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**Senate Committee on Banking, Housing, and Urban Affairs Hearing
on United States Crude Export Policy**

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Over the last several years, the unconventional energy revolution in the United States has brought about a new era of energy abundance in our country. Since 2008, the United States has expanded its oil production by almost 90% – from 5 million barrels per day in 2008 to over 9 million barrels per day today. In 2013, the United States surpassed Saudi Arabia to become the largest producer of petroleum liquids, which includes crude oil, in the world, and the United States is expected to be the greatest source of global oil supply growth through 2020. At the same time, our net oil imports fell from 60% to 26% of supply over the last decade, and are estimated to fall to 21% by next year.

Remarkably, after decades of concern about the scarcity of American energy supplies, we now find ourselves in an era of energy plenty. This has enabled us to become a major exporter of refined petroleum products and a powerhouse in the production of energy-intensive petrochemicals and in industrial manufacturing. And we are now on the cusp of exporting liquefied natural gas.

This American energy revolution has had profound and positive economic benefits for our country, increasing our GDP, helping to drive our economic recovery, improving our balance of trade, reinforcing the continued primacy of the U.S. dollar, and helping to stabilize the global energy market in a period of unprecedented supply disruptions.

To date, however, United States has not become a major exporter of crude oil. This is not for lack of potential and available supplies. Rather, it is due to antiquated laws that restrict the export of this commodity – laws that were put in place in response to the OPEC oil embargo of the 1970s. Today, these crude oil export restrictions create distortions in the domestic oil market and constrain U.S. oil production growth. Not only do they make energy-driven economic growth less than what it could be, they also hamper the ability of U.S. national security leaders to reap some of the strategic benefits presented by the American energy revolution. Today, we have an extraordinary opportunity to enhance both our economic vitality and our national security by lifting the ban on American crude oil exports.

National Security Implications of Lifting the Crude Oil Export Ban

Lifting oil export restrictions will yield a variety of security dividends to the United States. First and foremost, allowing crude exports would further strengthen our economy – the foundation of our national security. Lifting the ban would result in an increase in U.S. oil production (from approximately 110,000 barrels per day to 2.8 million barrels per day by 2020), a decrease in domestic refined product prices, further growth in our GDP, and an improved trade balance. Shoring up the United States' economic position would, in turn, strengthen our ability to play a much needed leadership role in international security and economic affairs. And we should not underestimate the degree to which becoming an oil

exporter could impact perceptions of the United States as a vital global power, helping to discredit erroneous narratives of U.S. decline.

Stimulating U.S. oil production growth also expands energy security by increasing oil supply to the global market from a reliable, stable producer. When more supply originates from producers who are not vulnerable to political instability, conflict, or threats to their energy infrastructure, the overall market becomes more stable. In addition, oil supplies coming from the United States would not have to transit vulnerable choke points like the Strait of Hormuz or maritime hot spots like the East and South China Seas. Lifting the ban would also enable U.S. oil producers to be more responsive to market signals and would give U.S. policymakers more options to use the Strategic Petroleum Reserve in ways that could counteract hostile attempts by foreign producers to manipulate prices. All in all, this would reduce risk to American consumers.

In addition, allowing U.S. oil exports would enhance the energy security of key U.S. partners, from Poland to India to Japan. Indeed, our closest allies in Europe and Northeast Asia would welcome – and have asked for – the unrestricted export of U.S. crude oil. European countries depend on Russia, which has amply demonstrated its willingness to use energy flows as a tool of coercion, for nearly 30% of their oil supplies, and they are eager to diversify their sources of supply. Similarly, East Asian allies like Japan, which imports more than 80% of its oil from the volatile Middle East, would welcome other, more stable sources of supply. U.S. oil exports would enhance their energy security by expanding the diversity of their oil supply pool and contributing to more efficient global oil markets. This is good for their economic growth as well as our own. And when our closest allies are stronger economically, they are more able to partner with us to address shared security threats and challenges regionally and globally.

Today, the United States is the only advanced country that bans crude oil exports. Lifting the oil export ban will send the right signal to international trading partners that the United States is strongly committed to free trade. This would be in keeping with our WTO commitments and would also support our ability to win any future trade dispute with another nation that may withhold its natural resources from the market. Shunning protectionism is a particularly important message to send at time when U.S. negotiators are putting the final touches on the Trans Pacific Partnership – the most consequential free trade deal for the United States in a generation – and exploring a similar free trade agreement (TTIP) with our European allies.

Another significant security benefit associated with lifting oil export restrictions is the greater flexibility this will give us to impose or expand energy sanctions in the future. Sanctions are a critical national security tool alongside diplomacy and military measures in dealing with many of the major security challenges that confront the United States today, from Iran's illicit nuclear enrichment to Russia's destabilization of eastern Ukraine. But imposing sanctions that take oil off the market is a viable policy only if there are adequate alternative oil supplies. The United States should encourage new supplies of oil to enter the market if it wants to sustain and enhance the ability to use oil sanctions as an element of statecraft in the future. Removing the ban on U.S. oil exports will help to accomplish just that by stimulating additional oil supplies.

In sum, by lifting the ban on U.S. exports of crude oil, U.S. policymakers have an extraordinary opportunity to enhance not only our economic vitality but also our national security. We can reap

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United States Crude Export Policy
Prepared Statement of Michèle Flournoy



substantial geopolitical advantages by playing a larger role in the global energy market and directly supporting the energy security of our allies. Enabling U.S. oil exports would strengthen our geopolitical influence, leadership, and leverage with allies and adversaries alike. It would help create a more stable and flexible global energy market that would reduce price volatility and thereby support our own economic growth and that of our most important trading partners. And it would bolster U.S. credibility and leadership in the pursuit of free trade and open markets around the world. Pursued alongside responsible policies to promote natural gas exports, greater energy efficiency, and low-carbon fuel sources at home and abroad, lifting the crude oil export ban simply makes sense economically and strategically.