October 4, 2022

The Honorable Jennifer M. Granholm
Secretary of Energy
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Secretary Granholm:

The U.S. refining industry is committed to working with the Biden administration to ensure Americans have access to affordable and reliable transportation fuels. We are encouraged by your stated intention for a constructive dialogue, appreciate the discussions we have had to date, and look forward to continuing this important work together. However, recent discussions with officials raise significant concerns that the Administration might pursue a ban or limits on refined petroleum products as a means to build domestic inventories of gasoline and diesel, despite your recent comments that, "restrictions are not being considered at this time."[1]

Banning or limiting the export of refined products would likely decrease inventory levels, reduce domestic refining capacity, put upward pressure on consumer fuel prices, and alienate U.S. allies during a time of war. For these reasons, we urge the Biden administration to take this option off the table and focus instead on working with us on policies that will strengthen U.S. energy security and protect consumers.

A Refined Product Export Ban Will Disrupt Global Markets and Harm U.S. National Security and Geopolitical Standing.

The U.S. refining industry has been working to ensure Americans and our allies have the fuels they need. Indeed, in the wake of an imbalance in supply and demand of liquid fuels due to disruptions by COVID-19 and Russia's unprovoked war in Ukraine, refining utilization rates have averaged well above 90 percent for most of the year. Our world-class refining industry produces more refined products than the U.S. consumes, allowing the U.S. to be a net exporter of fuels to provide stable and affordable energy supplies to our allies. Our ability to supply energy to global markets provides important national security and foreign policy benefits for the U.S., in addition to providing high-quality manufacturing jobs.

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[1] Valerie Volcovici and Timothy Gardner, "Biden admin not considering restrictions on oil product exports - Energy Sec.," Reuters, September 23, 2022, https://www.reuters.com/article/usa-oil-granholm-idAFL1N30U16A.

From the United States' approximately 18 MMBD of refining capacity, about 3.5 MMBD of gasoline, diesel, and other refined products are exported. Restricting these exports would cut off important supply from the international market, putting upward pressure on prices, threatening the global flow of essential energy, undermining U.S. allies and creating negative global economic consequences, including here in the United States.

Banning or otherwise restricting exports of refined petroleum products could have immediate and severe impacts on our industry's ability to reliably supply fuels in the United States, Europe, and especially Latin America. Earlier this year, Biden administration officials called on American refiners to *increase* diesel exports to our allies in Europe. Russia's invasion of Ukraine, on the heels of the pandemic, has led to a historic reshuffling of energy trade flows as countries around the world reconsider and make efforts to reduce their reliance on Russian energy. Refiners, in good faith, are making efforts to supply the European market and yet the Administration appears to criticize this industry on this exact point and potentially abandon your commitment to our allies abroad.

The reordering of global markets has contributed to high crude oil prices and created a global squeeze on refined products, including diesel, gasoline, and jet fuel. Banning exports could discourage energy investments in the U.S., thereby reducing our nation's energy security. The free trade of commodities improves the welfare of global consumers as resources are allocated in the most efficient manner.

In the first half of 2022, U.S. distillate exports to Latin America—our primary export market—returned to pre-pandemic levels, averaging more than 1 million barrels per day (MMBD). If the U.S. were to retreat from our trade relationship and choke off energy supplies, Latin American countries would face a choice between fuel scarcity and destabilization or acquiring product from new sources, namely Russia or China.

We also note that, with our enthusiastic support, the U.S. Trade Representative has requested consultations with Mexico over their treatment of U.S. energy companies. The U.S. should not undermine efforts to facilitate market access for U.S. energy, which is precisely what export restrictions would do.

A Refined Product Export Ban Will Harm the U.S. Economy.

A July 2022 study from the American Council for Capital Formation (ACCF)[2] assessed the economic impacts of a potential ban on U.S. refined product exports. The study found that:

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[2] American Council for Capital Formation, "Economic Impacts of a Potential Ban on U.S. Refined Product Exports," July 2022, https://accf.org/wp-content/uploads/2022/07/ACCF-Product-Export-Study-Final-072122.pdf.

- An export ban could result in the shuttering of an estimated 1.3 million barrels per day of U.S. refining capacity (7% of U.S. total) due to trapped refinery production in the Gulf Coast. The loss of this capacity would likely strand a surplus of crude oil in the Central United States, halting important upstream energy production.
- An export ban could result in higher product prices for U.S. fuel consumers, with more than two-thirds likely to experience price increases of more than 15 cents per gallon for gasoline and 45 cents per gallon for distillates.
- An export ban could cause a net loss to U.S. GDP of more than $44 billion in 2023.
- An export ban could eliminate 85,000 jobs this year and 35,000 job losses during 2023.

A Refined Product Export Ban Will Harm Consumers, Particularly on the East Coast.

The U.S. PADD 1 (New England, the Mid-Atlantic and South Atlantic) depended on 1.1 MMBD of petroleum product imports in 2021, including an average of 576,000 barrels per day (b/d) of motor gasoline blending components and 250,000 b/d of distillate. Imports are essential to meet fuel demand in this region in the most cost-efficient manner. The U.S. East Coast does not have enough refining capacity to meet regional demand, so it relies on a combination of fuel from local refineries, other U.S. refining centers—primarily the U.S. Gulf Coast—and fuel imports from the global market. There simply is not sufficient pipeline connectivity or the range of economic shipping alternatives that would be required to transport significantly more fuel to the East Coast from refineries in the Gulf. Banning exports of fuel from the United States will not eliminate this challenge or make it easier and more affordable to supply American-refined fuel to the East Coast. Instead, by cutting into global fuel supplies, it would likely raise the cost of fuel imported into the East Coast from the global market.

Moreover, banning exports of refined petroleum products could lead to unpredictable results and potentially disparate impacts across regions as refineries adjust to the revised trade flows. Because refined products destined for export do not always meet U.S. specifications, banning exports could affect the output of other products that are intended for use in the U.S. as well as reduce global supplies of these products. As a result, eliminating exports may not increase the production of U.S. fuels and could even reduce production.

Export Restrictions Will Not Rebuild Regional Fuel Inventories.

In addition to the clear negative impacts of a refined product export ban, the purported justification does not hold water. For instance, your press release on Friday, September 30, referenced "record gasoline and diesel exports."[3] This is a misrepresentation of U.S. Energy Information Administration (EIA) data, which show that both distillate and gasoline exports have yet to recover to pre-pandemic levels. And while total petroleum product exports have

[3] U.S. Department of Energy, "Statement by U.S. Energy Secretary Jennifer M. Granholm," September 30, 2022, https://www.energy.gov/articles/statement-us-energy-secretary-jennifer-m-granholm/.

risen thus far in 2022, the total volume increase is within historical norms and should be viewed in the context of significant market disruptions caused by Russia's war in Ukraine.

The implication of your press release is that exports come at the expense of domestic fuel inventories and that U.S. refiners should stop exporting to build inventories in parts of the country where current inventories are below the 5-year average. This suggestion misunderstands the way refined products move and are traded globally. Restricting exports from the U.S. Gulf Coast, for instance, will do little to help build inventories on the West Coast because there is not a readily available or economic way to transport Gulf product to the California coast. Further, exports are not to blame for low West Coast (PADD 5) inventories since the region exports only small volumes of fuel.

Participation in the Global Market is to the United States' Advantage.

Global commodity prices—including for crude oil, gasoline, and diesel—are set by the global market, not by refiners, in the same way, that farmers do not control the price of corn or wheat. Gasoline and diesel fuel prices are primarily driven by the cost of crude oil, which accounted for much of the changes in gasoline and diesel prices through the first seven months of 2022. Refiners' crude oil acquisition costs represented close to 60 percent of the retail price at the gasoline pump in 2022, according to the EIA.

Our nation benefits from an abundance of oil and natural gas resources. Those combined with American ingenuity and myriad technological advantages position us well to continue to be the world's energy leader in producing, processing, and transporting energy to among the highest environmental standards in the world. The U.S. refining sector, bolstered by our technologically advanced facilities and best-in-class workforce, is the most competitive, efficient, and resilient in the world. Participation in the global market is foundational to our position as the world's refining leader, benefitting American consumers and fuel manufacturers alike.

We urge the Biden administration to speak clearly and with one voice to disavow a refined product export ban or export restrictions, which would only further raise global and U.S. prices, roil energy markets, and deter needed investments across the U.S. energy supply chain. Your understanding and collaboration would be helpful to further a constructive dialogue.

Thank you for your consideration of this matter, and we look forward to our continued work on behalf of the American people.

Sincerely,

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