https://www.wsj.com/articles/congressional-leaders-agree-to-lift-40-year-ban-on-oil-exports-1450242995

POLITICS

Congressional Leaders Agree to Lift 40-Year Ban on Oil Exports

Accord is a key component to deal on tax, spending legislation

By Amy Harder And Lynn Cook

Updated Dec. 16, 2015 10:38 am ET

WASHINGTON—In a move considered unthinkable even a few months ago, congressional leaders have agreed to lift the nation's 40-year-old ban on oil exports, a historic action that reflects political and economic shifts driven by a boom in U.S. oil drilling.

The measure allowing oil exports is at the center of a deal congressional leaders announced early Wednesday on spending and tax legislation. Both the House and Senate still must pass it and President Barack Obama must sign it into law.

The deal would lift the ban, a priority for Republicans and the oil industry, and at the same time adopt environmental and renewable measures that Democrats sought. These include extending and then phasing down wind and solar-tax credits; reauthorizing for three years a conservation fund; and excluding any measures that block major Obama administration environmental regulations.

READ MORE ON CAPITAL JOURNAL

Capital Journal is WSJ.com's home for politics, policy and national security news.

- 5 Things on the History of the Export Ban
- Deal Reached on Tax, Spending Legislation
- Tax Bill Would Revive Dozens of Credits
- Tough Talk on Terror Reveals Rifts in GOP During Fifth Debate
- Obama Delivers Not-So-Subtle Condemnation of Trump

By design or not, the agreement hands the oil industry a long-sought victory within days of a major international climate deal that is aimed at sharply reducing emissions from oil and other fuels, a deal opposed by the industry and one that will arguably require its cooperation.

More than a dozen independent oil companies, including Continental Resources and ConocoPhillips, have been lobbying Congress to lift the ban on oil exports for nearly two years, arguing that unfettered oil exports would eliminate market distortions, stimulate the U.S. economy and boost national security.

A handful of Washington lawmakers representing oil-producing states, including Sens. Heidi Heitkamp (D., N.D.) and Lisa Murkowski (R., Alaska), have been working to persuade once-wary politicians to back oil exports and allay worries that they will be blamed if gasoline prices were to rise.

Some U.S. refineries oppose oil exports, saying their business would be hit if crude oil is shipped overseas to be refined and warning that higher costs might be passed along to consumers. The U.S. government doesn't limit exports of refined petroleum products, and those exports have more than doubled since 2007.

To address the refiners' concerns, expressed most vocally by Democrats from the Northeast where several refineries are located, the spending bill changes an existing tax deduction for domestic manufacturing so independent refineries can deduct most of the transportation costs associated with their products.

The bill also includes a provision aimed at addressing politicians' concerns about high gasoline prices. It enables the president to restrict oil exports in certain scenarios for up to one year, including in the case of a supply shortage or if oil prices are significantly higher than global levels.

President Barack Obama had threatened to veto separate legislation lifting the export ban, but the White House isn't expected to oppose the overall spending bill simply because it includes the measure, according to congressional aides.

Congress moved to ban oil exports under most circumstances following a 1973 Arab oil embargo that sent domestic gasoline prices skyrocketing.

With the increased use of fracking and other drilling technologies in recent years, U.S. oil production has shot up nearly 90% since August 2008, helping lower gasoline prices to levels not seen since 2009. Gas prices are less than $2 a gallon in many regions of the country, and the U.S. Energy Information Administration forecasts the price will average $2.04 this month and $2.36 next year.

It took this dramatic drop in oil prices, hovering below $40 a barrel, to catapult the policy change to the top of the Republican agenda. It helped prompt lawmakers of both parties to consider pairing renewable-energy support with oil exports, a type of grand Washington deal-making that hasn't been seen for years on the highly divisive issues of energy and environment.

The same low prices that generated momentum for lifting the ban could reduce its short-term economic impact, however, because the global market is saturated and U.S. oil companies have already slowed drilling in response.

John Hess, chief executive of Hess Corp., said low oil prices have increased the urgency for Congress to lift the ban, but he declined to say whether his company would immediately begin exporting oil if given the opportunity.

"It would be a function of market conditions," Mr. Hess said in a recent interview. "But I think over time, definitely; If the market signals were there, we would have that option."

The U.S. is already exporting nearly 400,000 barrels of crude a day to Canada, the biggest exemption under the ban. That is more than nine times as much as in 2008 but still just 3.8% of the U.S. oil produced every day.

A certain type of light oil is also already starting to flow overseas thanks to permission granted in 2014 by the Commerce Department, which allows producers to reclassify a certain type of oil as a refined fuel, similar to gasoline, which is legal to ship abroad.

The logistics of a new surge of oil exports would be relatively manageable, especially compared with exporting natural gas, which takes years of federal permitting and billions of dollars in technology to liquefy the gas.

Extensive networks of oil pipelines and storage tanks already stretch along the Gulf Coast from Corpus Christi, Texas, to St. James Parish, La. Those oil ports, where nearly a third of U.S. refineries are located, are for now geared toward unloading crude from tankers, not loading them. So initially there would be some constrained capacity that caps energy companies' ability to ship crude out to foreign buyers.

But retrofitting those facilities—adding more deep-water dock space and equipment to load oil tankers—could happen quickly in a place such as Texas, where permitting is easy and such projects face little community opposition. The ports of Corpus Christi and Houston are already undergoing dramatic expansions.

Several companies, including Enterprise Products Partners LP, have been ramping up their ability to export oil from Texas, and Enbridge Inc., based in Canada, plans to spend $5 billion to construct three new oil terminals between Houston and New Orleans.

—Kristina Peterson contributed to this article.