The U.S.'s Self-Imposed Oil Embargo

In an interview on CNBC last week, Continental Resources CEO Harold Hamm elegantly exposed the increasingly anachronistic ban on crude oil exports from the U.S. By noting that sanctions on Iran would soon be lifted, allowing that country to once again export oil, he characterized the U.S. export ban as a self-imposed sanction, benefiting other producers and certainly not helping the U.S.

It’s an obvious contrast to draw, and such a devastating soundbite targeted at the dwindling supporters of maintaining current law, which dates back to the 1973 Arab Oil Embargo when the world was a very different place. Some believe that U.S. producers could realize an additional $5-14 barrel by selling to overseas customers. Other 1970’s era energy-related laws such as price controls and rationing were dropped long ago. In fact, arguably the main beneficiaries of current law are domestic refiners who are able to buy crude oil in a domestic market with fewer options than it might otherwise have.

Alaska’s senator Lisa Murkowski has promised to introduce legislation repealing the ban. Ever since oil began its collapse last Summer, hurting employment in a booming domestic energy industry, the ban has received increasing attention. Conventional wisdom continues to hold that the status quo will prevail. This may be so, but sometimes a position can be summed up in a soundbite that works for TV or for a speaker on the Senate floor looking for a 10 second clip on the nightly news. The contrast between lifting sanctions on Iran and maintaining our own self-imposed one is a powerful one easily communicated in a single sentence. It just might shift the debate, since articulating the opposite view doesn’t offer anything like the same optics or brevity of response.

If the oil export ban is eventually lifted, it’ll benefit a number of Master Limited Partnerships (MLPs) that have assets that handle liquids, including Magellan Midstream (MMP), Energy Transfer Equity (ETE), because of its ownership of the GP in Sunoco Logistics (SXL), and Plains GP Holdings (PAGP). Other MLPs, such as Targa Resources (TRGP) and Enterprise Products Partners (EPD) have Gulf Coast based assets that would also benefit from increased movement of crude oil through the Gulf on its way to foreign markets. We are invested in all the names just mentioned.