

US diesel export ban A political quick fix that could make the problem worse

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Key Points:

- Political appeal, economic risk: Speculation the US administration could introduce an export ban on diesel has widened WTI's discount to Brent while driving the Brent-gasoil spread to a fresh record
- A US diesel export ban could temporarily boost domestic inventories and ease prices, but it would redistribute rather than solve the underlying global shortage.
- A ban could ultimately reduce fuel supply: Once Gulf Coast storage fills, refiners may be forced to cut throughput, reducing production of diesel, gasoline and jet fuel while removing up to 1.5 million barrels per day of diesel from an already tight global market.

The Trump administration is considering restricting US diesel exports as record fuel prices intensify pressure on consumers, farmers and transport companies. Politically, the attraction is obvious: keep more American-produced diesel at home and, in theory, bring down domestic prices.

Economically, however, the calculation is considerably more complicated. US diesel prices have risen to around USD 6.50 per gallon, while inventories have fallen to their lowest seasonal level in more than four decades, according to Reuters. The squeeze comes as the global refining system struggles with the loss of substantial Middle Eastern and Russian supply following the Iran war, disruption to shipping through the Strait of Hormuz and Ukrainian attacks on Russian refineries.

The extent of the global shortage continues to be most visible in refining margins. The spread between Brent crude and European gasoil futures reached a record above USD 105 per barrel earlier today, before easing back to around USD 100 at the time of writing, compared with a pre-war average closer to USD 20. As the war has progressed, concerns have increasingly shifted from the availability of crude oil to the world's ability to turn it into refined products, most notably the middle distillates needed for trucking, agriculture, aviation and industry. Speculation about a US diesel export ban is already creating distortions elsewhere in the barrel, with the WTI discount to Brent widening to around USD 9.5 per barrel as traders price the risk that export restrictions could reduce US refinery demand for crude.

The case for an export restriction

At first glance, restricting exports makes intuitive sense. US refineries produce substantially more diesel than the domestic market consumes, while around 1.5 million barrels per day of US diesel currently enters the global seaborne market. Keeping some of those barrels at home could rebuild depleted inventories and temporarily reduce domestic prices.

That would be particularly attractive ahead of the winter heating season and autumn refinery maintenance, when inventories would normally be rising rather than sitting at exceptionally low levels. For an administration facing pressure over living costs ahead of the November midterm election, the political appeal is therefore straightforward: American refineries produce the fuel, so why allow it to leave

the country while American consumers are paying record prices?

But diesel is a global market

The problem is that restricting exports does not create a single additional barrel of diesel. The US refining system is geographically fragmented. More than half of US refining capacity is located on the Gulf Coast, which produces considerably more fuel than the region consumes. Meanwhile, areas such as the East Coast rely partly on imports because infrastructure and shipping constraints make moving Gulf Coast fuel northwards less straightforward than the headline production surplus might suggest.

More importantly, exports provide Gulf Coast refiners with an outlet that allows them to continue operating at very high utilisation rates. If exports were restricted, diesel inventories on the Gulf Coast could initially rise and local prices fall. But once storage capacity started filling, refiners could be forced to reduce crude runs. Besides reduced demand for crude oil, refineries would end up producing less diesel but also less gasoline and jet fuel.

Solving a global shortage by making it bigger

The US has become the world's largest supplier of seaborne diesel, accounting for roughly 1.5 million barrels per day, or close to 20% of globally traded volumes, according to the American Petroleum Institute. Removing even part of that supply from an already severely constrained global market would push international diesel prices and refining margins even higher.

Those higher international prices would eventually feed back into the US market, particularly regions dependent on imported products. They would also raise transport, agricultural and manufacturing costs for US trading partners, potentially adding another layer of inflationary pressure to the global economy.

An export restriction could provide temporary relief by redirecting barrels into US inventories. But unless accompanied by additional refining capacity, improved domestic logistics or a recovery in Middle Eastern and Russian supply, it would largely redistribute an existing shortage rather than solve it.

Worse, if restrictions eventually forced US refiners to cut throughput, the policy could reduce the very supply it was intended to protect. The extraordinary USD 100-plus Brent-gasoil spread tells the story. The world does not currently have a crude oil problem as much as it has a refining and middle-distillate problem.

Keeping US diesel at home may therefore offer Washington a politically attractive quick fix. But in an interconnected global fuel market, restricting one of the few remaining major sources of supply risks turning a domestic price problem into an even bigger global shortage - which could ultimately find its way back to American consumers.

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