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Chairman Poe, Ranking Member Keating and members of the committee, thank you very much for the opportunity to testify today on the U.S. crude oil export ban. I will focus my remarks on the national security and foreign policy implications of exporting domestic crude oil.

Recent dramatic increases in U.S. energy production have reshaped our oil industry, industrial output and many of our global trading relationships. The United States has expanded oil production by 88% since 2008,[1] cut net oil imports by 31% since this time,[2] and according to the International Energy Agency, will account for the greatest source of global oil supply growth through 2020.[3] The energy revolution has strengthened GDP and balance of trade conditions over the last several years.[4] Additionally, it has helped to stabilize the global energy market during a period of record, sustained supply disruption. By strengthening our global trading position and our economy, the engine of our national security, the energy revolution has meaningfully advanced our security and the ability of the United States to lead on foreign affairs.

Going forward, our remarkably productive, innovative and resilient energy sector can deliver even further benefits to U.S. economic and national security. However, these benefits will be clipped if policymakers do not change antiquated crude export policies that prevent U.S. oil from moving to markets overseas. In a domestic market awash with oil, keeping 1970s-era export restrictions in place discriminates against U.S. producers and threatens investment in new supply, thereby jeopardizing economic, security, and trade gains from the energy boom. Policymakers should lift the oil export ban to bring export policy in line with present market

[1] Energy Information Administration, "Weekly Supply Estimates," http://www.eia.gov/dnav/pet/pet_sum_sndw_dcus_nus_w.htm.
[2] Energy Information Administration, "Weekly Imports & Exports" http://www.eia.gov/dnav/pet/pet_move_wkly_dc_NUS-Z00_mbblpd_w.htm.
[3] Lejla Alic et al., "Oil Medium-Term Market Report 2015: Market Analysis and Forecasts to 2020," (International Energy Agency, 2015), 41.
[4] John W. Larson et al., "America's New Energy Future: The Unconventional Oil and Gas Revolution and the US Economy Volume 3: A Manufacturing Renaissance- Main Report," (IHS, September 2013).

circumstances, to promote free trade and responsible growth in the sector, and to reap the geopolitical advantages of having a larger and more flexible role in the global oil market. As responsible stewards of our natural resources, policymakers should couple this change with the promotion of energy efficiency and of low-carbon fuel sources at home and abroad.

U.S. Prohibitions on Oil Export No Longer Make Sense

The current oil export restrictions were established four decades ago on the heels of a series of energy price controls and supply allocations. In light of the Arab OPEC oil embargo of 1973 and subsequent large oil price increases imposed by OPEC countries, the legislatively enacted ban on crude export was intended to promote energy and economic security. Slight modifications have been made to the export prohibitions over time, by both Democratic and Republican presidents, allowing a few exceptions, and price controls and supply allocations were removed in the early 1980s. The crude oil ban, however, was not removed, a circumstance which did not have much practical effect until recently, given the heavy dependence of U.S. consumers on imported oil for so many decades. However in today's abundant oil market supply conditions, with a problematic mismatch between the increasing new volumes of light quality oil produced in the United States and a refining industry geared toward heavier crude, these rules do not make sense.

Export restrictions create barriers for domestic producers trying to sell their oil and distortions in the market. Many domestic producers sell their light quality crude at a discount because of its abundance relative to demand, the unsuitability of processing too much of it at domestic refineries oriented towards heavier crude, and infrastructure bottlenecks that make the journey to market more difficult and expensive. Critically, however, they have to sell their light quality crude at a discount because U.S. producers are restricted from exporting this crude abroad. The export ban prevents them from accessing international buyers better able to process more light crude and who will pay international benchmark prices for this oil. In this situation, domestic oil producers see a check on their growth potential. It is only a subset of the U.S. manufacturing sector that benefits from this market distortion. Notably, refiners in this position do not pass on their cost savings to U.S. consumers, as pump prices are largely determined by global benchmarks.[5]

So far, U.S. producers have sold their expanding crude volumes to U.S. refineries, or exported them using the limited exceptions allowed under current restrictions. These include sending oil to Canada, exporting condensate or through narrow swap arrangements. However, the point at

[5] Energy Information Administration, "What Drives U.S. Gasoline Prices?" (Energy Information Administration, October 2014), 7.

which producers may exhaust these options may not be far off, and may already be occurring at certain times of the year in certain circumstances, such as periods of refinery maintenance when demand for oil diminishes. Historically high levels of crude building up in inventories makes the outlook for domestic oil market saturation even more concerning. With limited relief valves for the abundant crude in the U.S. market, it also hems in the potential for domestic producers to achieve the 500,000 or more barrel per day increase in production this year anticipated by the U.S. Energy Information Administration and other independent analysts.[6]

The present crude export policy that strands light crude in the U.S. market is hardly an optimal arrangement for productivity, efficiency and economic growth. A more beneficial policy for promoting market stability, growth and security is a policy that would encourage responsible U.S. production of oil, efficient, open markets and a larger share of global oil supply from reliable producers, such as the United States. A more permissive, even encouraging, oil export policy would support these goals by allowing U.S. producers to fetch premium prices abroad. Lifting crude export restrictions makes sense even as lower oil prices slow investment and drilling in the United States, and domestic refiners consider expanding their capacity to absorb more light oil. These factors may delay the point at which the U.S. market is totally saturated with crude and the export restrictions stall out domestic oil production growth. However, responsible policy should intervene far before the oil market reaches such dire conditions.

National Security Implications of a New Oil Export Policy

Strengthening our Economy

There are a variety of economic benefits associated with lifting U.S. crude oil export restrictions that will directly benefit our national security. A variety of government and independent studies suggest that lifting the oil export ban would result in an increase in U.S. oil production, a decrease in domestic refined product prices, and growth in GDP. Oil output could rise between 110,000 barrels per day and 2.8 million barrels per day by 2020, according to these studies, with a corresponding bump in economic growth and benefit for the U.S. balance of trade.[7]

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[6] Energy Information Administration, "Short-Term Energy Outlook," (Energy Information Administration, April 7, 2015), http://www.eia.gov/forecasts/steo/index.cfm.
[7] On the lower end of the spectrum of estimates for increases in domestic oil production, an industry-commissioned study by consultant ICF International estimated an oil production increase by approximately 110,000 to 500,000 barrels per day by 2020. (Harry Vidas et al., "The Impacts of U.S. Crude Oil Exports on Domestic Crude Production, GDP, Employment, Trade and Consumer Costs," (ICF International, March 2014), 10.) A study by NERA Economic Consulting estimated that oil production would increase by 1.3 million barrels per day to 2.8 million barrels per day by 2020 with the ban lifted in 2015. (Robert Baron et al., "Economic Benefits of Lifting the Crude Oil Export Ban,"

Strengthening our economy, including reducing our international indebtedness, strengthens the stature and ability of the United States to lead on international economic, strategic and defense matters. In an era of budget austerity, war fatigue, proliferating security challenges, and the expanding use of economic sanctions, a strong U.S. economy expands policy options from some of the more conventional diplomatic and military choices. It creates an opportunity to hone smarter and more creative tools to advance our national interests in the international arena. Additionally, a more favorable trade balance also liberates the United States to consider international trade policies and international lending that could be constrained, including by some of our key economic partners, such as China, in a scenario of greater U.S. indebtedness.

In addition to providing an economic boost at home, lifting the oil ban will beneficially accrue economic yields to our foreign trading partners. A U.S. energy export policy that allows the free flow of all energy commodities—including crude oil and not just condensate and refined products—will enable U.S. and foreign trading partners to optimize trade in various kinds of energy commodities, depending on seasonal and regional demands. The greater diversity in energy commodity trading relationships will support greater energy market efficiencies, lower costs for consumers, more limited risks and greater economic growth. These factors can make economic planning more dynamic, easier and reliable for policy leaders abroad, and in the United States. Additionally, these factors can make the United States a more important trading partner for more energy consumers abroad, a circumstance which will expand the soft power leverage of the United States in international strategic relationships.

Promoting Open Markets

Lifting the restrictions on export of domestic crude will allow U.S. policy leaders to set the right anti-protectionist tone on trade in the international arena and reap economic and strategic benefits from an open energy market system. At a dynamic time in global energy trade and a critical moment in the evolution of U.S. free trading terms with partners across the Atlantic and the Pacific, U.S. policy leaders have a unique opportunity to send a strong message on a commitment to open markets by lifting restrictions on oil export. In turn, this will affirm the expectation that key trading partners will adopt similar commitments on energy trade. Having more open energy trade is in line with U.S. World Trade Organization commitments, and will be

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Prepared for The Brookings Institution, (NERA Economic Consulting, September 2014), 138, 139, 146, and 147.) According to a study by IHS, total U.S. crude oil output is expected to rise between 1.08 and 1.99 million barrels per day by 2020. (Mohsen Bonakdarpour et al., "US Crude Oil Export Decision: Assessing the Impact of the export ban and free trade on the US economy," (IHS, May 2014)).

indispensible in winning potential, future natural resource trading disputes that may arise with other countries.

Making a firm commitment to open energy trade will also help the United States to influence trading policy priorities in other countries, such as those in East Asia. In that region, key decisions will be made over the coming years about the nature of international energy commodity market participation that will have a direct bearing on the U.S. economy. Furthermore, the United States will be more credible in encouraging developing economies, such as China and India, to join Organisation for Economic Co-operation and Development (OECD) economies as proponents of free trade and responsible stakeholders in collective energy crisis management if Washington actively shuns protectionism.

Enhancing Market Stability

By encouraging the expanded production of U.S. crude, a result of lifting the oil export ban, policymakers will be facilitating the greater flow of oil from a reliable, secure producer to the global market. When more of the oil supply pool comes from producers that do not suffer threats from political instability or imminent danger to critical energy infrastructure or supply lanes, the overall market is more stable. Additionally, U.S. crude will be shipped to consumers overseas via fewer maritime hot spots and choke points, such as the Straits of Hormuz and the South and East China Seas. Major consumers in East Asia, for example, are highly vulnerable to supply disruptions that could occur in these areas, and are vulnerable to destabilizing conflict in the Middle East, from which a majority of their oil imports derive.[8]

Particularly in times of oil market crisis that originate outside the United States, the unrestricted ability of U.S producers to export oil will make them more responsive to market signals, and better able to quickly adapt to the needs of oil purchasers. This will contribute to market conditions that will more quickly resolve, and possibly even deter, actions by some producers to use oil as a strategic weapon. This in turn will give U.S. policymakers more options for potentially using the Strategic Petroleum Reserve in innovative and proactive ways, including counteracting hostile attempts by foreign producers to manipulate consumers or prices. If policies within reach, such as a loosening of the oil export ban, can lessen the potential for U.S. consumers to be held hostage to coercive market power, they should be very seriously considered and if at all possible, adopted.

Supporting Our Allies

[8] Lejla Alic et al., "Oil Medium-Term Market Report 2015: Market Analysis and Forecasts to 2020," 86.

For our European allies, the presence of more U.S. oil in the market will offer more supply options. This will mean that European consumers look less to Russia, from which they receive roughly 30% of their oil supplies[9] and which has a history of coercive energy supply policies. When Russia has more competition for supplying European demand it will have to work harder to play a role in the market.

A fundamental pillar in the current U.S. policy regarding Ukraine and Russia's destabilizing role there involves degrading Russia's ability to compete in the global oil market, even while that may cause a moderate economic effect on the U.S. and European economies. A liberalization of U.S. oil export policy will have the effect of reinforcing the pressure on Russia's energy sector and is certainly in line with key U.S. national security goals. It will also constitute an important strategic act of support for allies in Europe, who are more threatened by Russian regional destabilization. When our closest allies are stronger, the United States is more secure and better able to bolster and lead multilateral security initiatives to counter global threats.

For East Asian partners, more U.S. oil supply in the market would give them new opportunities to diversify away from increasingly unstable Gulf and Russian oil supplies. In addition to boosting supply security, such diversification will yield greater market efficiencies and will contribute to lower prices. This will be true for all Asian nations, including both our treaty allies in Northeast Asia and China. Policies that confer mutual benefit on the United States and the group of East Asian nations facing off as regional competitors should be priorities for the United States. They may help to deter strategic intra-regional competition by increasing the shared incentives for stable, efficient market activity. Enhancing stability in this neighborhood is directly in line with the United States' policy of rebalance to Asia, and will benefit our country and all others that see their own stability tied to stability of this burgeoning region. Putting in place policies that can contribute, even if modestly, to enhancing regional stability will cultivate the influence of the United States in Asia and beyond.

Expanding Sanctions Leverage

One of the most important security benefits of lifting the crude export ban is the additional flexibility and leverage it will give to the United States to sustain and expand energy sanctions in the future. Policymakers in the United States have looked increasingly to energy sanctions over the last several years as a policy instrument to isolate and coerce adversaries. Economic sanctions

[9] European Commission, EU Crude Oil Imports Statistics, http://ec.europa.eu/energy/en/statistics/eu-crude-oil-imports.

that reduced Iran's oil exports by almost 60% from approximately 2.5 million barrels per day in 2012 to 1.1 million barrels per day now[10] are credited with bringing Iran to the negotiating table over its nuclear enrichment program. Particularly in light of historically high oil supply disruptions globally, the international community would not have been able to sustain these sanctions, and cope with the oil price increases they would have caused, were it not for massive increases in alternative oil supplies. The United States added about 1 million barrels per day annually over the last several years, and Saudi Arabia also turned up production to balance the market.[11] In addition to targeting Iran's energy sector, the United States and the European Union have also imposed sanctions on Russia to handicap its energy sector as part of the broader Ukraine policy strategy.

With the announcement of framework understandings between Iran and the P5+1 negotiators over Iran's nuclear program earlier this month, the outlines of a potential final agreement that would relieve many sanctions on Iran is taking shape. Whether the negotiators conclude a deal by their June deadline or not, policymakers will need to enhance their ability to impose tough additional energy sanctions in the future. This is critical as an element of contingency planning on Iran policy and to provide a credible threat that more oil sanctions on Iran are possible if Tehran does not cooperate with the international community. Additionally, a grim outlook on relations with Russia, and the attractiveness of the energy sanctions tool to attack other potential new security problems in the future, means that policymakers should cultivate the ability to potentially deploy energy sanctions in multiple theatres simultaneously.

The failure to prepare for the potential future imposition of more energy sanctions by stimulating alternative oil supplies may render the threat of new sanctions hollow. If adversaries do not believe that the United States and its allies have the economic and political tolerance to cope with a self-imposed oil price increase, which could occur if more sanctions pull more oil off the market, these adversaries may call a bluff. Furthermore, allies of the United States, many of whom have reluctantly gone along with energy sanctions in the past, may prove unwilling to participate in further energy sanctions unless the United States makes a serious effort to stimulate alternative oil supplies. Lifting the U.S. oil export ban will bring online additional U.S. production, and would constitute an important signal to allies, adversaries and market participants alike, that the United States is serious about the threat, or actual use, of forceful energy sanctions.

[10] David S. Cohen, Under Secretary for Terrorism and Financial Intelligence, "Written Testimony of David S. Cohen," Statement to the United States Committee on Foreign Relations, U.S. Senate, January 21, 2015, 5.
[11] Lejla Alic et al., "Oil Medium-Term Market Report 2015: Market Analysis and Forecasts to 2020," 61.

Conclusion

In a period of tremendous geopolitical uncertainty, and when many questions exist about the future role of the United States as a global energy player and world leader, Washington has a unique window of opportunity to strengthen domestic economic growth, oil market stability, U.S. global leadership and open trade relations. Removing the outdated, discriminatory and detrimental ban on the export of U.S. crude oil will advance these goals. It will deepen trading ties with strategic allies, including those in Europe and Northeast Asia. It will improve the economic position and energy market stability of our nation and partners abroad, and allow the U.S. to more effectively spur and lead multilateral action to counter international security threats. Taking this action should be coupled with a policy focus on responsible energy production, efficiency and the promotion of low-carbon fuels. Bringing together these measures, a new national energy policy can enhance energy and national security, and expand our ability to advance targeted foreign policy measures in the future.