Insight

Energy Exports Can Boost Energy Security and Diplomatic Strength

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North America is leading a global shift in energy supply and demand dynamics. In 2012, the International Energy Agency predicted that by 2017 the U.S. would overtake both Saudi Arabia and Russia as the largest global oil producer;[1] and it appears ahead of that timeline. Natural gas production increased 29 percent between 2005 and 2013;[2] oil production increased 44 percent.[3] The Energy Information Administration projects that by 2040, imports will comprise just 4 percent of all energy usage, down from a 2005 peak of 30 percent.[4] The U.S. is fast making the continent a global energy powerhouse.

This is big energy news. But it is even bigger economic and international political news. It should force the U.S. to reevaluate its role on the international stage and the energy policies conceived during the 1970s that are poor tools to govern its energy-rich future. In particular, the current bans on natural gas and crude oil exports are limiting the U.S. potential to fully exploit the economic and geo-political implications of the energy boom.

Consider the sea change in global energy economics. Producing a lot of energy limits U.S. economic exposure to major global energy price swings. Unlike the past, if the U.S. "owns the gas station," it can capture energy revenues in the United States, turning price spikes into beneficial domestic investment and employment. Job creation is already happening: Over the past 10 years, jobs in oil and gas extraction grew over 60 percent.[5] These jobs pay well, earning $34.60 an hour, 42 percent more than jobs in the manufacturing sector.[6]

This energy shift also has international political implications. Producing a lot of energy expands the U.S. presence internationally. Other major exporters know full well how to employ this diplomatic instrument. The 1973 Arab oil embargo cemented the price-setting control of the Organization of the Petroleum Exporting Countries (OPEC). Oil export sanctions against Iran in 2012 were impossible to enforce for ten European countries so reliant on that source of oil. The diplomatic crisis over Crimea is putting at risk 16 percent of Europe's natural gas supply.[7] Last week, retired General James Jones, former National Security Advisor to President Obama, advocated for turning North America into a global energy hub in order to stand up to "international bullies" who use energy security as a weapon.

Unfortunately, U.S. policy is still rooted in an obsolete mindset, effectively banning exports. Exports of crude oil must be approved by the Department of Commerce. Export facilities for liquefied natural gas must be approved by the Department of Energy, which has approved just 6 of 30 applications since 2011. When the U.S. limits consumers to the domestic market, who benefits?

An effective ban on exports narrows demand and keeps prices low. This is a boon for the large, industrial energy consumers that use energy products as feedstock and fuel. These savings boost manufacturing employment and hold costs down for manufactured goods. The news is largely good; manufacturing employment is up 4 percent from its low in 2010, and exports are up in chemicals, machinery, and transportation equipment.[8]

Notice, however, that one could open the U.S. energy sector to global demand. This would increase prices, but provide a potential tax base that could raise revenue for manufacturing subsidies. The issue is not whether the U.S. should export energy; the issue is whether large industrial consumers deserve a subsidy as a national policy.

At the same time, the absence of international customers limits U.S. influence. Imagine the difference in U.S. leverage in the Ukraine if it had a significant presence in European natural gas markets. Energy should be part of opening trade with both Europe and the Pacific Rim. The potential for U.S. energy supply adds to its options in any international setting.

This approach has flaws on the supply side of the equation. Though energy production is booming now, persistent and artificially low domestic prices slow energy development. Limiting the financial incentive for energy production restricts investments to projects with low financial risk, developed by conventional methods in conventional markets. Critical developments in breakthrough technologies – like hydraulic fracturing – will be thwarted. Over time, these reduced incentives create an energy production and extraction sector without the flexibility or resources to respond to demand increases or supply disruptions.

In essence, an effective ban on energy exports subsidizes manufacturers at the expense of long-term energy security, energy production growth, and diplomatic strength. Is this a priority worth its cost? If subsidizing our manufacturing sector is a critical national priority, we can achieve the same outcome by taxing energy and providing additional subsidies to our manufacturers.

Global energy markets are an assemblage of quite balkanized markets. Uneven access to energy resources creates asymmetries in energy prices and supplies, but also distinct discrepancies in international strength between the energy suppliers and the energy importers. The U.S. is the next energy juggernaut. Will it take full advantage?

[1] http://www.iea.org/publications/freepublications/publication/English.pdf