



OIL EXPORT BAN - RE-DUX

1/20/22

I wrote this note originally on November 12th*. It now reminds me of an old song; "first you say you do and then you don't, then you say you will and then you won't, you're under sided now so what are you going to do."

The mere consideration of a ban on crude oil exports tells you just how political inflation and gasoline price increases are to the Administration. Don't worry about the actual outcome but just the appearance of DOING SOMETHING.

We currently export 3 MMB/D to a host of countries, from Canada to China (Korea, India, Japan, Netherlands and Taiwan to name a few). Virtually all the exports come from the U.S. Gulf Coast and is a very light, very low sulfur, crude oil. The thinking to the degree that any is going is that it would lead to lower prices of crude oil and therefore gasoline.

Just the opposite would occur. Following a small adjustment in time, prices would spike since the market (outside the U.S.) would suddenly be short. A bidding war would occur particularly for the light, sweet crude oils. There is no way for the U.S. refining sector to absorb these domestic barrels. Yes, crude oil runs would initially go up at the G.C., but its ability to process more light sweet crude oil is limited. G.C. refiners are already running at 88% of capacity. And the supply and cost of Jones Act tankers make it a nonstarter.

Unable to dispose of most of most of the former exports, stocks would build prices and production would fall. The fall in crude oil production would result in an important decline in associated Natural Gas as well.

P.s. this ends the note on November 12th. I simplified it and now I am adding a follow-up note I wrote since I believe nothing is off the table.

The discussion of a ban was due the Administration's paranoia of the political fall out of high gasoline prices. It was taken off when prices in late October came well off their recent highs. The U.S. was in the process of offering crude oil from the SPR. However, as we suggested prices have fully recovered and then some. The Administration has played the SPR card, the have exhausted the blame game; first



OPEC+ was the villain, then the greed of the integrated companies then the refiners, retail operators, everyone but themselves.

The Administration remains hyper-sensitive to the political fallout of high gasoline prices, particularly in view of the fast-approaching mid-term elections. Thus, we believe the issue of a ban is still very much alive.