



PLUS ca CHANGE, PLUS ca CHANGE or.... (1/11 )

TODAY'S TODAY, TOMORROW WHO KNOWS

The Secretary of Energy made it clear that the Administration was no longer interested in banning oil and natural gas exports. That's the good news. A ban would achieve the very opposite of their objective. It would raise, not lower, energy prices. The U.S exports 3MMB/D of low-sulfur high-gravity crude oil, almost all from the Gulf Coast. If a ban was enacted, most of the 3MMB/D could not be processed. There is not enough usable spare capacity at the G.C. to absorb it. Crude oil prices at the G.C. would initially decline. However, the excess supply would lead to a stock build and price would fall, forcing production to decline along with the associated natural gas.

The big problem is that global available spare capacity is limited. A loss of the U.S. exports would create an imbalance and global prices levels would immediately rise. The available limited spare capacity that does exist is the wrong quality. It is a HIGHER sulfur, LOWER gravity crude oil than the U.S. export. India, South Korea, and Japan are the principal importers from the U.S.\* These refiners would be faced with two difficult choices: bid the lower sulfur crude oil on the water from its intended market and or cut runs. Product prices would spike along with the crude oil and the spreads between the low sulfur and high sulfur crudes would blow out. The E.C. refiner who is almost exclusively dependent on imports would be facing the sharp run up in world oil prices.

Is it reasonable to wonder how solid the promises from the Secretary are?

The midterm elections are coming up this fall. The democrats would like to minimize any damage. She made her comments when oil prices had fallen back from their recent peaks. Prices are once again on the rise, and gasoline and diesel prices have started to move back up.

International political events in the short term lend an upward bias to oil prices. Russia/Ukraine, Iran/U.S, China/Taiwan,, Kazakhstan, the wild card Israel, Libya, Nigeria and the Yemeni war To name a few. We've witnessed the Administration's frustration and tantrums with high gasoline prices. Therefore, given the 2022 midterms nothing is off the table. The industry needs to stay vigilant. Today is today, tomorrow well who knows. PLUS ca CHANCE, PLUS ca CHANCE

\* Assumes Canada and Mexico would get a pass.