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Welcome to the real world

By Humberto Campodónico

It is currently being discussed in the United States if the Export Administration Act (EAA) of 1979, that prohibits crude oil exports, is to remain in force. Why? Because the US is experiencing a sharp increase in the production of shale oil and shale gas (also called "unconventional"). And oil and gas companies want to export their surplus production.

First question, how can there be a law in the US that prohibits such an elemental activity as exports? Well, the EAA exists due in large part to the geopolitical problems of the late 1970s, and applies not only to oil.

Let's see. The EAA says that the export restriction will come into force "when foreign policy issues or short-term supply is necessary to ensure the fundamental national security". The law also gives the President the authority to "prohibit or curtail the export of any goods" (Section 7(a)(1)) where "necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of foreign demand" (Section 3(2)(C)).

Interesting. There is talk of national security and protection. It is also said that foreign merchandises could be more expensive than domestic merchandises. And that this could bring inflation. Where did the "cost of opportunity" go? Well, it is subordinated to the "national interest" of the U.S.

Currently the law applies to only some products, including oil, where the US now has an enormous trade deficit (in 2013, imports amounted to $433 billion, twice the GDP of Peru). And how does this work in practice? Like this: "Under the restrictions passed in the 1970s, most U.S. crude can be exported only if the U.S. Commerce Department grants an export license based on a finding that it would be in the "national interest"" (1). What do you think?

And here we return to the beginning: the revolution of "shale oil" has increased production from 5.0 to 7.4 million barrels per day from 2008 to 2013. And the production of "shale gas" is now bigger than the production of conventional gas. A recent US government report says that by 2020 the US will be the world's # 1 producer of hydrocarbons. Moreover, it will reach self-sufficiency by 2035 (2).

But then, why do you want to export "shale oil" if the US is still in deficit? The answer: "shale oil" is "light" oil and refineries in the Gulf of Mexico are prepared to process "heavy" oil from Venezuela, Mexico and Canada. In short: much "shale oil" is going to stay underground, because it cannot be refined in the U.S. and, at the same time, it cannot be exported because of the 1979 EAA. Hence the pressure to modify the law.

OK. But there's more. The freight cost by ship from deposits of "shale oil" to refineries in the Gulf of Mexico nearly quadruples the freight cost from the same fields to refineries in Canada. This is because the Jones Act of 1920, known formally as the Merchant Marine Act, requires that any shipment from one US port to another be carried on vessels built in the US, owned by US citizens, and operated by a US crew.

Why does this law exist? Tom Allegretti, the CEO of American Waterway Operators, a trade group for ship owners, says: "The Jones Act boosts the economy by keeping roughly 74,000 maritime jobs in the US, helps national security by making a fleet available for the military, and assures homeland security by keeping transportation in the hands of US citizens" (3).

Thus, the US has a protectionist law that increases the cost of domestic freight because of national security and provides a national fleet and employment, among others. Which adds to the 1979 Act, which explicitly prohibits exports of crude oil.

Welcome all to the real world, which, of course, is not the world of "the" economic theory, as if there were only "one" theory and not several schools of economic thought. This "theory" is auto complacent because it only reads and looks at itself and does not say what are the economic interests of companies that are behind it.

That is what is also seen in the various negotiations on the Doha Round of the World Trade Organization, the ongoing negotiations on climate change under the United Nations umbrella and, also, in the Trans Pacific Partnership led by the US to implement a Free Trade Agreement among several countries of America and Asia-Pacific.

For this motive, it is important to promote a wide debate at all levels of civil society in our countries, so that its national interests in issues such as intellectual property rights, patent medicines, ownership and scope of State Owned Enterprises can be taken into account. The examples of US realpolitik show us the way.

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(3) Oil and the Ghost of 1920, Wall Street Journal, 13/09/2012, http://online.wsj.com/news/articles/SB10000872396390444433504577649891243975440 .

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