Statement of Commander Kirk Lippold, USN (Ret)
Hearing on Legislation to Prohibit Restrictions on the Export of Crude Oil
Before the
U.S. House Committee on Energy and Commerce
Subcommittee on Energy and Power
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I. Introduction

Mr. Chairman, Ranking Member Rush, my name is Commander Kirk Lippold and I appreciate the opportunity to testify before the Subcommittee. In my 26-year career in the Navy, I was a surface warfare officer serving on five different ships, including guided missile cruisers and destroyers to protect U.S. national security interests across the globe. Foremost among those missions was to safeguard the sea lanes of communications, or SLOCs, that facilitate the global economy, including oil imports to the United States. I have experienced firsthand – particularly in my command of the USS *Cole* when it was attacked by Al Qaeda terrorists – the devastating effects of reliance on imported oil when our forward-deployed assets are placed in harm's way. The U.S. Navy has a unique role in the world in cooperation with our allies to ensure the safe conduct of trade, including in oil. Stemming from concerns born out of the oil embargo of the 1970's, we have had policies in place to encourage energy independence that include investment in energy research and efficiency, diversity of fuel inputs, and the strict regulation of oil exports. Before we adopt legislation to drastically alter these longstanding and successful policies, we should proceed with great caution to evaluate the real-world consequences.

Despite our differences of opinion on this bill, I would like to show my appreciation to Rep. Joe Barton for his dedication to supporting the armed services, specifically our veterans. Recently, he has co-sponsored active bills such as the Veterans Identification Card Act of 2015, which expands veteran's access to ID cards to verify their service, as well as the Veterans Access to Care Act of 2014, which allows veterans to receive healthcare from non-Veterans Affairs facilities. Furthermore, he has exhibited devotion to other veterans programs such as the Wounded Warrior Project, Team Red, White, and Blue, and the Fisher House Foundation. These programs have greatly benefitted the men and women that have served in the armed services and their families, making medical care and a return to the United States better for them.

II. The United States is Still Import Dependent Despite Significant Gains in Domestic Energy Production

Despite the recent impressive boom in domestic crude oil production, the fact is that the U.S. remains overly dependent on oil imports. In fact, the volume of oil that the U.S. imports is not altogether different from the import levels at the time the Energy Policy and Conservation Act was enacted in the 1970's.

While increased domestic production has reduced the total amount of oil that the U.S. imports from abroad to meet its domestic needs, we still import a staggering amount of oil. According to the U.S. Energy Information Administration (EIA), imports in 2014 totaled more than 2.6 billion barrels, or around 30 percent of supply. By all accounts, domestic consumption will continue to outpace domestic production for the foreseeable future. In its 2015 Annual Energy Outlook, EIA estimates that total imports will not fall another 10 percent until 2040 – still well short of a national policy goal to achieve energy independence.

At this point, lifting crude export regulations will generate headwinds that would likely dampen the predicted decline in imports. As U.S. supplies are exposed to a growing demand on international markets, the price discount that the U.S. has been enjoying for several years will dissipate. Imports will be relatively more competitive with domestic supplies. The likely result: greater reliance on imports than would otherwise have taken place. Independent of any specific price trajectory, the option of distributing crude oil to international buyers will eliminate discounts in shale prices that have benefited the U.S. market. To an appreciable extent, the 'discounted' price of Bakken shale (located in the northern U.S. and Alberta, Canada) is a result of infrastructure challenges in delivering oil to markets. Access to overseas markets would provide producers with a workable alternative, allowing them to increase their prices.

As numerous national security experts and U.S. Presidents have observed over the course of decades, there are significant national security benefits to decreasing our reliance on imported oil supplies. Decreasing our reliance on unfriendly or dangerous regimes has the effect of removing a significant obstacle to achieving our foreign policy and national security objectives. At its most basic, relative energy independence leaves the U.S. and its leaders more workable options when dealing with other countries. The original purpose of export regulations was to bolster national security by furthering energy independence; that purpose still holds true. Lifting export regulations may have the unintended consequence of undermining our national security goal of energy independence.

III. Security Benefits to Lifting the Ban Now are Unlikely to Materialize

Precipitously lifting the regulation of exports would not confer equal strategic benefits. Advocates of lifting the export ban frequently point to Russia's aggressive invasion in Ukraine as a ready opportunity for the use of energy diplomacy. This notion makes little sense. As an initial matter, all credible economic studies on the subject project that the vast majority of U.S. crude oil exports purchased on world oil markets would make their way to Asia, not Europe. Indeed, the number one beneficiary of lifting the ban is likely to be China, a nation whose recent activities in the Pacific and South China Sea reflect more the actions of a rival hegemon for security dominance in the Transpacific region than a responsible international partner.

Recent reports on global oil markets and pricing seem to indicate that little if any U.S. crude would flow to Europe. Light sweet crude from the U.S. is priced higher than its North Sea counterpart. As Citigroup analysts reported just a few days ago, " If the US crude export ban is removed and light sweet crude starts to flow out of the US [Gulf Coast], it would struggle to find a home in the well supplied European market. It would only add to the oversupply in the Atlantic Basin, and could hurt Brent more than it helps WTI. It could be an instance where US upstream players should be careful what they wish for."

U.S. exports would be a drop in the bucket of global crude supplies. Moreover, European refineries, especially those in Eastern Europe, are currently configured to process Russia's medium sour crude. Reconfiguring those facilities to handle American light sweet crude would be an expensive, long-term proposition. Eastern Europe also lacks the infrastructure to access U.S. crude imports. Constructing the needed European pipelines would take a great deal of time and money. Whether any U.S. oil actually reaches Eastern Europe and 'displaces' Russian supplies would depend on market factors largely unrelated to U.S. exports.

Assuming for a moment that lifting the export ban would dramatically undercut Russia's crude exports to Europe, it is far from clear that the result would be a more moderate and amiable Russian government. First, the Russian government has taken greater control of their oil companies in preparation for using that resource as a rudimentary weapon on economic influence. Second, Russian oil companies would be able to lower their prices and find alternative markets, most prominently in Asia. Third, President Putin has proven time and again that his first response to economic hardship at home is to engage in aggression abroad to stoke feelings of nationalism among his supporters. And lastly, there are a variety of ways the U.S. can marginalize Russian oil companies and curtail their diplomatic reach without resorting to a 'price shock' strategy. A good example of one workable alternative is a set of carefully crafted economic sanctions, which Congress passed and President Obama implemented in 2014 with notable results. Unlike the crude export ban, these measures can be altered rapidly in response to events and do not put our allies at risk.

Fortunately, the U.S. does not have to choose between participating in the international marketplace for petroleum products and lifting crude export regulations. Current law already allows American companies to export refined products overseas. Likewise, the federal government has the flexibility to waive regulations for crude in the form of condensates. In fact, exports of finished petroleum products have risen from 1 million barrels per day in 2005 to 2.7 million barrels per day in 2014. In particular, a robust Transatlantic trade in refined products allows our European allies to reap the benefits of our high-tech, efficient refineries at a competitive price. It allows us to satisfy our own security concerns and also address our allies' needs with the products actually needed for strategic and economic concerns abroad.

Finally, the U.S. does not need to export crude oil to influence international markets. Because increased domestic production results in reduced dependence on imports, overseas crude is then 'freed up' to be bought and sold in other markets. This market shift has the second-order effect of increasing the supply of crude outside the U.S., reducing prices and alleviating bottlenecks. Other countries are better off because the U.S. is producing more of its own supply. With the export ban in place, the U.S. gets the dual national security benefits of ample supply and leverage on the international stage.

IV. Deregulation Oil Exports Now Can Have Adverse Consequences for Security

Attempting to alter the market forces that influence the distribution of power across the world stage is always risky business, so it is important to consider the potential downside risks to any dramatic re-alignment. Let us assume for the sake of argument that advocates of lifting crude export regulations are correct, and that lifting the ban would result in large volumes of U.S. crude being sent overseas to the detriment of other producers like Russia. We must also consider the second-order effects such a change would have on U.S. allies whose economies rely on crude oil production to survive, such as Nigeria or Saudi Arabia.

Nigeria produces nearly the same type of crude oil as the U.S. Therefore, Nigeria is the country most likely to suffer if significant U.S. crude oil exports materialize. Nigeria's economy is, to put it mildly, extremely dependent on oil. Thus, it should come as no surprise that the sharp decline in the price of oil that took place in 2014 is having a dramatic impact on Nigeria's economic vitality. Their currency is appreciating, inflation is rising, and international investors are leaving. The lower oil price also cuts into government revenues, which are a critical source of basic services for the Nigerian population. Amidst this growing state of economic turmoil, security risks abound. As I'm sure every Senator on the committee is aware, the terrorist group Boko Haram retains control over large parts of the country and threatens to turn Nigeria into a failed state. Should the Nigerian economy fall into a tailspin, the consequences for international security would be dire. Boko Haram could grow in influence and manpower, filling the vacuum created by potential economic collapse. Nigeria would present a fertile training ground for extremists preparing to launch attacks against the U.S. mainland. The safety of American civilians and military personnel across northern Africa would be placed at risk.

As one of Nigeria's closest allies and its biggest trading partner, the U.S. has a tremendous interest in forestalling these outcomes. Lifting the crude export ban in an attempt to re-engineer global oil markets is more likely to exacerbate instability than it is to increase our bargaining power with Russia.

In addition, the crude export ban improves the competitiveness of U.S. refineries. When refiners have access to reliable domestic oil supplies, significant cost-savings translate into a more favorable price outlook for both refiners and U.S. consumers. This situation is a desirable one. A strong domestic refining base provides the U.S. with significant and underappreciated national security benefits. Lifting the crude export ban would expose one of America's most important industries to the unpredictable vagaries of international markets and international politics. It is axiomatic that military assets mobilize on petroleum products, like gasoline, diesel, and jet fuel. They do not run on crude. So, a change in export policy that could undermine our robust refining base directly constrains the operational flexibility we have in rapid mobilization necessary for modern projection of force.

V. Conclusion

While tempting from the perspective of gaining a commercial foothold in a new market arena at this time, the national security implications of changing the existing policy regulating the export of crude oil is rife with unknown and probably unintended consequences that must be fully considered and addressed. Too many times in my career, I have experienced the stark reality of not thinking through the impact of changes in international and domestic policy. We cannot afford to just wave-off these potential consequences as inconsequential under the guise of market principles. The regulation of crude oil exports was put in place with a long-term of objective of decreasing U.S. reliance on foreign sources of energy, specifically oil. Over the past three-plus decades, progress has waxed and waned. Today, we are in the midst of impressive new domestic production and discovery of untapped reserves. However, we continue to import virtually the same volume of foreign oil as when the regulations were passed into law. The day may come when the U.S. is no longer overly dependent on oil imports and we may be in a position to change our crude oil export policy but for the sake of national security, that day is not today.