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War in Ukraine Drives New Surge of U.S. Oil Exports to Europe

With the West mostly shunning Russia's oil and gas, U.S. crude exports increase

By David Uberti Follow *and Bob Henderson* Follow

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A year of war in Ukraine is revitalizing U.S. oil exports as a source of financial influence and geopolitical power.

As the West has shunned most Russian energy, unleashing a pressure campaign against the Kremlin's petroleum revenues, record U.S. crude exports have helped fill the gap in Europe with the oil needed to produce gasoline, diesel and jet fuel.

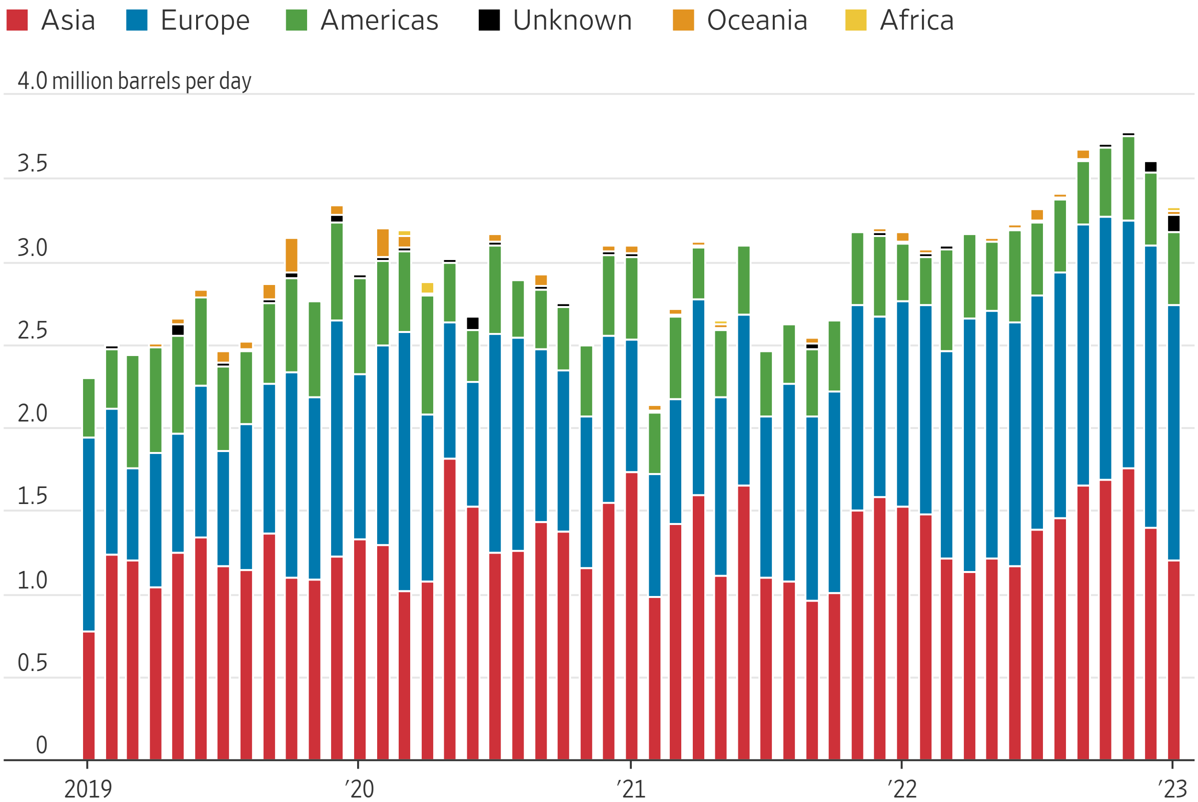
Since February 2022, when Russia invaded Ukraine, average monthly seaborne cargoes to the continent jumped 38% compared with the previous 12-month period, according to ship-tracking firm Kpler. A fleet of skyscraper-size tankers carried more crude to Germany, France and Italy—the European Union's largest economies—as well as Spain, which alone boosted purchases by about 88% over the period.

The pull of oil shipments from the Gulf Coast to Europe, which Kpler pegged at 1.53 million barrels a day in January, has in recent months made the continent a larger destination for U.S. crude than Asia.

The growth in exports marks the latest milestone in the revival of U.S. oil production after years of dwindling market clout. Petroleum exports supported Allied countries during both world wars, but output then slid, along with the country's sway over global markets.

Now, the shale boom in hydraulic fracturing and horizontal drilling has made the U.S. a major producer again, tapping gushers of fossil fuels ready for delivery to destinations opened by the Ukraine conflict.

U.S. crude exports by destination

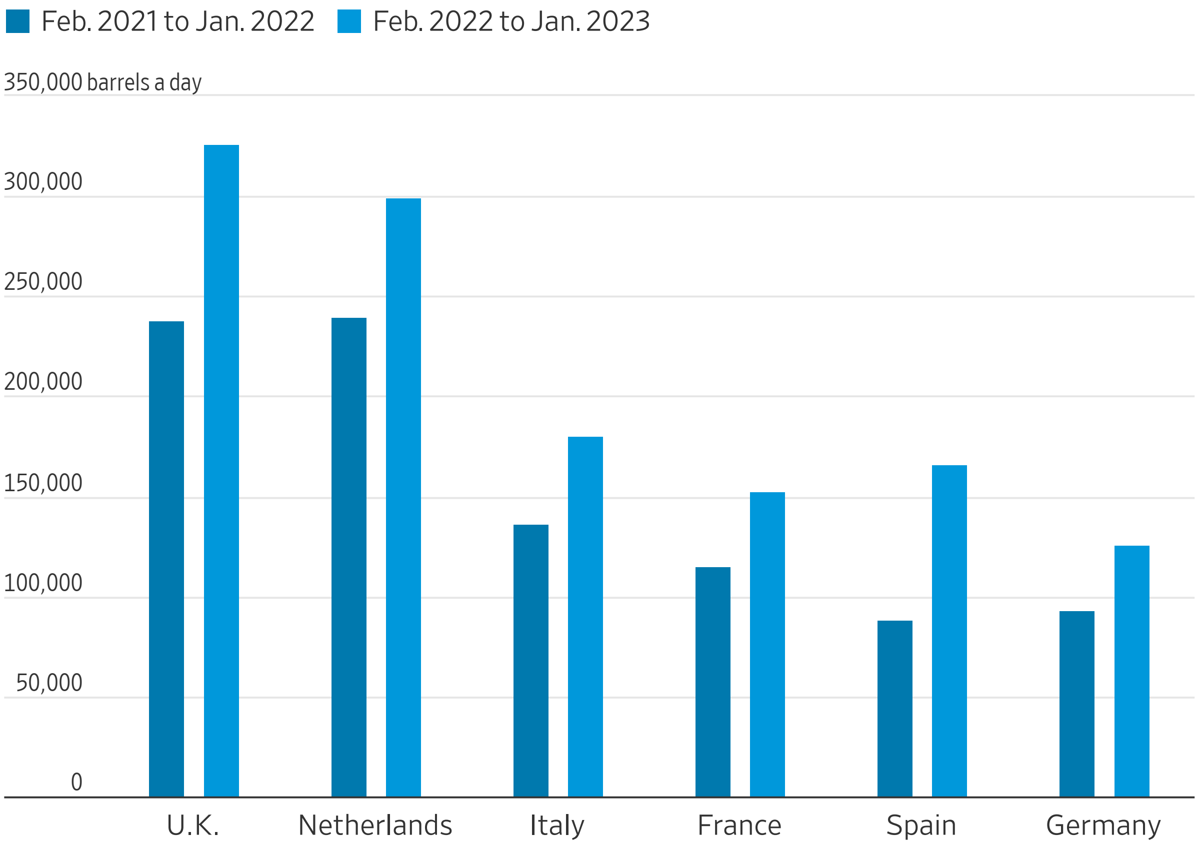


Note: Figures represent monthly average
Source: Kpler

U.S. natural gas shipments to Europe more than doubled last year, according to the White House, cushioning the continent's households and manufacturers after Russia throttled supplies. Analysts say surging U.S. crude production helped to calm markets as the West restricted most Russian exports with bans and novel price caps in recent months.

"America is back in the most predominant position it has been in world energy since the 1950s," said Daniel Yergin, an energy historian and vice chairman of S&P Global. "U.S. energy now is becoming one of the foundations of European energy security."

Average U.S. crude exports to European countries



Source: Kpler

With oil, a widening price gap between European and U.S. crude has turned trans-Atlantic shipments into a lucrative proposition for oil traders and, increasingly, speculators.

Production at North Sea oil fields between the U.K. and Norway has long tapered, buoying the Brent benchmark seen by investors as a global price gauge. At the same time, U.S. drillers produced a near-record 11.9 million barrels a day in 2022, according to the Energy Information Administration, which projects record highs this year and next.

That is depressing the price for West Texas Intermediate crude, the U.S. standard, expanding the difference between Brent and WTI, said Gus Vasquez, head of crude pricing, Americas, at price-reporting firm Argus Media.

In recent weeks, winter storms also slammed U.S. refineries, leaving many unable to process as much crude as usual. The disruption led to a relentless build in domestic stockpiles that are now 9% larger than the five-year average observed by federal record-keepers.

“If we don’t export these barrels, we have nothing to do with them,” Mr. Vasquez said.

More oil from shale regions such as the Permian Basin in western Texas is being directed to the Gulf Coast for shipment to overseas markets. PHOTO: JOE RAEDLE/GETTY IMAGES

Before the war in Ukraine, oil traders generally saw a $3 or $4 WTI discount to Brent as sufficient to cover transportation to Europe and other costs. That spread skyrocketed after the Russian invasion, at times topping $10 a barrel, as the economic conflict between Moscow and the West scrambled shipping routes and pushed up demand for tankers.

On Friday, contracts for Brent crude to be delivered in April ran $6.84 a barrel higher than WTI, according to Dow Jones Market Data.

That differential is signaling more traders to direct oil from shale regions such as Texas' Permian Basin through a network of pipelines to the Gulf Coast.

Many of those barrels land at Corpus Christi, Texas, where they can be loaded onto ships and sent abroad. Crude exports from the port averaged nearly 1.9 million barrels a day last year, equivalent to more than half of the U.S. total.

The facility allows 1,100-foot tankers known as very large crude carriers, or VLCCs, to take on most of their cargo from docks, rather than from smaller ships that ferry oil to the massive vessels on the open water.

"In shipping, bigger is better," said Sean Strawbridge, chief executive of the Port of Corpus Christi.

Even as ports along the Gulf Coast expand infrastructure for such exports in the coming years, the flow of U.S. crude faces new questions at home and abroad.

Major drillers are returning more cash to shareholders rather than investing in production, threatening the growth of shale oil. President Biden's emergency release of 180 million barrels from U.S. crude reserves, announced last March, has ended. China's emergence from pandemic lockdowns promises to siphon off more supplies.

In Europe, many policy makers and executives are calling for clean-energy subsidies similar to Mr. Biden's climate-and-spending plan in a bid to accelerate the continent's move away from fossil fuels.

"The U.S. will continue to produce oil in large quantities moving forward," said Gregory Brew, an energy analyst at Eurasia Group. "The bigger question is 'What is Europe going to decide for itself?' "

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