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The Drill

Your source for news across the Bakken and Three Forks Oil Patch.

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The Crude Life with Jason Spiess

Energy analysis and industry interviews by the North Dakota radio personality and journalist.

Export economics

Bryce: 'Disco-era' economics driving oil exports ban

The latest break in oil prices have some wondering if oil companies will be able to make the proper adjustments to turn the beat around, or if another one will bite the dust.

Others are looking the behaviors of OPEC and Saudi Arabia.

Most, however, seem to be pointing their fingers at the 1973 Arab Oil Embargo, known colloquially today as the the crude oil exports ban. This 40-year-old law has become so influential in the world of energy, many experts, like Robert Bryce, are wondering "Where Do We Go From Here?"

"I think a lot of companies have been reluctant to slow down their drilling and are hoping for an increase in oil prices," Bryce said.

Bryce is an author of several energy and economy books, is a correspondent for many national news programs and is currently Senior Fellow at the Manhattan Institute in Austin, Texas.

According to Bryce, there are a number of companies who will not have the cash flow or financial backing to sustain a long period of soft oil prices.

"Companies will not be able to afford to continue on how they have been," Bryce said. "Some of these companies that are already under pressure are not necessarily publicly held. If you look at Aubrey McClendon's company, American Energy Partners, they purchased a lot of leases at top of the market and have committed themselves to a number of drilling programs, and they are already looking at raising more cash because they overextended themselves."

Bryce believes exporting crude oil would reverse a ban on a global commodity while allowing oil companies a fair opportunity to retool their books, projections and outputs.

"When was the last time you heard a farmer say we shouldn't be exporting our corn? Or our wheat? Or Intel saying we shouldn't be exporting our microchips," Bryce said. "Instead, we are stuck in this disco-era attitude toward petroleum that somehow we are going to run out or prices are going to go up."

Like food, Bryce believes oil is a commodity everyone benefits from, therefore everyone should play on the same trading field.

"Well, this is a global commodity. It is one of the most global commodities in all of human history and the U.S. has this disco-era idea that it is our oil so we shouldn't be exporting it," Bryce said. "It's way past time to repeal the export ban. It should have been done a long time ago."

Loren C. Scott, meanwhile, believes the overall industry is staying alive by sharpening its pencils and counting pennies.

Scott is president of Loren C. Scott & Associates, Inc., a 31-year old firm that provides economic consulting to a number of energy companies.

"Companies are tightening their belts a lot more and one of the ways they are doing that is requiring suppliers to charge them less," Scott said. "Second, they are being forced to figure out how to get the oil out of there a lot more efficiently, drill faster and, overall, get it down quicker. That way they are able to reduce the cost of the well."

Scott alluded to the fact the oilfield isn't the only place innovation is happening. He also contests a certain level of innovation is taking place in the board room too.

"The oil companies are doing a number of things because they are smart clever capitalists," Scott said. "Number-one thing they are doing is going to the companies who do the fracking and saying, 'Look, the price of oil was $100. Now it is $52. We need to restructure the costs.'"

Scott said companies across the board are restructuring their deals in order to adjust to current market conditions.

"Fracking costs are down about 32 percent in the last year or so," Scott said. "They are also increasing their investigation on how to drill faster, deeper, quicker, more efficiently. So drilling costs are down about 20 percent. You take a company like Anadarko. Back in 2009, it took them 18 days to drill a well, now it takes them about 7-and-a-half."

Scott thinks the export ban is the critical item in determining the future of U.S. oil production.

"If you think about it, when did the price of oil start to fall?" Scott asks. "It started to fall about late summer or fall of last year. What happened to precipitate this decline was that there was an oil drilling company that went to the Department of Commerce and said they understood it was against the law to export crude oil. But suppose we took a barrel of crude and skimmed a little bit of the volatile gases off the top of it. Could we export that?"

Back then, Congress passed the Energy Policy and Conservation Act and then-President Gerald Ford signed the bill.

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Drill Photo by Paul Flessland

Loren Scott, an energy industry analyst and consultant, speaks in this undated photo.

EIA study on export affects a crude awakening

One of the hottest topics in Washington right now is the crude oil export ban. This topic has been picking up steam for the past five years and is now appearing to reach a major milestone decision in the next few months.

In September, a study on the effects of crude oil was released by the Energy Information Administration, explaining how the world would look if we exported crude oil overseas. One of the authors, Lynn Westfall, said he believes this study offers a non-industry look at the topic and will shed some light on the subject. Westfall also served as an advisor to the model on the effects on the mining industry.

Westfall has first-hand knowledge and is familiar with the North Dakota and Bakken oil and gas industry.

"I was in industry for 35 years, I have only been working in government for two years," Westfall said. "I used to work for Tesoro that owns the refinery in Mandan. I know North Dakota very well."

Asked about his opinion on the recent opening of the Dakota Prairie Refining plant near Dickinson, the first greenfield refinery opening in the U.S. since 1976, Westfall said it makes sense for North Dakota, but wasn't sure if it would work anywhere else.

"That particular one seems to make a lot of sense," Westfall said. "As you know, North Dakota gets very short on diesel fuel during times of the year and there really is no place to bring it in from inexpensively."

Westfall suggested the nation's supply of refineries is currently fulfilled while North Dakota was an anomaly in the refinery world.

"Mostly, we don't need more refineries in the United States," Westfall said. "North Dakota is a particularly unique set of circumstances where it makes sense."

Transitioning back to the report, officially titled "The Effects of Removing Restrictions on U.S. Crude Oil Exports" Westfall said there is not an export ban, just restrictions.

"There really isn't an export ban, just restrictions. For example, we can export all we want to Canada. Which we have been doing," Westfall said. "We can export ANS crude, California crude. There isn't a ban, just restrictions on what kind of crude and where you can export it."

Westfall said the debate has been discussed since the "fracking revolution" began and centers around two concepts.

"The first issue is with all this new domestic crude production coming on field are domestic producers getting the full international price for the crude." Westfall said. "The answer to that is it depends."

Westfall explained and offered context to the study and projected results.

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