

American oil

Nafta naphtha**A long-overdue easing of a protectionist export ban**

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WHEN the economics textbooks of the future are written, America's ban on crude-oil exports will be a fine example of the perverse effects of protectionism. Similarly, a decision by Barack Obama's administration on August 14th to allow American firms to swap some oil with Mexico, so easing the restraint, will earn an honourable footnote in the story of the ban's inevitable demise.

Geology, engineering, economics and politics are all at play. In 1975, just after the first oil shock, America banned crude-oil exports in order to stabilise domestic prices. The country's oil refineries are still configured to deal with the heavy, sulphur-laden crude oil it used to import. Now, thanks to the shale revolution, oil imports have plunged as production has soared. Oil from shale is lighter and less sulphuric. There are not many refineries in America that can deal with it efficiently. Yet the ban means it cannot be exported, either.



This archaic rule now keeps the price of domestically produced oil, signalled by the West Texas Intermediate (WTI) benchmark, at a hefty discount to the world price—currently over \$6 per barrel. That has become particularly painful since OPEC's excess production has sent prices tumbling. American oilmen fume that their potential export markets are being sacrificed to the interests of America's refining industry, which enjoys artificially cheap feedstock thanks to the ban.

Others would benefit too from its wholesale demise, including consumers around the world and possibly American motorists. Supporters of the ban say it keeps American petrol (gasoline) prices low. But the consensus among economists is that prices of refined products such as petrol are set in the world market. With American crude bringing that price down, the cost of fuel may even fall a bit for Americans.

The administration's decision will test this theory. Mexico's national oil company, Pemex, has long wanted to send its heavy crude to America, and import lighter American oil to turn into petrol; it currently imports about half of what it sells at the pumps. So long as that was counted as foreign trade, it was impossible. But the Commerce Department will allow about 100,000 barrels a day of light crude and condensates to flow into Mexico, in exchange for a similar amount of heavier Mexican crude heading to American refineries.

It is not the first breach of the ban. The definition of what constitutes crude oil owes more to art (and bureaucratic fiat) than science. America has already allowed the export of some kinds of ultralight crude. Canada has long enjoyed a privilege similar to the one now granted to Mexico. Opposition to the ban is also growing among lawmakers: the Senate held hearings in the spring, and both houses of Congress are expected to vote on the issue before the end of the year. Its scrapping would delight America's allies: the ban undermines America's moral authority on trade. Better yet, it would also hurt unfriendly petrostates such as Russia, Venezuela and Iran.

The details will still be tricky. America's cosseted crude-oil refiners would be willing to see an end to artificially cheap raw materials in exchange for other concessions. These could include laxer environmental rules, or a change in an even more archaic law, the Jones Act, which bans foreign ships from carrying cargo between American ports. This law delights shipowners and unions, but imposes a hefty cost on anyone wanting to send a tanker from, say, a refinery on the Gulf coast to a port in the north-east.

Such a wholesale solution to this elderly quirk in the world oil market may still be some time off. But by lowering trade barriers for Mexican oil, the Obama administration will at least improve the functioning of the world oil market—and highlight the potential benefits of more dramatic reforms.

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