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Wall Street Journal: U.S. Refiners Export More Fuel Than Ever

American Companies Export Energy Boom World-Wide

By Ben Lefebvre

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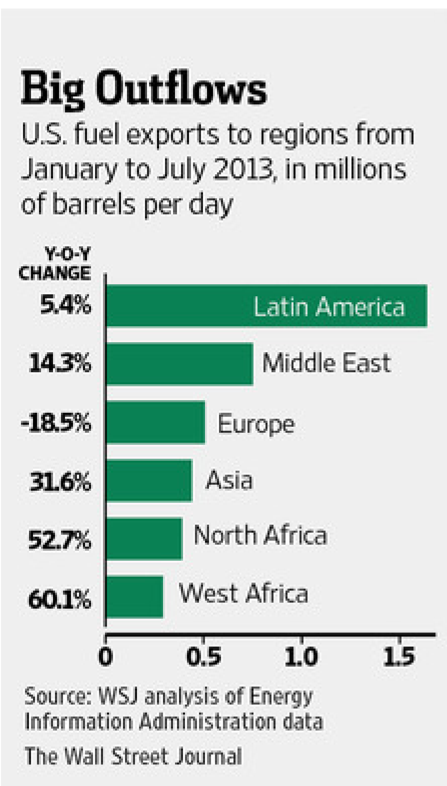
U.S. refiners are selling more fuel abroad than ever before, effectively exporting the American energy boom to the four corners of the world.

As crude production soars in places like the Eagle Ford shale formation in Texas, U.S. refiners along the Gulf Coast are increasingly using local oil, which is less expensive than the North Sea crude that European refiners use. That often means diesel and other fuels made in the U.S. are a bargain abroad even after adding the shipping costs.

While federal law bars overseas shipments of most U.S.-produced oil, refiners can export petroleum products created from that crude, including gasoline, diesel and jet fuel.

In July, U.S. refiners shipped a record 3.8 million barrels of products a day to places as far flung as Africa and the Middle East, according to the latest monthly data from the Energy Information Administration. That volume is nearly 65% above the 2010 export level, when the U.S. oil boom was still in its infancy.



"The bottom line is U.S. refiners are pushing product everywhere," said Francisco Blanch, head of global commodity research at Bank of America Merrill Lynch. "They can. They have a lot to sell."

That's in part because drivers in the U.S. are buying less gasoline, largely thanks to more energy-efficient automobiles and even though the price of gasoline has fallen over the past year to about $3.35 a gallon, according to AAA, down from $3.82 a year ago.

"It's a happy confluence of events that our demand has dropped off just as crude oil supplies and demand for products has grown elsewhere," said Ed Hirs, an energy economist at the University of Houston.

Exports to Asia have grown by a third this year, with greater demand coming not just from Japan—a traditional buyer of U.S. fuel—but also from China and India, which have been building up their own refining industries.

Latin America's voracious appetite for U.S. fuel comes from countries like Brazil and Venezuela, which have aging energy infrastructures that can't keep up with demand. Fuel flows to that region rose 5% this year between January and July to more than 1.6 million barrels a day.

Overseas customers are particularly eager for low-sulfur diesel that meets the stringent air-quality standards that are rolling out across South and Central America and are already law in Europe. U.S. diesel exports surpassed one million barrels a day for the first time this past summer, doubling from the start of the year. In 2010, U.S. diesel exports averaged just 300,000 barrels a day.

New markets have cropped up for U.S. fuel, including West Africa—primarily Nigeria—where fuel imports from the U.S. surged 60% in the first half. North African countries along the Mediterranean have imported 52% more U.S. fuel this year.

These areas have traditionally been served by European refiners, but they have been struggling with high crude costs, outdated equipment and economic malaise at home. U.S. fuel exports to Europe doubled between 2007 and 2012 as at least 15 inefficient refineries on the continent closed. But demand in Europe is so lackluster that U.S. fuel moving across the Atlantic in 2013 has slumped nearly 19%, to just over 500,000 barrels a day.

Despite the recent drop, American refiners continue to steal their European counterparts' market shares, not just in the Mediterranean and Africa but also in the big cities on the U.S. East Coast. European refiners, which have been sending gasoline there since the 1980s, have suffered a 22.5% drop this year.

The Colonial Pipeline system, a 5,500-mile network of underground pipes that stretches from Texas to New York Harbor, recently added 160,000 barrels of capacity, bringing traffic to more than 2.4 million barrels a day and further dampening the need for European fuel.

Marathon Petroleum Corp.'s Garyville, La., refinery is set up to make diesel for export, and it's expanding capacity by 100,000 barrels a day this month. The company's existing dock space is maxed out, so it's building new loading capacity at the site.

Valero Energy Corp. spent $3 billion to increase diesel production this year at its plants in Louisiana and Texas, fuel it can then export to Europe.

Some European companies have pushed back. Total S.A. closed its Rome refinery last year, and its sales in Europe fell 5% in this year's first half. But it is spending more than $1 billion to revamp a plant in Antwerp, Belgium, to increase diesel production.

The European refiners will have to compete with new entrants to the U.S. fuel-export business. Enterprise Products Partners, a pipeline operator, is rushing to build 360,000 barrels a day of capacity at two fuel-export terminals in Texas that will come online in 2014. Most of that fuel will be aimed straight toward Europe.

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