

# Breaking Energy

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FRACKING, OIL & GAS, US

## Daniel Yergin: US Oil Output Helping Avert Crisis

By EDWARD DODGE

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Daniel Yergin, Pulitzer Prize winning author and Vice Chairman of global consulting firm IHS spoke at the 2014 EIA Conference in Washington D.C. on Monday. EIA, the U.S. Energy Information Association is the statistics arm of the federal Department of Energy and the conference featured leading figures from industry, academia and government.

Yergin stated emphatically that if not for the recent domestic boom in tight oil production the U.S. would be in trouble. “I’m convinced – were it not for what’s happened these last few years – we’d be looking at an oil crisis,” he said. “We’d have panic in the public. We’d have angry motorists. We’d have inflamed congressional hearings and we’d have the U.S. economy falling back into a recession.”

He went on to say that recent increases in domestic oil and gas production are turning unconventional oil and gas resources into conventional resources. U.S. natural gas production is up 34% since 2005 and crude oil production is up 66% since 2008. Recoverable reserves have doubled and world oil resources are re-balancing. U.S. oil production is at 8.3 million barrels per day production and could get to 14.4 million b/d.

Yergin argued the U.S. should lift its crude oil export ban. “The rationales for a crude oil export ban are gone, but the ban is still in place. The 1970’s-era policy restricting crude oil exports — a vestige from a price controls system that ended in 1981 — is a remnant from another time. It doesn’t reflect the dramatic turnaround in domestic oil production, led by tight oil, which has reversed the U.S.’s oil position so significantly.” The export ban is dated and protectionist and the market would function more efficiently if it were lifted, he said, adding that exports would also lead to lower gasoline prices.

“It is really adjusting to the new reality, and getting a better outcome than trying to continue to live in the 1970s. Lifting the ban on crude oil exports would signal the US government’s commitment to global markets and energy security. The US has preached to other countries for decades about the need for free flow of resources. How can we say to Japan that it can’t import any of our LNG but must not buy Iran’s oil?”

One of the dangers of not lifting the ban is that light tight oil (LTO) would start to trade at a discount domestically due to lack of refinery capability. “We see a risk of a \$15-25/bbl domestic light crude discount being locked in during the next couple of years, potentially limiting additional investment.”

One of the ways around the ban is to perform minimal refining that would allow the oil to qualify for export. But Yergin noted the risk of this strategy, “because of regulatory uncertainty, people are building toppers and splitters, but they’re not spending a lot of money on them because they don’t want to possibly be stuck with surplus equipment.”

Well-functioning markets contribute to energy security as flexible markets adjust and absorb shocks better. U.S. energy exports reduce tension over energy supplies and help balance out supply disruptions from the increasingly volatile Middle East as witnessed in recent years in Libya and Iraq. Events in Ukraine have caused Europe to start looking to North America for supply and caused Russia to look at China for demand. U.S. production also gave western political leaders the capacity to enforce sanctions against Iran which would not have been possible without American oil supplementing the markets.

Another component of energy security is the integrity of physical infrastructure. Bad weather events such as Hurricanes Katrina, Rita and Sandy damaged pipelines and distribution creating supply shocks. These events highlight the need for resilient infrastructure and diversification of supplies.

During times of crisis the need for high quality data becomes particularly acute to help overcome disruptions. Anti-trust issues prevent oil companies from sharing information, making emergencies more difficult at moments when situational awareness is needed. EIA plays a very important role during these times as a neutral and impartial arbiter of information and data.

Yergin also noted that we have moved past peak demand for oil. Something no one in the industry predicted a decade ago. This is partly due to great gains in efficiency. “Efficiency is a great resource”, he said, and the US oil import reduction seen in the last few years is 25% attributable to improved efficiency and 75% attributable to increased production.

Topics: Daniel Yergin, Energy Security, Geopolitics, Global Oil Market, Light Tight Oil, Oil Market, Oil Prices, Oil Supply, Tight Oil, US Crude Export Ban, US Crude Export Policy, US Crude Oil Exports, US Oil Exports, us oil production, Yergin

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