

**TESTIMONY  
OF  
TERRENCE A. DUFFY  
EXECUTIVE CHAIRMAN & PRESIDENT  
CME GROUP INC.**

**BEFORE THE  
HOUSE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY**

***Hearing on Energy and Rural Economy: the Economic Impact of Exporting Crude Oil  
July 8, 2015***

Thank you, Chairman Conaway and Ranking Member Peterson, for holding this hearing today on a policy that is preventing the U.S. economy from reaping the full benefits of the country's boom in oil production: the ban on oil exports.

In the 1970s, the US Government banned crude oil export products in reaction to OPEC driven oil prices, mile long gas lines, rising inflation, a depreciating dollar and growing trade imbalances. From the start, the ban does not appear to have provided any benefits for the rural or agricultural sector. Instead, the ban distorted the allocation of capital between US and non-US production.

Some four decades after the ban was imposed, the economic context is totally different. The US has experienced resurgence in oil and natural gas production. OPEC has little to no power to raise oil prices. Indeed, oil prices have dropped sharply. Inflation is very low and has been stable for over twenty years. Interest rates are extremely low. The US still is a net importer of oil and refined product, but exports of refined product have been rising with the oil production boom while imports of crude oil have been falling.

Prior to the commencement of the recent oil production boom, global oil markets had reached a balance in which there was little price difference between US oil (West Texas Intermediate – WTI) and European oil (from the North Sea – Brent). Then, the rapid rise in US production out-paced the ability of pipelines and railroads to get the oil to refiners and to end users. The result was a temporary widening of price spreads between US and overseas oil, with the US having cheaper oil. As pipelines were reconfigured, new ones built, and rail capacity expanded, over the last few years the US oil markets have largely reconnected with overseas markets sufficiently to narrow price spreads and come back into a globally balanced position.

Today, the U.S. is the undisputed global leader in energy technology (exploration, extraction, etc.) and a major exporter of refined product. This has been achieved despite the imposition of inefficiencies onto the US economy directly as a result of the ban. These inefficiencies include

distortions in refining, including investment, by preventing crude production from sometimes reaching its most efficient processor, which could be outside the US; distortions in logistics, including investment, by causing excessive storage and transport; and distortions in production, including investment, because crude cannot be marketed to its highest value use.

While the market for crude oil is globally integrated, the export ban segregates US crude from the world market, which punishes the US economy with price distortions. In order to encourage companies to invest in the production of crude oil here in the U.S., our domestic crude should be able to participate in the global free market for oil.

We support unfettered markets that can allow the US more influence over the global price setting process. While the US has reconnected with global markets, there are still considerable price differences between US and European oil. Partly due to the export ban condition, the world today uses the European Brent benchmark that is in declining production. Here in the US, we have a robust physical delivered market in West Texas Intermediate (WTI), and if opened up freely to the world, it would be an even more robust tool for pricing global crude oil. Commodity markets perform better when there is a clear, transparent and readily available supply that is used to price markets. This suggests that lifting the ban on crude oil exports would enhance the use of US markets for energy risk management.

Stated another way, the US is the global leader in financial markets – prices for global commodities, such as crude oil and refined products, are discovered in US futures markets. And the US is the place where producers come to manage energy price risk. The US has managed to maintain this leadership role in spite of the distortions governing the market for the product whose price US markets help discover. Lifting the crude oil export ban will remove an impediment to the integrity of the price discovery process in US markets. In addition, a well-balanced global market of exports and imports has the potential to reduce the impact of any one region, especially unstable ones, on the global price of oil, to the benefit of the US economy and the world as well.

In conclusion, the export ban was “protectionist” in nature and intent when it was put into place over 40 years ago. Its actual impact has been harmful to the efficiency of markets and to the price discovery process in the energy sector. Moreover, energy markets have transformed significantly over the last four decades and, now, even the original intent of the crude oil ban no longer makes sense.

- Now is the best time for the US to reassert its energy leadership.
- The way to do that is for us to have sensible policies in place that support the U.S.’s leadership position in energy technology and financial markets.

- There will be numerous benefits for the U.S. to be at the center of the global crude oil trade. And the U.S. should be allowed to participate in the global market for physical crude in order to benefit from our technology and financial leadership.

We at CME Group are greatly encouraged by the growing bipartisan support to update our energy policy to repeal this outdated ban. I applaud your leadership on this issue, Chairman Conaway and Ranking Member Peterson, and urge Congress and the Administration to repeal the ban on crude oil exports and let the market trade freely.