Lifting crude oil ban means lower gasoline prices

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Lifting the ban on crude oil exports will reduce gasoline prices in the United States, according to an analysis co-written by Charles Mason, the H.A. True Chair in Petroleum and Natural Gas Economics at the University of Wyoming.

As both houses of Congress have passed a budget bill that lifts the 40-year ban on crude exports that began in reaction to the oil embargo of the 1970s, Mason and other experts analyzed the effects this would have on gasoline prices in a report published by Resources for the Future (RFF).

The highlights of their findings:

- The "fracking" revolution has led to an excess supply of light crude oil in the United States, particularly in the Midwest.
- These excess supplies of light crude oil, combined with a U.S. ban on exporting crude oil and transport bottlenecks, have led to sharply reduced crude oil prices in the Midwest.
- These lower crude oil prices in the Midwest do not seem to have resulted in lower prices for refined products in the Midwest.
- U.S. refineries are better suited to process heavier crude oil, while refineries in other countries are better suited to process lighter crude oil.
- As a result, lifting the ban on U.S. crude oil exports would allow for a more efficient distribution of crude oil among refineries in the Western Hemisphere and elsewhere in the world.

- A better allocation of refinery activity will result in more gasoline production, which will lower international gasoline prices.

Most of the oil and gas industry wants the export ban lifted, the report notes.

"The additional demand for U.S light crude oil will increase profits, although probably not crude prices because oil is priced in a world market. However, some refiners are benefitting from the bottlenecked supplies because they can process the discounted light crude and sell refined products—gasoline primarily—that generally have prices tied to world markets. They oppose lifting the ban."

Environmental groups also oppose lifting the ban, the report continues.

"They see increased demand for fossil fuels as contributing to greenhouse gas emissions worldwide and are concerned about other environmental risks posed by expanded production and distribution of such fuels (such as rail accidents and spills)."

All parties can agree that lifting the ban confers some advantages to the United States as a whole. It would improve America's trade balance and provide greater geopolitical leverage, Mason says.

Among the areas of disagreement is how lifting the ban will affect gasoline prices.

Relying on economic logic and estimates from modeling and data analysis, the economists suggest that lifting the ban on crude oil exports would result in gasoline prices falling by around 3-7 cents per gallon, based on increases in refinery efficiency and from a nuanced consideration of OPEC behavior.

"Realization of this price decline may take a few years—depending on how quickly additional oil is produced in the United States and how quickly the industry is able to shift its crude oil supplies between refineries," the authors say. "We believe that the economic arguments for lifting the ban are strong, based primarily on the gains from free trade and the example it sets when we live by our market principles. Such action will create winners and losers, however, and may lead to increases in greenhouse gases."

RFF is an independent, nonpartisan think tank that "enables policymakers and stakeholders to make better, more informed decisions about energy, environmental and natural resource issues."

Provided by University of Wyoming

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