



## Research

# The U.S. Crude Export Ban and the Iran Deal

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## Summary

- If the U.S. was not subjected to the crude export oil ban 40 years ago, gross revenues realized could have exceeded \$1 trillion dollars.
- Before sanctions were set in 2012, Iran was grossing over \$100 billion a year in oil revenue.
- Lifting Iranian sanctions would have a severe impact on U.S. domestic oil production as the world market would become oversaturated resulting in even lower oil prices.

## The ban vs the deal

The crude oil export ban, also referred to as the [Energy and Policy Conservation Act](#), was designed to conserve domestic supplies and reduce the nation's reliance on foreign oil. The act was in response to the 1973 oil embargo that saw oil prices rise from \$3 to \$12 practically overnight and was seen as the first time that oil prices "[had] a lasting economic toll on the country"<sup>[1]</sup> since the Great Depression. While the ban was considered an appropriate policy tool 40 years ago, today we live in a much different world. Simply, the ban has passed its expiration date.

A combination of different events has positioned this issue to be at the forefront of domestic policy right now; one in particular is the Iranian nuclear deal. Under the deal brokered by the White House, Iran would be allowed to begin exporting their oil again on the world market. For the past 3 years, Iran has exported around 1.3 million barrels a day<sup>[2]</sup> or over \$115 billion in gross revenue, down from 2.5 million barrels in 2012. Pre-sanctions, Iran was grossing over \$280 million a day or just over \$100 billion a year. When the U.S. imposed sanctions on the country it devastated the nation's ability to sell. These figures have crippled the oil dependent Iranian economy creating unemployment spikes and increasing inflation.

If Iran can export oil and reap the benefits once the Iran deal is final, why can't the U.S.? An oil export ban for the United States is detrimental to the economy. The low price of oil is already creating tension both domestically and globally.

## Turning the Tables

Let's say for a moment that the U.S. was given the same luxury of exporting oil, but instead of a 3 year hiatus from the market let's use a 40 year benchmark. Using the average price of oil for the last 40 years with inflation factored in, if the U.S had been allowed to export 1 million barrels a day for the last 40 years the gross figure would be roughly \$790 billion dollars since 1975. Using the same methodology, on the low end of the spectrum, 500,000 barrels per day would have generated more than \$395 billion per year and assuming 1,500,000 barrels per day the U.S. would have seen \$1.2 trillion per year in gross revenue. [\*To see the 40 year calculations based on barrels per year adjusted with March 2015 inflation rates click here.\*](#)

According to [a study released by the American Petroleum Institute\[3\]](#) removing the ban would “lead to further increases in domestic oil production, resulting in lower gasoline prices while supporting nearly 1 million additional jobs at the peak . . . It would lead to a total of \$746 billion in additional investment during the study period (2016-2030) and an average of 1.2 million barrels per day (M b/d) would be produced.”

## The Uncertain Future of Oil Prices

Of course, exporting oil from the U.S. is less advantageous when the price of Brent crude is low, as it is now. Putting more supply on the market will lower prices, impacting the gross revenues that the U.S. is poised to realize. Likewise, if Iran is allowed to begin exporting again on the world market, increased supply may very well push prices down. The market reacts with a lag and hence, changes in oil prices do not always happen immediately. We can try to speculate the impact of Iran's oil entering the market by looking at other instances when there were similar surges in supply as evidenced by the following:

- Between November and December 2014, there was a jump in supply by 0.6M b/d, and an increase in consumption of 3.5M b/d, and a price drop of roughly \$17/barrel (about a 21 percent decrease in price).
- Between February and March 2015, supply increased by 0.8M b/d, consumption decreased by 3.2M b/d, and prices dropped by about \$2.30/barrel (about a 4 percent price drop).
- Between September and October of 2015, supply increased by 0.9M b/d, consumption increased by 1.2M b/d, and prices dropped in the neighborhood of \$9.60/barrel (about a 10 percent price drop)[4].

The data indicates that prices will drop when Iran's oil enters the market. Some estimates indicate that it would fall by as much as \$10 a barrel by next year.

## Conclusion

Lifting the ban on oil exports would have a beneficial impact on the U.S. economy. As policymakers consider ending the ban, they should consider these benefits as well as the impact and consequences that removing the sanctions on Iran will have on U.S. production. Lifting the crude oil export ban before Iranian sanctions are removed would give U.S. producers the opportunity to export on the global market without the added burden of an even lower price of oil. These two sets of export restrictions won't coexist harmoniously. One will improve our domestic economy and strengthen our geopolitical relationships and the other will weaken our economy and negatively affect domestic production.

[1] <http://www.history.com/this-day-in-history/opec-enacts-oil-embargo>