Crude Oil Exports – Lost Jobs, Lost Growth

The Issue

Advances in hydrocarbon extraction in the last three years have dramatically decreased the United States' reliance on foreign crude. With domestic crude oil production likely increasing to over eight million barrels per day in 2014 it is critical that the country take stock of the policies to make sure America gets the highest economic, environmental, and national security benefit from increased crude oil extraction.

If forecasts prove to be accurate, United States oil production will have increased 46 percent over the three years from 2011 to 2014. There has not been a three-year increase that large since before the Depression. The United States is producing more oil today than at any point in the past 20 years.[1]

However despite the dramatic increase in crude oil extraction, the U.S. still is not self-sufficient in oil. According to the Energy Information Administration (EIA), the U.S. consumed 18.49 million barrels per day of oil in the last year, nearly double the most optimistic estimates of the amount of crude expected from increased production.[2]

A critical component of the U.S. oil industry that can add value to this increased production is our nation's massive, technologically advanced refining capacity. Because the U.S. has the capacity to refine essentially all the new crude it is producing it enhances the job creation potential of the resources boom. This will allow our country to continue its growth as an exporter of value-added petroleum products, with all the job creation benefits this status brings. Maintaining controls on crude oil exports has the potential to maintain and increase domestic job creation while providing additional economic value in the United States.

Benefits of Maintaining Export Controls

The recent advances in extraction technology combined with the current crude oil export controls provides a unique opportunity to align domestic refining capacity to domestic crude production, decrease environmental impacts, increase value-added exports, and maximize job creation from well head to gasoline pump.

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[1] http://www.nytimes.com/2014/01/25/business/us-oil-production-keeps-rising-beyond-the-forecasts.html?_r=0
[2] http://www.eia.gov/tools/faqs/faq.cfm?id=33&t=6

U.S. refiners have benefited from the increased supply of domestic oil because it has reduced their raw material expenses. In the last few months the price for U.S. crude has been as much as $20-$25 a barrel lower than that of international crudes. This decreased cost has enabled refiners like Philadelphia Energy Solutions (PES) to operate and upgrade infrastructure at their facilities. PES operates the former Sunoco refinery in Philadelphia, which was slated for closure in 2012 because of high crude oil prices from overseas.[3]

Refiners face the implementation of a number of regulatory standards in the near future which will require investment in facility upgrades, Tier 3 automotive and fuel standards, the Renewable Fuels Standard, EPA state implementation plans, and other regulations will require significant but attainable modernization efforts. The domestic crude export control system will provide independent refiners with a significant cost advantage to allow modernization that will ensure long-term viability for U.S. refineries.

Domestic refining capacity should align to the varieties of crude available in the United States for both economic and national security reasons. Reducing reliance on foreign crude oil from unstable areas of the world is critical but where crude is refined into products is equally important. The United States currently is the global leader in refining capacity. However, economic and political rivals China and Russia are the next largest refiners in the global market. Maintaining crude oil export controls ensures domestic refiners reliable and affordable crude.[4] And, greater domestic supplies will provide less pressure on a foreign policy decisions that often are influenced by energy demands.

Domestic refining capacity is currently running at an 88.7% utilization rate, indicating that current refining capacity could incorporate additional crude into the system. In addition, export controls have provided a window for new job creation in reopened tea-pot refineries and new grassroots refineries.

For example, MDU Resources and Calumet Specialty Products are about 30% complete with building the 20,000-bpd Dakota Prairie plant near Dickinson, North Dakota, which will be the first completely new refinery in the U.S. since 2008.

Domestic refining contributes significantly to the economy in the areas where refining takes place. The U.S. Bureau of Labor Statistics (BLS) reports approximately 117,000 jobs in the refining and coal processing sector as of December 2013 with the dominant portion in refining. The loss of even 10 percent of these jobs would have a devastating effect in refinery communities all across the United States.

An economic analysis on the loss of east coast refining in the Philadelphia area showed an impact of more than 36,000 jobs and over $550 million in lost revenue for state and local entities.[5] Removing export controls will jeopardize the ability of regional refineries to compete and could cost significant direct and indirect job loss.

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[3] http://www.usw.org/news/media-center/releases/2014/usw-opposes-export-of-u-s-crude-oil-cites-resulting-job-loss-other-factors

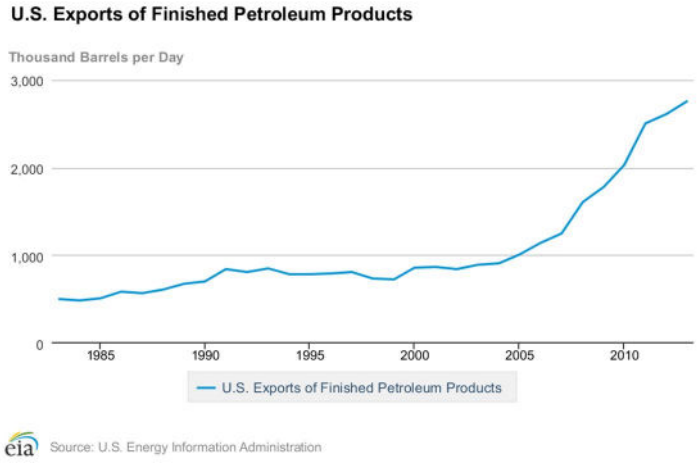
[4] http://www.quandl.com/energy/crude-petroleum-refinery-capacity-all-countries

[5] http://www.doleta.gov/performance/results/AnnualReports/2011_economic_reports/pa_economic_imapct.pdf

Not all refiners currently support changing the U.S. export control system. Large refiners such as Valero and smaller refiners such as Philadelphia Energy Solutions have invested billions into domestic refining production for domestic use and export and oppose changing the current system.

Labor and safety standards in the U.S. refining sector also are significantly stronger than those of most countries that would seek to import U.S. crude. BLS statistics indicate an annual mean wage of $64,460 dollars a year.[6] These rates are related to the dangerous nature of refining and the collective bargaining the workers have done with the industry over the years.

Finally, as refiners meet domestic demand for refined products, the excess product is increasingly sold abroad. By refining crude domestically, refiners add value to crude oil, turning it into products such as diesel fuel, home heating oil, jet fuel, gasoline, asphalt, lubricants, and many others. By exporting excess product the U.S. maintains domestic refining jobs and provides a greater economic return than would be realized from exporting the crude itself, if export controls were lifted. As can be seen in the below EIA chart, U.S. exports of finished petroleum products have increased significantly to 2.757 million barrels per day in 2013.



Conclusion

The inability of the U.S. to be self-sufficient in crude oil means that America still will be a crude oil importer if export controls are lifted. Domestic crude prices likely would rise to global levels, and with too-high crude prices, domestic refining capacity would be at risk. The risk would be not only to refinery jobs and the communities in which the refineries are located, but also to national security in an increasingly perilous age. The higher environmental standards our industry operates under also lead to a cleaner global environment. U.S. export controls help maintain significant job, economic and national security benefits for the country.

For all of the reasons above the USW believes exporting crude oil is poor policy and harmful both to the U.S. economy and to national security.

[6] http://www.bls.gov/oes/current/oes518093.htm