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Tapping Oil Reserves Won't Solve America's Risky Energy Dependency

D. Mark Wilson and Angela Antonelli

High gasoline prices and concerns about the supply and price of home heating oil this winter are key issues this election year. Nationwide, prices for all grades of gasoline are 21.8 percent higher than they were last September, and August home heating oil prices were 63.3 percent higher than a year ago. Although drivers have seen gasoline prices moderate from record highs in June, some regions, particularly in the West, continue to pay up to $1.77 per gallon for regular gas. As winter approaches, working families are understandably concerned about the double threat of higher gasoline and higher heating oil prices.

In response to these concerns, President Bill Clinton directed the U.S. Department of Energy to release 30 million barrels of oil from the Strategic Petroleum Reserve (SPR) and proposed that funding for the Low-Income Home Energy Assistance Program (LIHEAP) be increased by $400 million. Yet as well-intentioned and purposefully timed as these initiatives are, they will do little to address America's heavy dependence on foreign oil—almost two-thirds of oil consumed (62.1 percent) is imported—and its limited domestic crude oil production and refinery capacity.

Only 36 Hours of Additional Supply. America's inventories of crude oil have fallen significantly since the beginning of 1999. The stock of crude oil today is 24 million barrels under last year's level—near record lows. Each day, according the International Energy Agency, the world oil market produces 77.1 million barrels and consumes 75.6 million barrels. The United States consumes 20 million barrels per day. The additional 30 million barrels is equal to about 36 hours of supply.

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As Treasury Secretary Lawrence Summers and Federal Reserve Chairman Alan Greenspan have noted, releasing oil from the SPR to influence market prices sets a dangerous precedent. The SPR was established in 1975 to protect Americans from a cut-off of oil imports, *not* to manipulate prices. Any unexpected cold snap, natural disaster, cutback in OPEC production, or political unrest that leads to a disruption in world supply could quickly overwhelm any short-term benefit from tapping into the SPR.

The OPEC Wild Card. The Organization of Petroleum Exporting Countries (OPEC) is a significant, unpredictable variable influencing both the supply and price of oil. Since 1991, the amount of U.S. imported oil has increased an average of 5.3 percent per year. In early September, OPEC increased production (the third time this year) by 800,000 barrels per day, raising its total production this year by almost 3 million barrels per day. Further increasing supply by releasing oil from the SPR may have a short-term effect on prices, but markets eventually will refocus on the long-term conditions—influenced primarily by world supply and demand for oil (and what OPEC does)—that have driven up prices over the past year. If OPEC is determined to maintain a certain price level for crude oil, the SPR release may trigger a cutback in production elsewhere, and prices will rise again. The national security reserve will have been weakened for no long-term gain.

Restricting Exploration. Since the 1980s, advanced technology has made it possible to produce more oil with fewer wells in a far more environmentally friendly way. But American companies cannot draw on the country's vast untapped reserves without greater access to government land for responsible exploration and development. Since 1983, access to federal land in the West—where 67 percent of America's onshore oil reserves are located—has declined by 60 percent. President Clinton has used his executive powers to severely limit oil and gas activity on government land, and the search for new domestic offshore oil has been limited to parts of the Gulf of Mexico and Alaskan waters.

Capacity Affects Supply. Despite the release of oil from the SPR, sharply higher prices are still possible if any refinery or distribution disruptions occur. American refineries are running at a 95.4 percent utilization rate, up from 94.1 percent a year ago. There is little margin for error. Unexpected refinery outages, which occur more often at high utilization rates, could significantly affect regional prices in the short run, particularly with today's low inventory levels. Even without any unexpected problems, refineries may not be able to process the oil released from the SPR fast enough to increase home heating oil inventories to any significant extent before Thanksgiving. Imports of already refined home heating oil may have to increase.

The nation's newest major oil refinery was constructed nearly 25 years ago. The refining industry is suggesting that Clean Air Act and other environmental requirements tied to upgrading or building new refineries restrict its ability to build additional refining capacity in the United States. And the different clean air requirements imposed on heating oil by states and cities reduce the flexibility to move supplies around to respond to local or regional shortages.

LIHEAP Does Not Address Supply Problems. The President's plan to provide an additional $400 million in LIHEAP subsidies to some low-income families will be of little help if the supply of home heating oil is inadequate. Because home heating oil supplies are also affected by the weather (most of the supply must be brought to a region by sea or ground transportation), particularly severe weather can prevent the delivery of additional supplies where they are needed. Taxpayers spend $1.1 billion per year (over $27 billion since 1982) on LIHEAP. Many more families could be helped if Congress reduced the 18.4 cent per gallon federal tax on gasoline, which adds to the already high $84 billion on-budget tax surplus.

Conclusion. The Administration's failure to establish a long-term domestic energy policy that guarantees America's energy independence is largely to blame for high gas prices at the pump and high home heating oil and natural gas prices this winter. In the short term, the ability to provide Americans with immediate relief—beyond a cut in the federal gas tax—is limited, especially if OPEC fails to increase production significantly. For the long run, policymakers must address the nation's dependence on foreign oil that leaves both the economy and national security at risk. Unless they are willing to encourage the development of domestic energy resources, the country will remain overly dependent on foreign production. Releasing 36 hours' worth of oil from the Strategic Petroleum Reserve will not change that fact.

—D. Mark Wilson is a Research Fellow in, and Angela Antonelli is Director of, the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.