Testimony
House Committee on Foreign Affairs
Terrorism, Nonproliferation, and Trade Subcommittee
The Crude Truth: Evaluating U.S. Energy Trade Policy

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Good afternoon Chairman Poe, Ranking Member Sherman, and members of the committee. I am Erik Milito, Upstream Director at the American Petroleum Institute.

API has more than 580 member companies, which represent all sectors of America's oil and natural gas industry. Our industry supports 9.2 million American jobs and 7.7 percent of the U.S. economy. The industry also provides most of the energy we need to power our economy and way of life and delivers more than $85 million a day in revenue to the federal government.

Today, America is producing nearly 50 percent more oil than we did in 2008. By 2015, International Energy Agency predicts the U.S. will surpass Saudi Arabia and Russia to be the world's top crude oil producer. This is a new era for American energy, but our energy trade policies are stuck in the 1970s. The U.S. and China are the only major oil producers in the world that don't export a significant amount of crude. It's time to unlock the benefits of trade for U.S. consumers and further strengthen our position as a global energy superpower.

This week, API released a new study, submitted for the record today, on the economic implications of lifting the trade restrictions that prevent exports of U.S. crude oil to global markets. To date, this is the most detailed analysis available on the specific employment, GDP, trade, revenue, and consumer impacts of crude exports. And it paints a compelling picture. Consumers are among the first to benefit from free trade, and crude oil is no exception. Gasoline costs are tied to a global market, and this study shows that additional exports could help increase supplies, put downward pressure on the prices at the pump, and bring more jobs to America.

For economists, the results will come as no surprise. The analysis -- conducted by ICF International and EnSys Energy on behalf of API -- confirms the benefits that have already been suggested by a number of other reports.

The ICF analysis reaches several key conclusions which are important to understanding the benefits lifting the restrictions on crude exports will have on our nation. For example:

- The cost of gasoline, heating oil and diesel fuel is projected to fall, saving American consumers up to $5.8 billion per year, on average, between 2015 and 2035. Prices could decline as much as 3.8 cents per gallon in 2017, dropping as much as 2.3 cents per gallon, on average, from 2015 to 2035.
- The U.S. economy could gain up to 300,000 additional jobs in 2020.
- America's trade deficit could fall by $22 billion in 2020.
- The economy could grow by as much as $38 billion in 2020, with an average GDP increase of up to $27 billion annually through 2035.
- U.S. federal, state, and local government revenues could rise by as much as $13.5 billion in 2020.
- U.S. oil production could increase by as much as 500,000 barrels per day in 2020.
- Up to an additional $70 billion is projected to be invested in U.S. exploration, development, and production between 2015 and 2020.
- U.S. refiners could process, on average, an additional 100,000 barrels of oil per day due to more efficient distribution of heavy and light crudes over the 2015 to 2035 period.

Harnessing these benefits, however, will require lawmakers and regulators to reexamine policies that were enacted long before the U.S. transitioned from a period of energy scarcity to our current position: one of energy abundance.

Our industry also believes it’s important that we work holistically to modernize America’s energy infrastructure and facilitate the efficient flow of resources from producer, to refiner, and to customer. As Energy Secretary Moniz noted last year, America’s energy policies “deserve some new analysis and examination in the context of what is now an energy world that is no longer like the 1970s."

The study is part of that analysis. And it corrects some of the misperceptions about the energy market that are often repeated by critics of free trade. Chief among those is the impact on consumers. Consumers don’t buy crude oil. They buy fuel. And the prices of refined products – like gasoline – are set by a global market. A temporary glut of oil in one region doesn’t significantly lower consumer costs, because gasoline is eligible for trade after the oil is refined. And, in the long-run, any oversupply of unrefined crude may create a disincentive to produce more energy here at home. But if oil can flow to the global market, this study shows that then you begin to see higher global supplies, more production, and consumer-level benefits – as well as more American jobs.

Trade also increases efficiency. For example, the U.S. is a growing producer of light, sweet crude. Often, it makes sense to export a surplus of expensive, light oil from one region and import cheaper, heavy oil in another – rather than ship more expensive oil cross-country. This is especially true in the absence of sufficient infrastructure to efficiently transport crude to the refineries that could use it. But export restrictions effectively insulate consumers from the positive benefits of efficient markets.

Of course, there also are strategic reasons to increase U.S. energy exports. As General Martin Dempsey, Chairman of the Joint Chiefs of Staff, recently said, “An energy independent and net exporter of energy as a nation has the potential to change the security environment around the world – notably in Europe and in the Middle East.” As we grow as an exporter, U.S. energy leadership has the potential to bolster America’s allies, expand our geopolitical influence, and strengthen the global energy market against future disruptions. However, the first step is lifting our own self-imposed restrictions. And, as we can see in today's study, the benefits will flow first to consumers and workers here in the U.S., where the argument in favor of free trade is undeniable.

Thank you again to the Chairman and the Committee and I look forward to your questions.