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On Behalf of the CRUDE Coalition

U.S. Senate Energy & Natural Resources Committee
United States Crude Export Policy Hearing

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Good morning: Chairman Murkowski, Ranking Member Cantwell, and Members of the Committee. Thank you for inviting me to testify before you today.

My name is Jeff Warmann and I am the Chief Executive Officer of Monroe Energy LLC, a company that owns and operates a refinery in Trainer, Pennsylvania. I have more than 30 years of experience in the refining as well as the chemical and petroleum industries, including extensive knowledge of petroleum refining, marketing, trading, supply, and distribution operations. In addition to my industry experience, I am also the co-inventor of eight patents concerning additive injection and ratio blending.

I am here today to testify on behalf of Monroe Energy as well as on behalf of Consumers and Refiners United for Domestic Energy, known as The CRUDE Coalition. My company, Monroe Energy, is a member of CRUDE as are Alon USA, PBF Energy and Philadelphia Energy Solutions. Together, our refineries are located in California, Delaware, Louisiana, New Jersey, Ohio, Pennsylvania and Texas. The employees of our companies turn 1.3 million barrels a day of oil into finished petroleum products – diesel fuel, gasoline, home heating oil, etc.

Put simply, the current restrictions on the export of U.S. crude oil provide real economic benefit to U.S. consumers and businesses and protects our nation’s energy independence and security.

Removing Export Restrictions Would Raise Oil Prices, Cost Jobs and Diminish U.S. Infrastructure

At the outset, it’s important to point out that the market for crude oil in this country is a competitive one, determined by supply and demand. The global market, in contrast, is controlled by a handful of oil producing states that keep a tight hand on the production throttle and can control prices at their own whim.

If we lift the export restrictions on U.S. crude, we would in essence allow the transport of crude out of a competitive market in this country and into a less competitive global one controlled by the likes of Iran, Russia, Libya and other unfriendly regimes. The results would be easy to predict: U.S. crude would flow out of this country and onto the world market. OPEC would manipulate the market to maintain high global prices and the price of a barrel of crude in this country would rise to match the higher OPEC-controlled global price.

World crude markets are not “free markets;” they are moved artificially by a self-proclaimed cartel - OPEC. Right now, OPEC member countries produce about 40 percent of the world's crude oil, and OPEC's oil exports represent approximately 60 percent of the total petroleum traded internationally. OPEC not only has the power to regulate its members’ production, but as EIA's Adam Sieminski acknowledged, "producers in the countries of the Persian Gulf region hold very large reserves of easy-to-develop oil, that will continue to play a central role in oil markets."

OPEC can move markets up or down depending on the circumstances. History has documented the level of control OPEC has maintained over crude oil markets, and this control dispels any claim that such markets are free or open.

Our country's refinery workers also stand to lose from lifting export limits. Some recent history can help explain why. Before the shale oil boom, there was too much capacity in refineries in the Northeast and along the Gulf Coast. Many were closing. The shale oil revolution breathed new life into these refineries and created jobs for thousands of refinery workers. In addition, as a result of the multiplier effect, each refining job kept here in the United States is supporting additional local, state, and national jobs. For example, a study commissioned by the Pennsylvania Department of Labor and Industry looked at the effects of the refinery closures in Southeast Pennsylvania, and the report revealed each local refinery job supported an additional 18 jobs in Southeast Pennsylvania, 22 jobs in the state and 61 jobs in the nation.

By lifting export restrictions and sending our crude overseas, we would be sending American jobs overseas as well. Our refineries would lie dormant once again. Refineries in Europe – where there is currently excess refining capacity – would be more than happy to refine our homegrown crude with the help of European workers. In other words, repealing the law will benefit European refinery workers at the expense of thousands of American jobs.

The Export Law Benefits U.S. Consumers And Businesses

It's not just refinery workers who benefit from the export law. Increased domestic production combined with export restrictions have provided real, broad-based benefits to U.S. consumers and businesses alike. During the past year, an American family with one car has saved more than $1,000 in the cost of gasoline; families with two vehicles have saved substantially more. Households using fuel oil to heat their homes, moreover, have saved at least another $1,000.

The impact of the increased production on household income and consumer confidence cannot be overstated: It is dramatic, measurable, broad-based, and real. In fact, it is difficult to identify a greater boost to consumer savings over the past 12 months than the drop in fuel prices all Americans have experienced, which is a direct result of the drop in crude oil prices.[1] That jolt to the economy simply would not have materialized if the export law had not been in place.

U.S. businesses have also reaped the benefits of the export law. Lower oil prices reduce the cost of doing business for firms of all types, with the transportation, petrochemical, agricultural and manufacturing sectors being perhaps the biggest beneficiaries. This savings allows businesses more room to invest, which contributes to greater economic growth.

[1] According to the EIA, the retail price of gasoline is comprised of four cost components: taxes, distribution and marketing, refining, and crude oil. Of these factors, crude oil is the largest component of the price of gasoline (54%).

We are mindful of the fact that oil producers are not reaping the profits they earned just a few years back and are bearing the brunt of the current oil price bust. But this fact is not sufficient justification for an end to export restrictions. Temporary dislocations in the oil markets are no reason to change the longstanding crude export policy, which has been supported by Republicans and Democrats alike.

Oil production has always been characterized by a boom and bust cycle. As anyone in the industry can tell you, increases in price stimulate production, which in turn leads to increased supply. As we're seeing today, that increased supply lowers prices, which in turn reduces production. Diminished supply then leads to higher prices, which in turn stimulates production once again.

Based on our knowledge of and experience in the markets for both crude oil and finished petroleum products, we know that the crude export law has kept prices lower for consumers and businesses than they otherwise would be. We strongly dispute studies that claim prices for gasoline at the pump will go down if crude exports are permitted.

These studies are flawed, making a number of assumptions that don't reflect how oil markets actually work. As just one example, none of the studies took into account the effects of increased refined product exports, which decreased foreign refinery throughputs. And increased domestic supply of crude also displaced foreign imports. Both of these phenomena increased the world surplus of crude, which weighed on Brent prices.

When export proponents talk about eliminating the Brent/WTI discount, they are not talking about the Brent price dropping; they're talking about the WTI price rising to meet the Brent price. Many export proponents cite studies that assume production will increase if export restrictions are lifted. But whether drilling economics are fundamentally affected would depend on the world price of crude. If the world price of crude remains at its low level, it will not be sufficient to stimulate increased U.S. production.

Oil markets are highly complex. A multitude of factors plays in to price calculations on both the supply and the demand side of the equation. The EIA recently said that the values of futures and options contracts suggest a very high uncertainty in the future price of crude oil, and with so much production around the world on the sidelines because of conflicts or governmental economic mismanagement, there are even more variables to the future crude price equation.

Economists may be able to arrive at the predictive price conclusions they want using unrealistic or even fanciful assumptions about how markets will behave. But our refiners know - based on practical experience in the marketplace every day – that taking away one key thread of a longstanding policy will unravel oil markets in this country. And repealing current law will create a new level of business uncertainty that will impact all the businesses that serve the petroleum supply chain, with negative consequences for consumers.

Growing Crude Stockpiles Do Not Present A Crisis

Recently we have seen news reports about growing crude stockpiles. These stockpiles are not increasing because of our crude export law. They are rising because the oil market is in "contango." That means that the futures price for crude oil is higher than the expected spot price. Traders have spotted an opportunity and are capitalizing on it by storing more oil.

Not all the oil being stored in places like Cushing, Oklahoma, is American oil. There is a significant proportion of Canadian oil being stored there, too. In November, pipeline company Enbridge started up its Flanagan South pipeline, which carries Canadian heavy crude from Michigan to Oklahoma. This has only added to supplies at Cushing.

And at this point in time, some refineries have been going off-line for regular season maintenance. The EIA expects U.S. inventories of crude to peak around mid-year. At the end of February, American storage facilities still had significant capacity left for additional stockpiles.

These storage features of the market are temporary. They do not represent a crisis of any sort that justifies a change to our export policy.

The Infrastructure Problem Is Serious

I also want to address some misunderstandings about the price differential between the West Texas Intermediate (WTI) and Brent benchmarks for oil. Some producers have called the differential "ominous." Others have identified a temporary large spread in prices and waved it as justification for a policy change. They have offered unsubstantiated predictions that the spread will widen "dramatically."

The fact is that, year-over-year; the spread differential is not nearly as large as some producers have been claiming. EIA has forecast a WTI discount to Brent of $3/barrel on average in 2015 and $4/barrel in 2016.

But that's not the full context. Cushing, Oklahoma, the price settlement point for WTI, is right in the middle of the country. But refineries on either coast and in the Gulf incur transportation costs to get American light tight oil to us, whether by rail, by ship or by pipeline. Those costs are significant. That means that the total input cost of American crude to our refineries is not as discounted as the spread might suggest.

The real problem is infrastructure. Getting American crude oil to refineries that for years relied on significant imports via ship has been a continual challenge. In many cases, governmental action – or inaction - has been a significant impediment to private investment in improvements to our pipeline network, for example. Traders discount WTI against Brent in part because of the significant added transportation costs to get WTI to market.

U.S. Refineries Have Plenty Of Capacity To Process U.S. Light Tight Oil

We need to end once and for all this myth that American refiners can't handle U.S. crude.

A study conducted last year by energy experts Baker & O'Brien showed that American refiners have the capacity to handle all the U.S. Light Tight Oil forecast to be produced under even the most optimistic scenarios by the EIA. There is no report that says otherwise. And the economics of U.S. LTO have stimulated the investment of billions of dollars to better accommodate getting that oil to refineries and will continue to do so.

I would like to clarify the position of refiners on this issue. Refiners who have no upstream operations are much more likely to share our view on crude exports. Integrated companies who have production operations as well as refining operations may take a different view because of how they would operate if the export law were repealed.

By seeking repeal of the export law, those integrated firms are looking to produce more light U.S. crude and export it, unrefined, to places with growing demand like China, projected to be the main source of global demand growth in 2015 and 2016. Some integrated firms will export to European refiners, bypassing American refining competitors. We'll see more petroleum products refined in Europe but derived from American crude returning to our shores. If this were to happen, American refining capacity will drop, and good American jobs will be lost and the economic activity and energy security that are derived from increased domestic production will be minimized.

The Purpose Of The Export Law Is As Important Today As It Was When the Law Was Enacted

In thinking today about the merits of export restrictions, we should also consider one of its key goals, which is to help this country achieve energy security and independence.

Despite the production renaissance of recent years, our country still imports around 33% of its daily crude oil needs from outside of North America and around three times as much oil from Saudi Arabia as we did at the time the export law was enacted. That's why exporting U.S. crude makes little sense. If we allow for the export of U.S. crude, we'll have to import more oil from overseas and subject ourselves, once again, to an increasing degree of price volatility and higher global prices.

In addition, one byproduct of the law – and one not predicted 40 years ago when it was first enacted – is that our increased domestic production and enhanced energy security has made life more difficult for petro dictators who previously relied on selling oil to the U.S. to prop up their failing and autocratic regimes. Our current energy boon has brought down the price of oil to levels below what these authoritarian – and largely anti-American – regimes need to pay their bills and wreak havoc around the world.

All of this raises the question: Why repeal the law now? We are on the cusp of developing true energy independence, where we can produce – and refine - virtually all of our petroleum needs here at home. Allowing exports of American crude sabotages that goal, which has been an important policy objective for over a generation.

The Public Supports Maintaining Export Restrictions

Finally, as this Committee continues to gather information on the impact of crude oil export restrictions, it is imperative to remember that the general public opinion overwhelmingly supports leaving the crude oil export law in place.

Last year, CRUDE engaged the University of New Hampshire Survey Center to poll voters in New Hampshire on their opinions regarding U.S. crude oil export policy. The survey results were overwhelmingly in favor of keeping the current export law. Here are some key survey points:

• Two thirds of New Hampshire voters believe the U.S. is importing too much oil from foreign countries, with 86% agreeing that the U.S. should reduce the amount of oil imports from the Middle East and other countries before exporting domestic crude.

• 85% of Granite State voters agree the U.S. should limit exports of crude oil if doing so keeps gasoline prices from rising in the U.S.

• 78% of New Hampshire voters want the government to be certain about the impact of crude oil exports on gasoline prices before the current law is changed.

The results of the New Hampshire survey clearly demonstrate that voters want energy independence and a reduction of crude oil imports before we agree to export our homegrown crude. Other independent polls confirm our findings. Hart Research, for example, recently released a nationwide poll showing that large majorities of voters across party lines oppose exporting more U.S. oil to foreign countries.

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The issues surrounding exports of American crude oil are complex. My company and my fellow CRUDE Coalition members strongly believe that allowing exports of crude will negatively impact American households and businesses, the U.S. refining sector, and our nation's energy security and independence. Prudence dictates that Congress refrain from making such a drastic change to this longstanding pillar of our energy policy and our national security.