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U.S. Congress Pushes for End to Ban on Exports of Crude Oil to Mexico

by Carlos Navarro

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The US Congress has taken steps to remove a long-standing ban on exports of US crude oil to Mexico, partly with an eye on expanding the integration of a North American energy market. The measure has found strong support in both US legislative houses, with a group of mostly Republican US Senators from energy-producing states introducing legislation to remove the ban. The US imposed the restrictions because of energy shortages during the 1970s.

"America's energy landscape has changed dramatically since the export ban was put in place in the 1970s. We have moved from energy scarcity to energy abundance. Unfortunately, our energy policies have not kept pace," said Sen. Lisa Murkowski (R-AK), lead sponsor of the legislation along with Sen. Heidi Heitkamp (D-ND). "This legislation builds from bipartisan ideas, linking energy security and infrastructure to expanding exports and helping our allies. Our nation has an opportunity to embrace its role as a global energy powerhouse, sending a signal to the world that we are open for business and will stand by our friends in need."

There has also been some movement in the House to push to end the ban on exports of crude oil to Mexico. In a letter to US President Barack Obama, a bipartisan group of legislators—three from the energy-producing state of Texas—urged the US executive to exempt Mexico from US crude oil export restrictions, putting Mexico on par with Canada. The US lifted the ban on exports of crude oil to Canada in 1985, after former President Ronald Reagan declared such a move a matter of "US national interest."

"We write to urge you to use your authority under Section 103 of the Energy Policy and Conservation Act to exempt Mexico from US crude oil export restrictions," said the letter authored primarily by Rep. Michael McCaul (R-TX), chair of the House Homeland Security Committee, and Rep. Joaquín Castro (D-TX), a member of the House Foreign Affairs Committee. "Lifting the prohibition on crude oil exports to Mexico is consistent with the US national interest and would extend equal treatment to Mexico which the US currently affords Canada."

The letter pointed out that Mexico has recently enacted reforms to its energy sector, allowing private participation in the state-run oil company PEMEX ([SourceMex, Dec. 18, 2013](#)). The US legislators said the reforms open new opportunities for US energy companies to form partnerships with Mexico to boost its domestic energy production.

Oil exports to Mexico remained off limits during the negotiations on the North American Free Trade Agreement (NAFTA) in the 1990s. As a net oil exporter, Mexico did not press the issue, but focused during NAFTA negotiations on ensuring that the trilateral agreement would not lead to any form of privatization of the Mexican oil sector.

"Lifting the ban on oil exports will also improve our national security interests by reducing our trade deficits, neutralizing countries like Iran that extract the same types of oil as the United States,

expanding our competitive edge in a global marketplace, and providing a stable source of energy to our allies so that they will no longer be dependent on undemocratic regimes," said Sen. Joe Manchin, (D-WV), a member of the Senate Energy and Natural Resources Committee.

Senate Democrats divided

Manchin and Heitkamp are the exception among Senate Democrats, who are taking a cautious approach to the proposal. "We need to understand how changing the policy would affect our communities, especially in terms of gasoline prices," said a spokesperson for Sen. Maria Cantwell (D-WA), a member of the Senate Energy Committee.

Other Democrats are concerned that the measure might promote an increase in drilling in the US, particularly production of shale oil, which could increase the risk of environmental damage.

Murkowski believes that the easing of restrictions should not be limited to Mexico. "Nothing prevents America's trading partners from asking us for exemptions. ... Why stop with just Canada and Mexico? Why not members of NATO, such as Italy, which relied on Libya for some 21% of its oil, or Poland, which relies on Russia?" said the Alaska senator.

Oil swap with Mexico

While Congress and the president consider an end to the export restriction, another mechanism is currently in place that would allow a limited amount of oil to be sold to Mexico on a case-by-case basis. This mechanism allows a form of barter of crude oil with "adjacent countries," based on "convenience and increased efficiency of transportation." The lifting of restrictions would remove the need for this request process.

In August 2014, PEMEX made a formal request to the US Commerce Department to exchange heavy crude oil for lighter grades of US crude. Under the proposal, PEMEX would import about 100,000 barrels per day of light oil. This grade of crude could be mixed with Mexico's heavier oil, allowing refineries to produce more diesel and gasoline per barrel.

In March, PEMEX officials said they anticipated a decision on the swap from the Commerce Department in the near future. "Our expectation is that it happens soon," Jose Manuel Carrera, CEO of PEMEX's trade subsidiary PMI Comercio Internacional, told Reuters news service in March. "I would like to see the approval tomorrow, or I would have liked to see it yesterday, but the truth is that this is a permit that the United States unilaterally approves."

"PEMEX already sends 700,000 barrels per day of crude oil to the United States, but the proposed deal is in fact a swap of light crude for heavier crude, not a net import of US oil," Christian Gómez, Jr. wrote in the Americas Quarterly blog.

The letter from the House members to Obama said they were aware of the swap request by PEMEX. "We support such a transaction; however, we encourage you to make a presidential finding that would ease all export restrictions of U.S. crude oil to Mexico," said the letter.

US private sector supports end of ban

The US energy sector strongly support lifting restrictions on crude oil exports south of the border. "Providing Mexico the same status as Canada would be a step in the right direction," said George Baker, Houston-based energy analyst and director of the organization Producers for American

Crude Oil Exports. "Opening new markets for domestically produced light oil would put Americans to work, spur additional investment here at home, and enhance our trade balance.

"Thanks to the new energy reality in North America—a greater abundance—the policy [of prohibiting exports] has become a barrier in regional integration in the area of energy," said Carlos Gutiérrez, an executive with the Albright Stonebridge Group, a global business advisory organization.

"If President Obama and the US Congress revoke this restriction, we will begin a new era of energy cooperation in the Americas, we will promote free trade, and we will foster a much faster regional integration to the benefit of everyone," added Gutierrez, who served as commerce secretary during the administration of former US President George W. Bush.

"North America is already an energy superpower, and deepening energy integration would further bolster energy security in the region, Gómez wrote in the Americas Quarterly blog. Closer energy ties with Mexico are a no-brainer for the United States."

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