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Oil Import Decline to U.S. Revealed by Louisiana as Truth

By Dan Murtaugh, Zain Shauk and Lynn Doan - Nov 5, 2014

Things are slowing down at the U.S.'s largest oil-import hub.

Just six years after importing more than 1 million barrels a day from countries including Saudi Arabia, Nigeria and Iraq, the Louisiana Offshore Oil Port is receiving just half of that from overseas, highlighting a nationwide trend at harbors from Mississippi to Pennsylvania. What's more, with U.S. output soaring to a 31-year high, neighboring Texas has become the port's second-biggest supplier.

"U.S. oil production has significantly changed the flows of oil around the world and LOOP is at the fulcrum," Jamie Webster, head of global oil markets at IHS Inc., said by telephone from Washington Nov. 3. "We're now essentially receiving nothing from Nigeria. This is a huge change. I'm an oil markets man and not an economist, but in general, this is a big stimulus" for the U.S.

Oil Prices

Booming oil and gas production created more than 159,000 jobs between 2007 and 2013, Bureau of Labor Statistics data show. The country will be self-sufficient in energy by 2030, BP Plc says.

A four-decade ban on exporting most U.S. crude has stranded the bulk of America's surging production within the nation's borders, blocking inbound global shipments. Some cargoes permitted for export, such as those from Alaska, have begun moving overseas. South Korea last month received its first shipment of Alaskan oil in more than a decade.

U.S. Consumers Benefit

Oil that the U.S. once imported now floods world markets, driving down prices 28 percent since June. That's helped bring $3 gasoline back to U.S. pumps and provided what Citigroup Inc. describes as a $1.1 trillion boost to the global economy. Lower energy prices will translate into savings for Americans and will probably boost spending, said Amy Myers Jaffe, executive director of energy and sustainability at the University of California at Davis.

"It's not just that people will have this benefit of lower gasoline prices, they'll have this whole benefit of

having a stronger U.S. economy and more jobs," Myers Jaffe said.

Oil prices have maintained their decline as OPEC, the supplier of 40 percent of the world's oil, resists pressure to curb production and help eliminate a global surplus. On Nov. 3, Saudi Arabian Oil Co. cut prices for all of its crude grades to the U.S., an e-mailed statement from the company showed.

WTI for December delivery rose $1.49 to settle at $78.68 a barrel on the New York Mercantile Exchange. Brent gained 13 cents to $82.95.

Lower Prices

A sustained stretch of low prices is unlikely to stop soaring output from major U.S. fields, with executives of oil companies including Continental Resources Inc. Chairman Harold Hamm and Occidental Petroleum Corp. Chief Executive Officer Stephen Chazen saying last month that production could be sustained even if prices fall lower.

"Oil prices are lower, but they're not low enough to really put a big pinch on that activity," said Ken Medlock, senior director of the Center for Energy Studies at Rice University's Baker Institute in Houston. "You probably would need to see oil prices come off another $10 to $20 to see that fade."

Horizontal drilling and hydraulic fracturing have drawn crude from previously inaccessible formations in Texas and North Dakota, propelling U.S. output to 8.97 million barrels a day, the highest level since 1983. Restrictions on exports have made U.S. oil cheaper than global crudes, so imports have fallen 31 percent since 2005 to 7.5 million barrels a day.

Supertanker Port

"Why is oil $80 instead of $95?" said David Hackett, president of Stillwater Associates LLC in Irvine, California. "All of a sudden all this oil is getting to the coast and pushing back world supplies."

The shift is being felt 20 miles (32 kilometers) offshore in the Gulf of Mexico at the LOOP. Built in 1981, it's the only U.S. port that can unload the world's largest supertankers.

Shipments into the port peaked in 2005 at 1.18 million barrels a day, according to Louisiana state records. Imports have fallen to 510,000 barrels a day this year, and since May the port has received more oil from Texas than any country other than Saudi Arabia.

The U.S. Customs district in Morgan City, Louisiana, where the LOOP's barrels are tallied, had 46 percent less petroleum import tonnage in September than the year before, according to Datamyne Inc.

Refining Profits

Morgan City has plenty of company. Philadelphia, home to the East Coast's largest refining complex, had a 31 percent drop. Pascagoula, Mississippi, shipments declined 35 percent. Port Arthur, Texas, which brings in oil for some of the oldest refineries in the U.S., saw a 32 percent decline.

Returning to its roots, Exxon Mobil Corp. (XOM)'s Beaumont refinery is now processing more domestic crude. It imported 32,000 barrels of oil a day in July, down from around 220,000 in 2012. The refinery was built in 1903 by John D. Rockefeller's Standard Oil Co. to process crude from the Spindletop gusher 4 miles away.

Third-quarter refining profit climbed to $1.02 billion from $592 million a year earlier, the Irving, Texas-based company reported Oct. 31. That more than offset a $297 million decline in earnings from oil and gas production.

American refiners from Marathon Petroleum Corp. (MPC) to Phillips 66 have said in conference calls within the past week that they're buying fewer expensive foreign crudes and more oil from the Bakken in North Dakota and Eagle Ford in Texas.

Domestic Crude

Instead of bringing in oil by ship, refiners have turned to pipelines and rail. Phillips 66 used 3,200 rail cars to get more of its crude from U.S. sources.

The company said 95 percent of its oil in the third quarter was either domestic or heavy oil priced below benchmarks. Phillips 66 will add 500 rail cars to its fleet by early next year, and expects to use only the less expensive crudes by the end of 2015, CEO Greg Garland said on an Oct. 29 conference call.

Back at LOOP, Terry Coleman, the port's vice president for business development, said equipment has been reconfigured to accommodate smaller tankers and the shift in flows. On top of tanker unloadings and receipts from offshore drilling platforms, the company is now linked to an onshore pipeline operated by Royal Dutch Shell Plc, he said by phone yesterday.

"Given its size and its historical importance, LOOP is really the bellwether of the structural change that has taken place," Darryl Anderson, managing director of Wave Point Consulting in Victoria, Canada, said by phone Nov. 3. "What it's telling us is that there has been a fundamental change in U.S. energy sources."

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