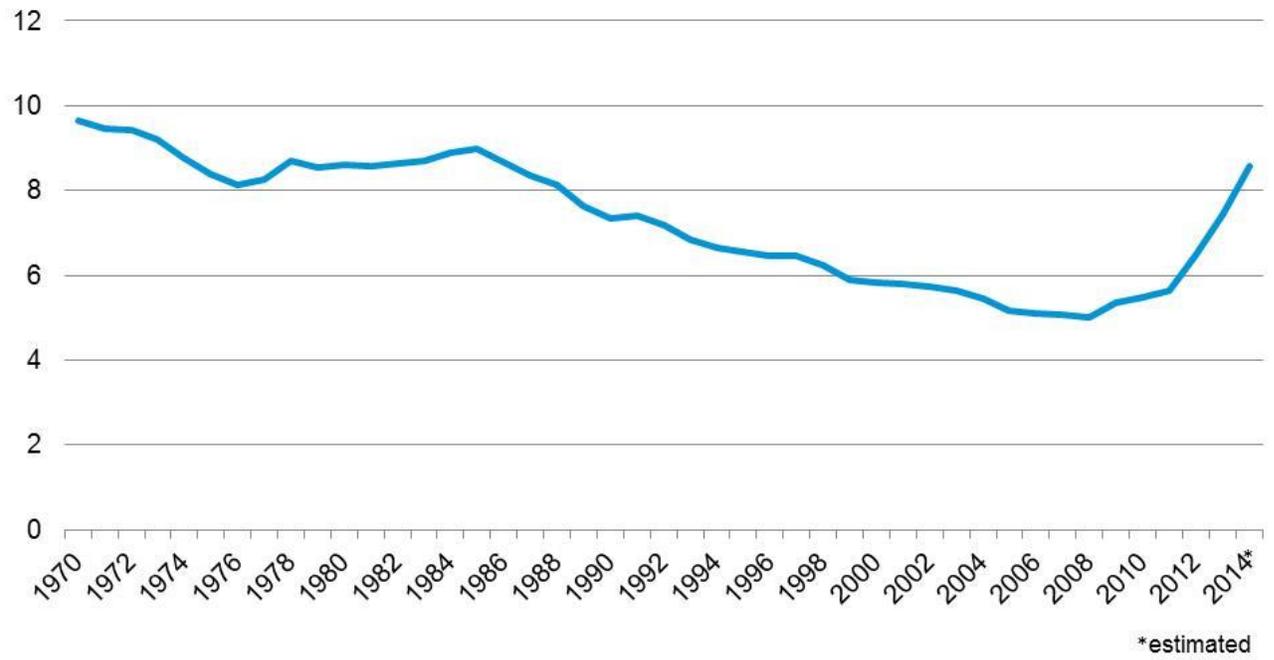


Figure 4
U.S. petroleum net imports
million barrels per day

