Lifting of the US crude exports ban; Will it be quicker than most people think?

- We have been under the impression that a lifting of the ban of US crude exports would have to pass through the Congress. This has obviously also been the interpretation of for example influential newspapers like The Wall Street Journal. However, according to a Reuters piece on this issue published yesterday, the Congress needs not be involved in a potential lifting of the exports ban. According to John Kemp in Reuters, the ban could be lifted by the president acting alone… If true it makes it a lot easier to believe in meaningful US crude exports of course.

Torbjørn Kjus

Content

Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

Lifting Of The US Crude Oil Exports Ban – Could It Happen?

- The president seems to be able to take the decision alone

In a Reuters piece published yesterday, John Kemp writes that the US ban on crude oil exports could in fact be lifted by the president alone, without passing through congress. If true, this is extremely interesting news and hence we thought it was worth while to issue a separate little report on this theme. Below are some of the most important issues mentioned in the Reuters piece including our own comments.

It seems the various statutes on which the ban of crude exports is based have either expired or give the president broad discretion. The Obama Administration appears to be preparing for a rethink on this issue. “Restrictions on exports were born, as was the Department of Energy and the Strategic Petroleum Reserve, on oil disruptions,” Energy Secretary Ernest Moniz said in a conference last week. “There are lots of issues in the energy space that deserve some new analysis and examination in the context of what is now an energy world that is no longer like the 1970s”.

This possible lifting of the crude exports ban has drawn a strong response from refiners and politicians who want it maintained. Senator Robert Menendez, a Democrat from the refining state of New Jersey, who is also chairman of the powerful Foreign Relations Committee, wrote to the president on Monday “to express my deep concerns over the recent comments of Energy Secretary Ernest Moniz stating that your administration is considering easing the ban on exporting domestically produced crude oil. “Easing this ban might be a win for Big Oil, but it would hurt American consumers,” Menendez complained. “We must continue to keep domestically-produced crude here to lower prices for consumers. Allowing for expanded crude exports would serve only to enhance the profits of Big Oil, and could force US consumers to pay even more at the pump,” he added. My comments to this letter would be the following: This is just bullocks and propaganda. **The only benefit from this banned exports of crude oil currently are for US refiners, not the consumers at all. The consumers pay the international price for gasoline. Refiners however buy cheap US domestic crude, refine it and earns a huge margin when exporting products abroad. What does the senator think has happened to European refiners in this environment? The answer is that European refinery utilization in October was down an unbelievably large 1.3 million b/d just from last year. This is not due to demand for oil products falling that much in Europe, so it means products are coming in from elsewhere. They are to a large extent coming from the US. The US ban of crude exports is hence to a large extent killing European refiners while it is a huge benefit for US refiners.** The US is currently subsidizing its own refining industry through the ban of crude exports. This should be changed as soon as possible (it could change already next summer as you will see further below). The consequence of free exports of crude from the US would most likely be lower prices for gasoline and petroleum products for US consumers rather than higher. Why? Because the exports of crude from the US will contribute in pushing international crude prices lower quicker than if exports is not allowed. That will translate to lower international prices for oil products, which would mean lower gasoline prices in the US (as less American oil products would be exported and rather stay home and hence will contribute in pushing US oil product prices lower).

The peacetime ban on crude exports dates from 1973, when it was imposed as part of the Nixon administration’s comprehensive price-control program designed to counter inflation. Domestic sales of crude and refined products were subject to price controls. To prevent producers and refiners from circumventing the price caps by shipping oil abroad, both crude and products were placed on the Commerce Control List established under the Export Administration Act of 1969 as items in “short supply”. **Today, crude oil is still on the Commerce Control List as items in short supply.**

Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

US Refined Products Prices Would Decrease – Not Increase

- The argument that allowing exports of crude form the US would lead to higher domestic prices for gasoline is predictable propaganda from the ones who currently benefit from the enormous spread between international crude prices and US crude prices

The crude exports restrictions are enforced by the Bureau of Industry and Security (BIS) within the Department of Commerce. The short supply controls on crude ultimately derive their legal authority from several parts of legislation, including the Mineral Leasing Act of 1920, the Naval Petroleum Reserves Production Act of 1976 and the Outer Continental Shelf Lands Act Amendments of 1978. But the principal authority for the ban derives from just three statutes: the Energy Policy and Conservation Act of 1975 (EPCA), the Export Administration Act of 1979, and the International Emergency Economic Powers Act of 1977.

EPCA leaves it to the president to decide whether to restrict oil or gas exports "in the national interest". By far the most important law is the Export Administration Act of 1979, which replaced an earlier act dating from 1969. The Export Administration Act expired in August 2001, after a temporary extension, and has not been renewed. Instead, the president has issued an executive order in August each year extending the provisions of the act and the regulations derived from it for another 12 months. The most recent renewal was contained in a one-paragraph notice issued by the White House on Aug 8. In issuing these executive orders, the president has invoked his power under the International Emergency Economic Powers Act to block imports or exports of any item during a "national emergency" which presents "an unusual or extraordinary threat to the national security, foreign policy or economy of the US. As a result, **the US has been living under an almost permanent state of emergency since 1994, when the Export Administration Act first ran out, and presidents started to extend export controls by executive order.**

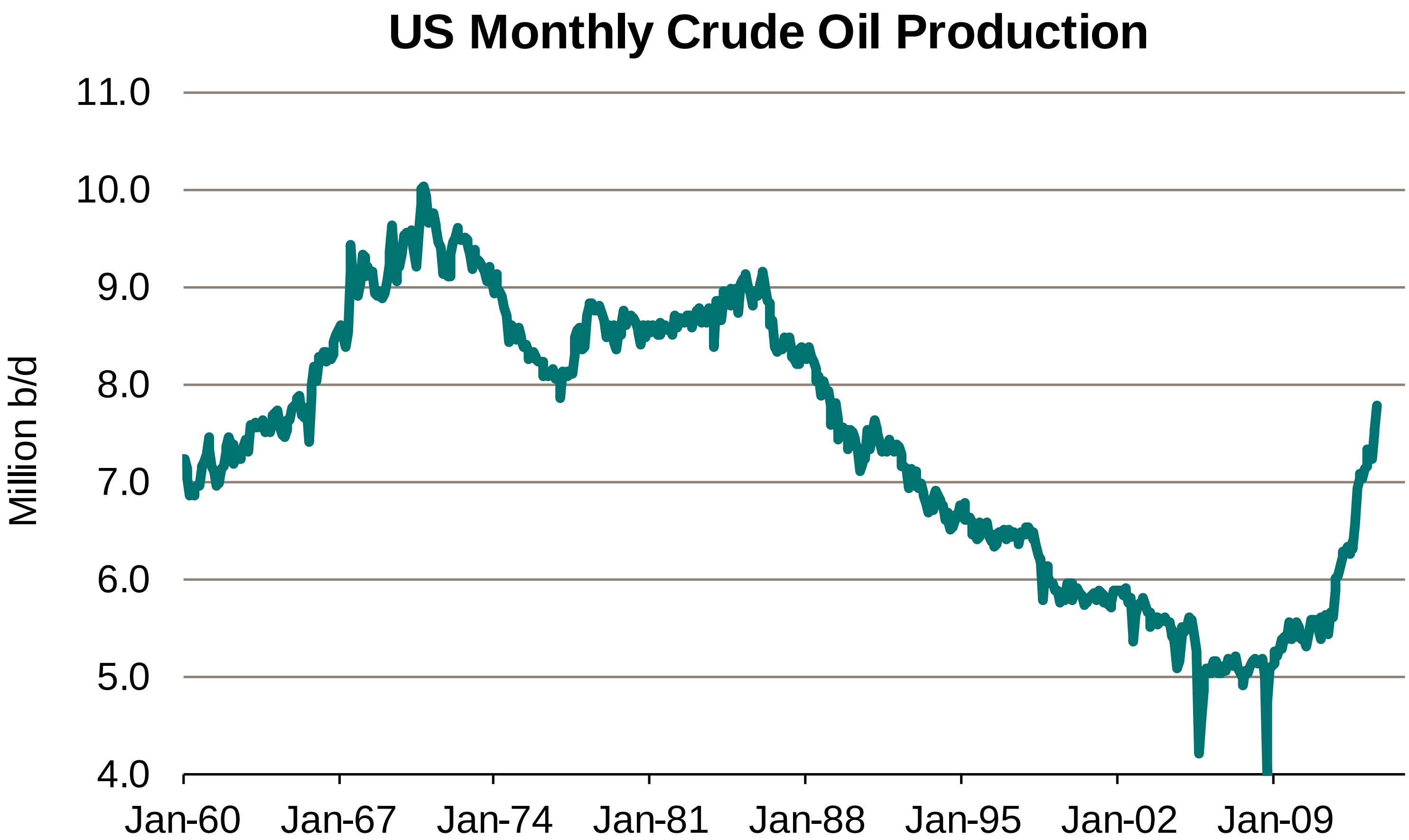
Bottom line**: EPCA allows the president to impose controls on the export of crude but only if he determines they are appropriate and necessary and in the national interest. The Export Administration Act, which has expired, allows the president to control oil exports on the basis they are in short supply and scarcity is threatening domestic inflation. It hence seems fairly clear that the president acting alone, could lift the export ban, simply by directing the Bureau of Industry and Security to remove crude oil from the short supply section of the Commerce Control List**. It would be a simple matter to insert a paragraph in the next presidential notice, due by August 2014, stripping out the oil export ban from the general renewal of the export regulations. The president would simply need to conclude that the ban is no longer appropriate and necessary, and no longer in the national interest of the USA.

No fresh legislation seems required to lift the ban. With US crude and condensates output expected to hit record levels within the next two years, it is hard to argue that they are still in short supply or that the US faces an excessive drain of scarce materials or serious inflationary impact. It is no longer clear the Export Administration Act is applicable to crude. The ban ensures domestic crude oil prices remain below world levels because producers cannot arbitrage the difference. But no such restrictions apply to refined products, so the price paid by US consumers for oil products are linked to world levels. Domestic US refineries pocket the difference, buying cheap domestic crude below global prices while selling their output at international levels. New Jersey Senator Menendez is in our opinion wrong to argue that ending the export ban would result in higher prices for US consumers at the pump. It will not increase prices at all, it is in fact much more likely that the prices of refined products will drop if the US allows crude oil exports in our opinion. The coming year we are likely to see oil producers lobbying intensely to allow exports of crude while refiners will lobby intensely to maintain the ban on crude exports. It will be interesting to see what happens. If we have to bet on this we would put our money on a lifting of the ban during the coming two-three years and it could happen already during 2014 if the Reuters interpretation is correct.

Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

US Crude Production Back On The Rise – The Shale Revolution

- After more than 20 years of steep production decline, US production is exploding to the upside



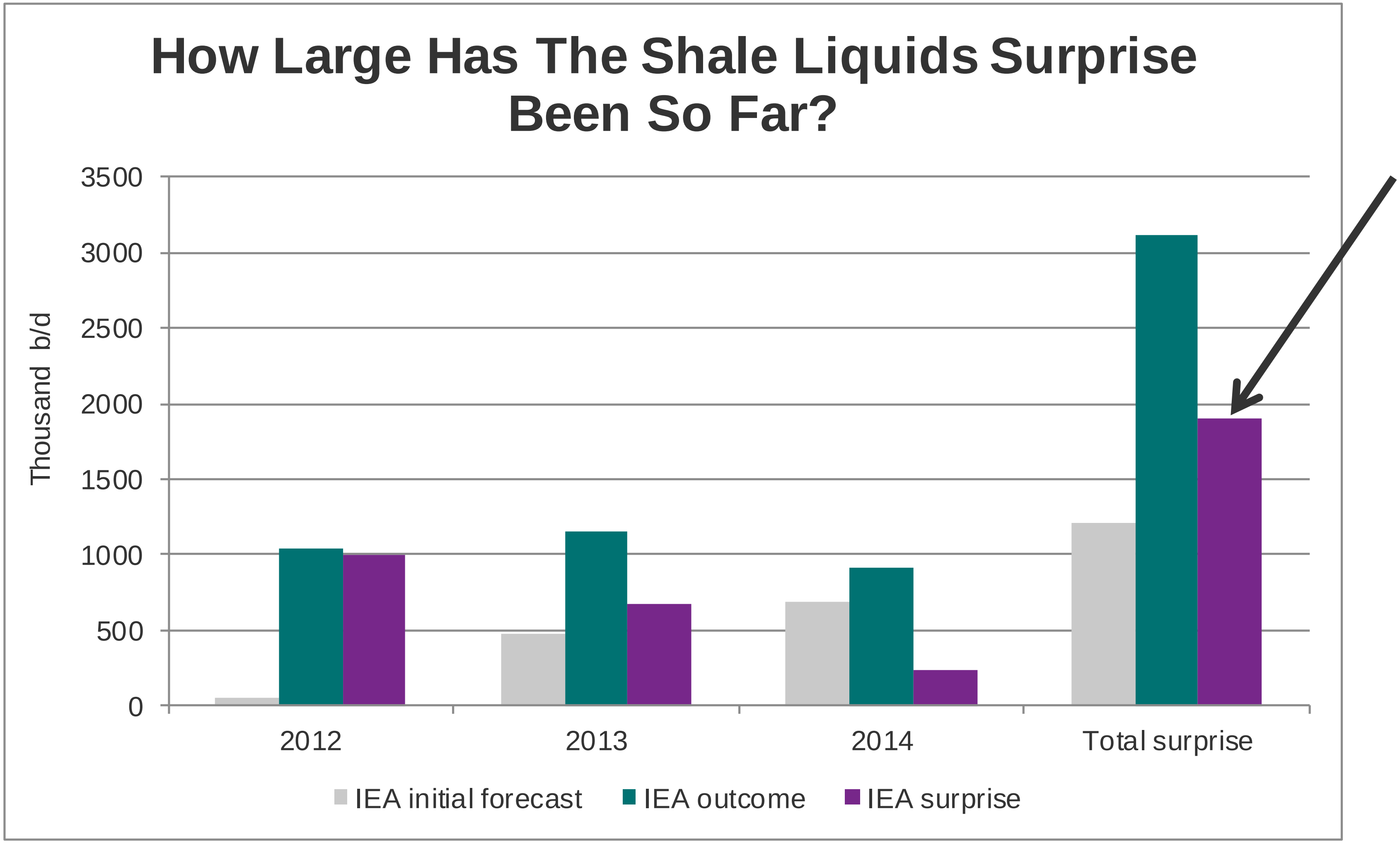
Source: US DOE

MARKETS

Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

Upside US Surprise Of 1.9 Million b/d So Far Last Two Years

- Since the summer of 2011 the IEA has "received 1.9 million b/d" into their balances that was not on the table in in 2011
- In other words; almost a new Brazil has entered the US market since 2011 and it came from "out of the blue"

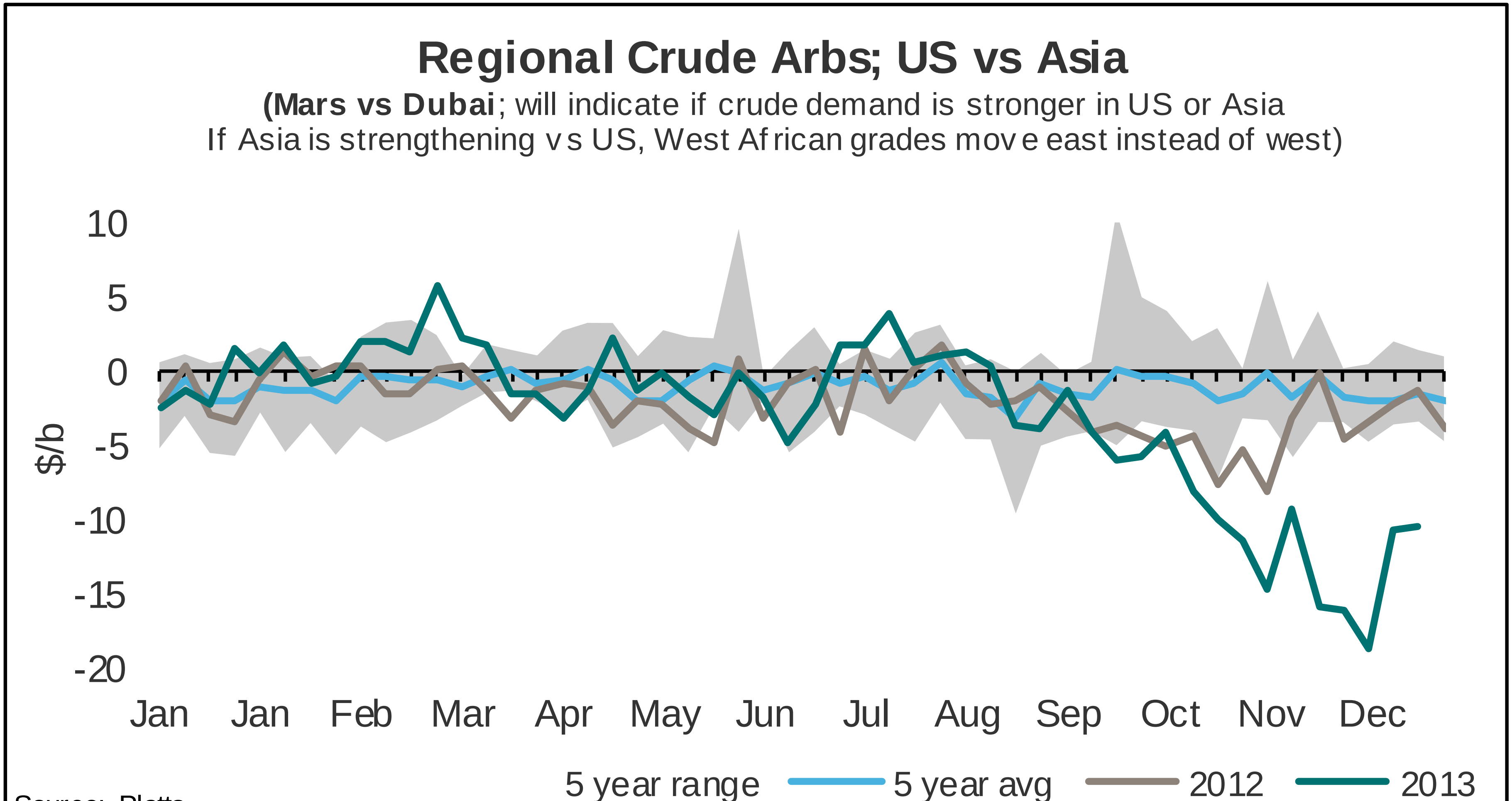


DNB

MARKETS

Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

Mars (US GOM) Now Much Cheaper Than Dubai (Asia)

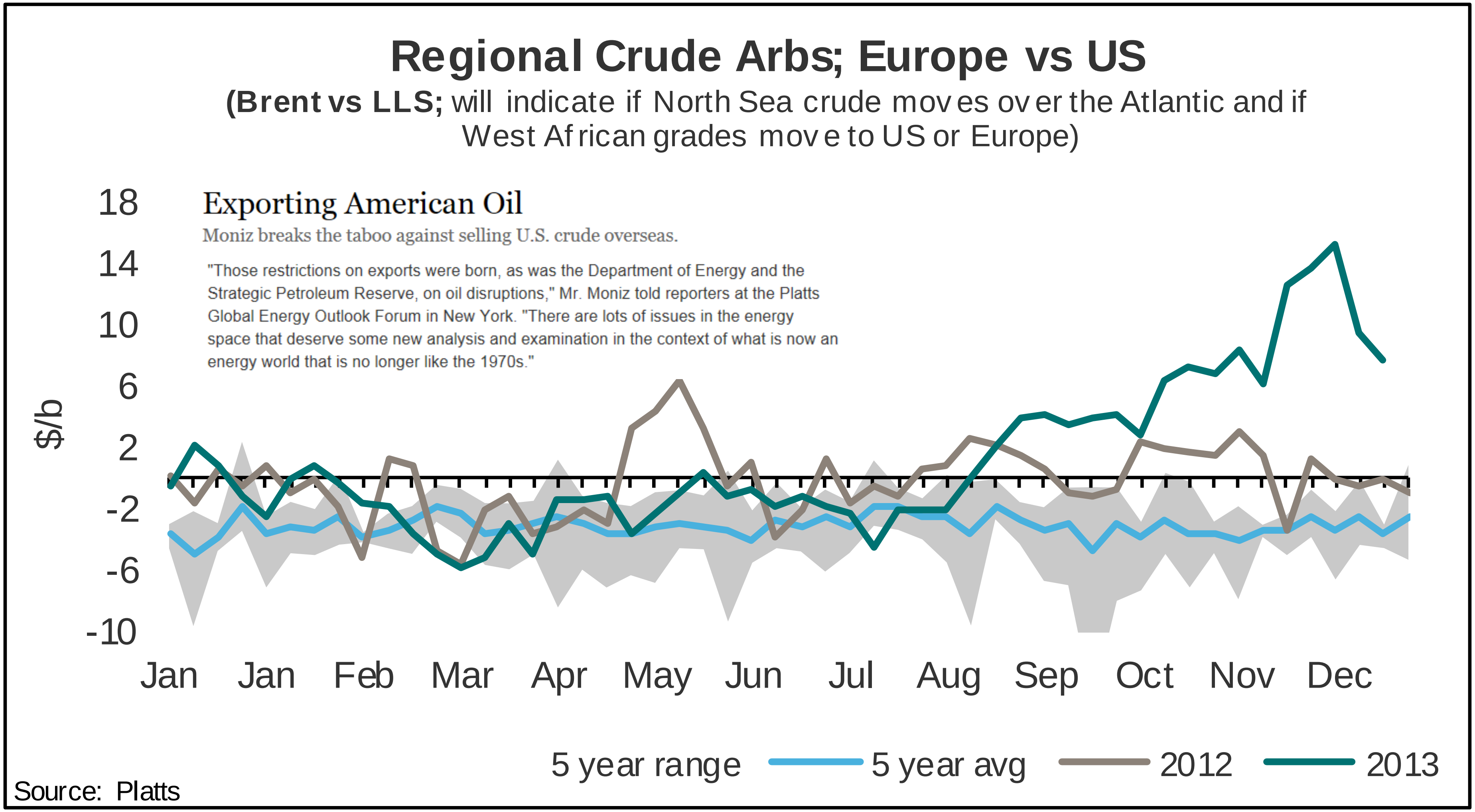


Source: Platts

MARKETS

Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

Brent Much More Expensive Than LLS (US GOM) Now

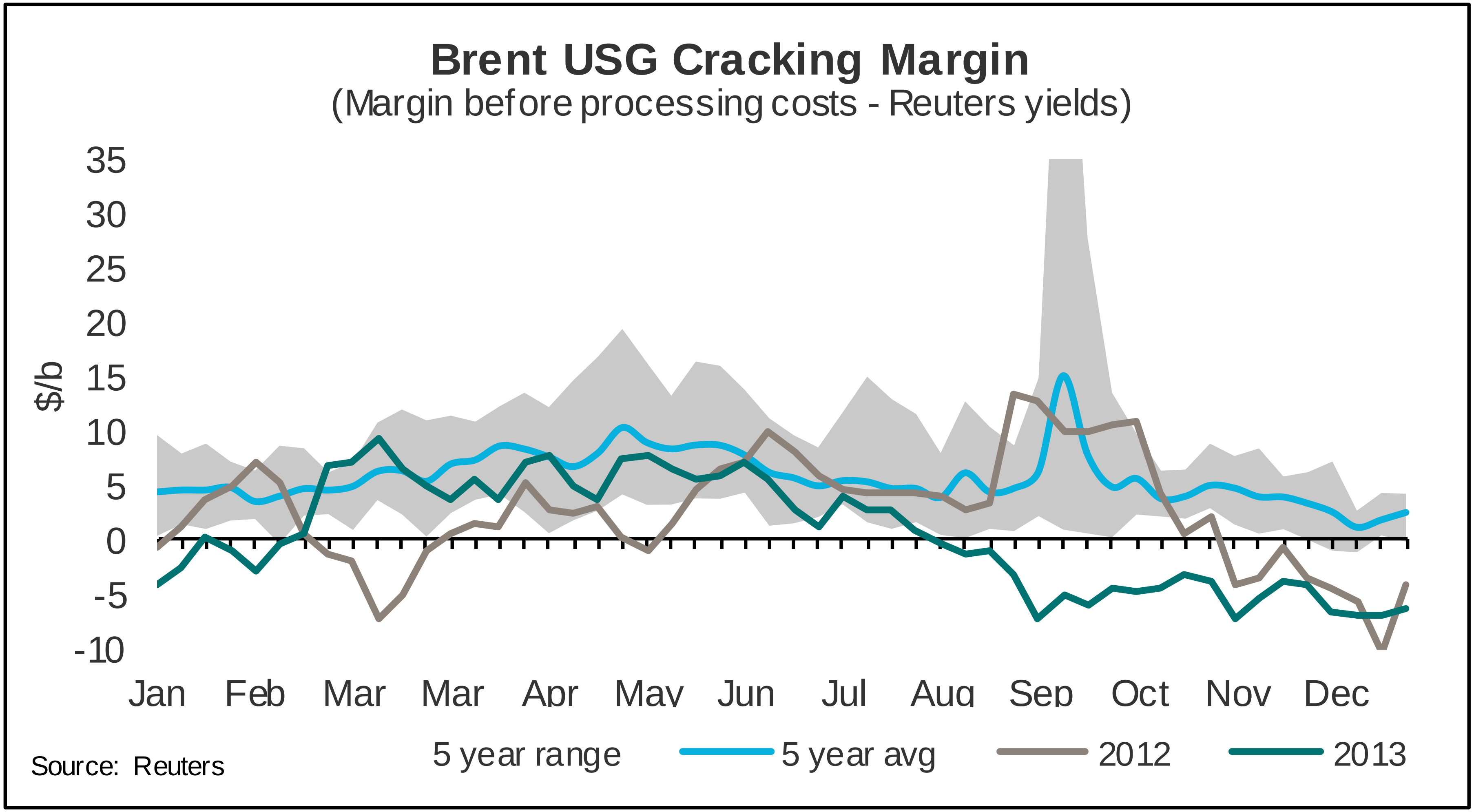


DNB

MARKETS

Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

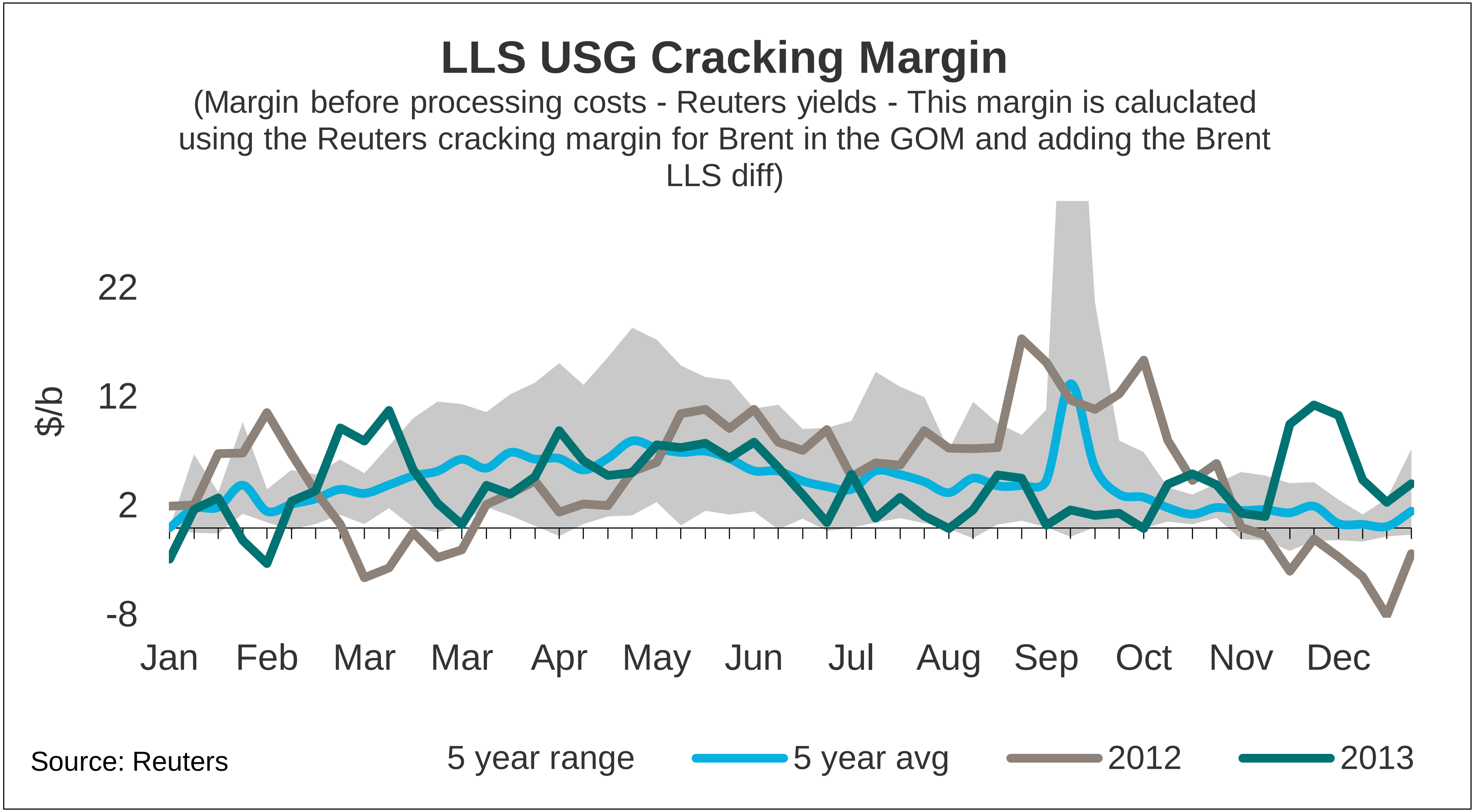
US GOM Margin Would Be Very Poor On Imported Crude



MARKETS

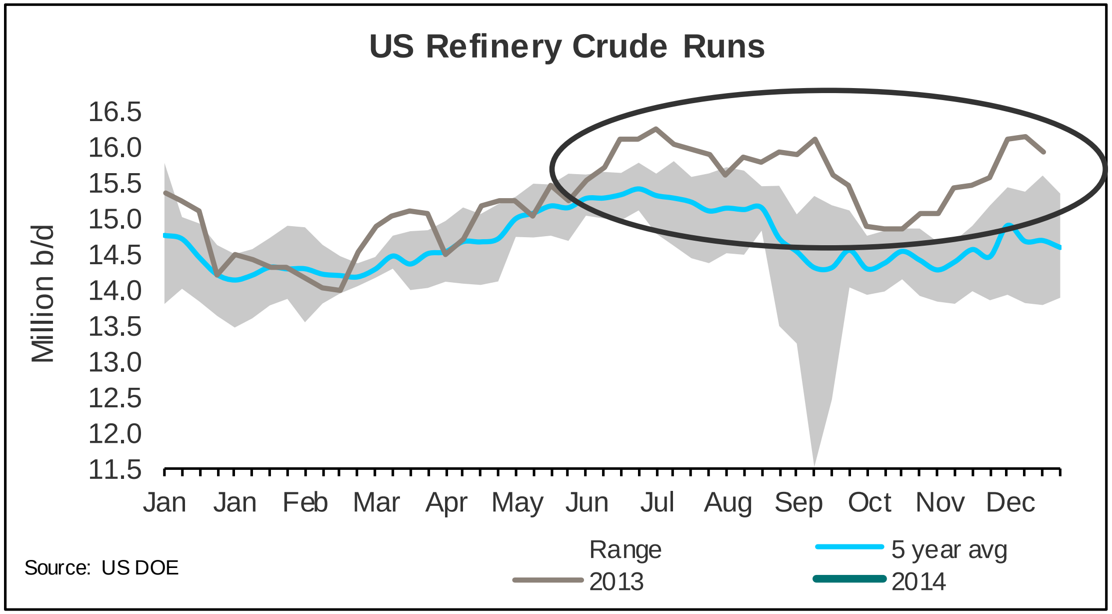
Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

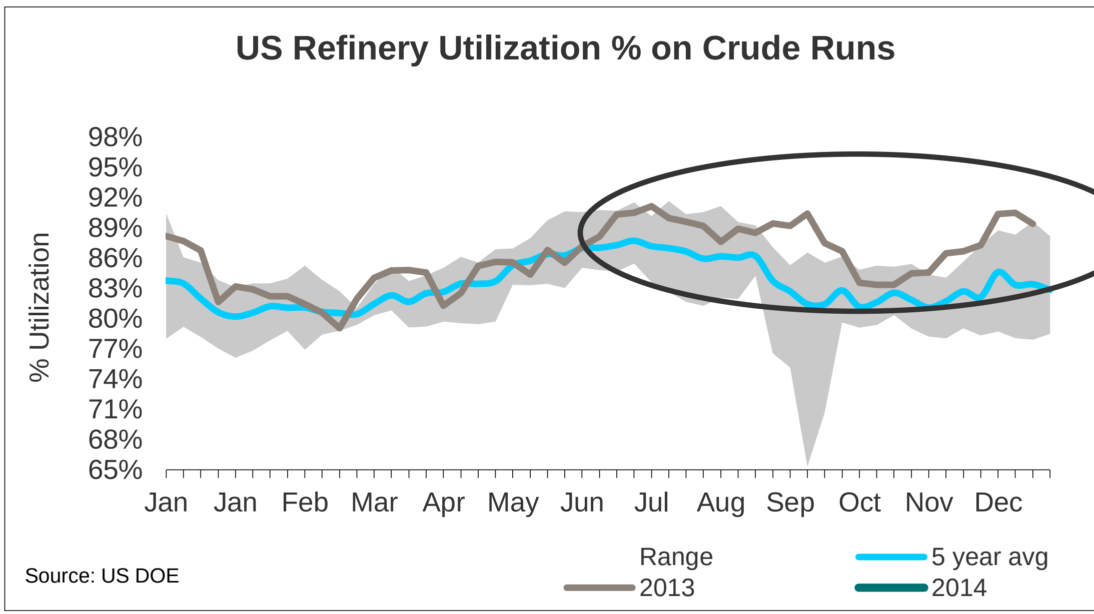
… But US Margin Is Very Good On refining Domestic Crude



Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

US Refiners Are Running Hard – Why Shouldn't They?

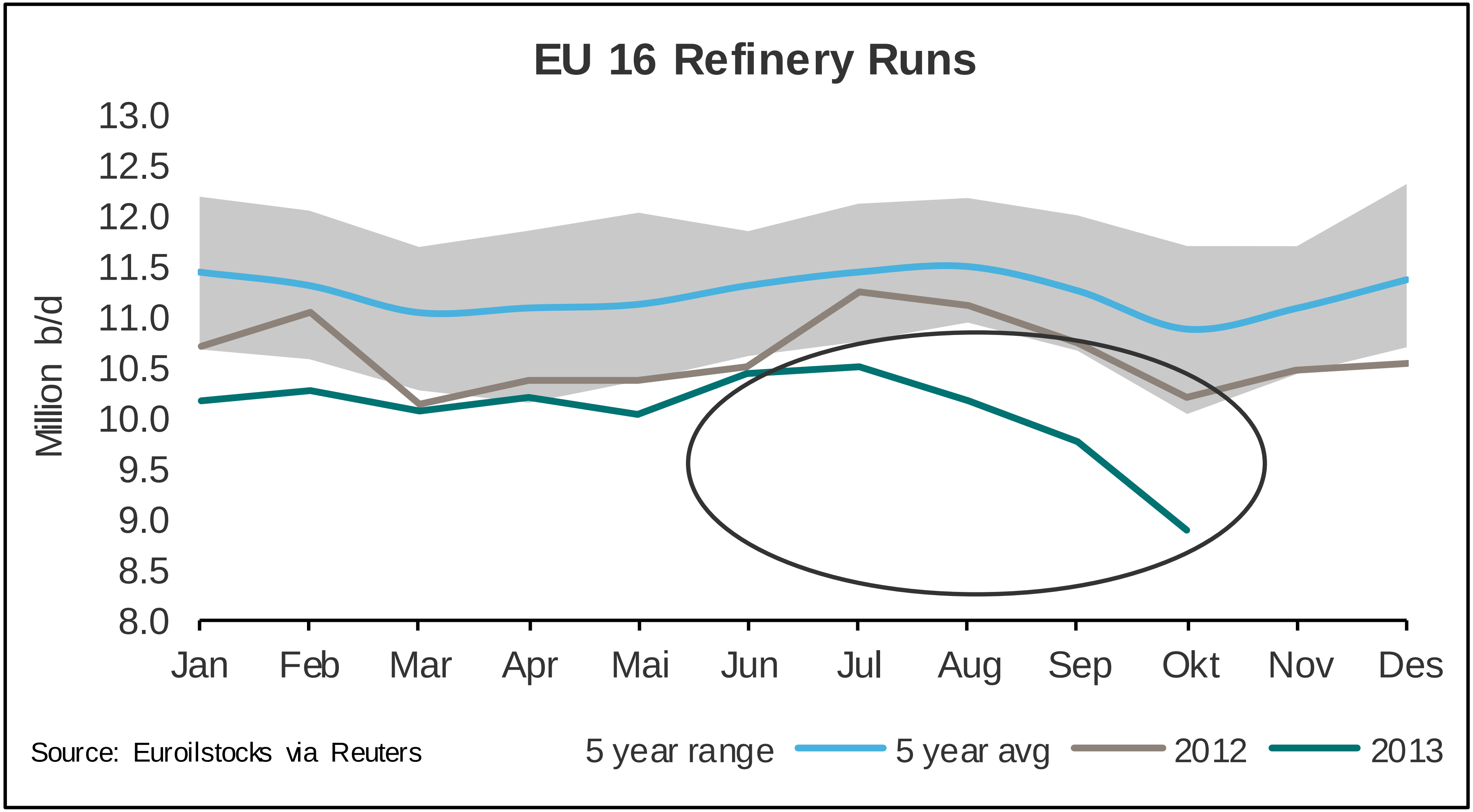




Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

The Flip Side Is That European Refining Is Hammered Down

- EU 16 refinery throughput down 1.3 mbd (13%) since last year



Torbjørn Kjus – torbjorn.kjus@dnb.no – Telephone: +47 24 16 91 66

CONTACTS & DISCLAIMER

Oslo, Sales & Trading		London, Sales		Oslo, Research	
Nils Fredrik Hvatum	+47 24 16 91 59	Ane Tobiassen	+44(0) 20 7621 6082	Torbjørn Kjus	+47 24 16 91 66
Fredrik Sagen Andersen	+47 24 16 91 48	**Singapore, Sales**		Karl Magnus Maribu	+47 24 16 91 57
Jesper Meyer Hatletveit	+47 24 16 91 53	Seng Leong Ong	+65 622 480 22		
Nils Wierli Nilsen	+47 24 16 91 61	**New York, Sales**			
Andre Rørheim	+47 24 16 91 64	Kenneth Tveter	+1 212 681 3888		
Erik Warren	+47 24 16 91 46				

This note (the “Note”) must be seen as marketing material and not as an investment recommendation within the meaning of the Norwegian Securities Trading Act of 2007 paragraph 3-10 and the Norwegian Securities Trading Regulation 2007/06/29 no. 876. The Note has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway (the “Bank”), for information purposes only. The Note shall not be used for any unlawful or unauthorized purposes. The Bank, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (individually, each a “DNB Party”; collectively, “DNB Parties”) do not guarantee the accuracy, completeness, timeliness or availability of the Note. DNB Parties are not responsible for any errors or omissions, regardless of the cause, nor for the results obtained from the use of the Note, nor for the security or maintenance of any data input by the user. The Note is provided on an “as is” basis. DNB PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE NOTE’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE NOTE WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall DNB Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Note, even if advised of the possibility of such damages. Any opinions expressed herein reflect the Bank’s judgment at the time the Note was prepared and DNB Parties assume no obligation to update the Note in any form or format. The Note should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. No DNB Party is acting as fiduciary or investment advisor in connection with the dissemination of the Note. While the Note is based on information obtained from public sources that the Bank believes to be reliable, no DNB Party has performed an audit of, nor accepts any duty of due diligence or independent verification of, any information it receives. Confidentiality rules and internal rules restrict the exchange of information between different parts of the Bank and this may prevent employees of DNB Markets who are preparing the Note from utilizing or being aware of information available in DNB Markets/the Bank which may be relevant to the recipients of the Note.

The Note is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. Distribution of material like the Note is in certain jurisdictions restricted by law. Persons in possession of the Note should seek further guidance regarding such restrictions before distributing the Note.

The Note is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets - a division of DNB Bank ASA registered in Norway with registration number NO 984 851 006 (the Register of Business Enterprises) under supervision of the Financial Supervisory Authority of Norway (Finanstilsynet), The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request. Information about DNB Markets can be found at dnb.no.

Additional information for clients in Singapore

The Note has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the Note, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product.

You have received a copy of the Note because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore’s Financial Advisers Act (Cap. 110) (“FAA”) and/or the Financial Advisers Regulations (“FAR”). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities.

Please contact the Singapore Branch of DNB Bank ASA at +65 6212 0753 in respect of any matters arising from, or in connection with, the Note.

The Note is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 0753.

We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the Note by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the Note.

Additional Information, including for Recipients in the In the United States:

The Note does not constitute an offer to sell or buy a security and does not include information, opinions, or recommendations with respect to securities of an issuer or an analysis of a security or an issuer; rather, it is a “market letter,” as the term is defined in NASD Rule 2211.

DNB MARKETS