

WebMemo



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Don't Tap the Strategic Petroleum Reserve, But Tap Elsewhere

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In response to high oil prices, some Members of Congress are urging the President to release oil from the Strategic Petroleum Reserve (SPR). This would be a mistake and would not significantly affect the long-term oil market. The SPR was designed to be an emergency oil supply should foreign sources be cut off, not as a means of providing short-term relief to energy consumers. Meanwhile, Congress continues to keep off limits domestic sources that could potentially produce 100 times more oil than the SPR contains. To address high oil and gasoline prices, Members of Congress should stop wasting time on SPR grandstanding and focus instead on expanding access to domestic sources of oil.

Background. The SPR, created after the 1973–1974 Arab oil embargo, is a federally maintained petroleum stockpile intended to make up for any shortfall caused by a temporary supply disruption. This could include another embargo, a major outbreak of hostilities in the Middle East, a successful terrorist attack against Saudi Arabian oil facilities, or anything that slashes production or prevents tankers from getting through. During such events, the SPR could be tapped until the problem is resolved and supplies are restored.

After 30-plus years, the SPR has yet to be used for its intended purpose, but it has been tapped on several occasions for small amounts after hurricanes and other domestic disruptions in oil supplies.

The SPR currently contains nearly 700 million barrels, which are stored underground in several sites in Louisiana and Texas. Its use falls under the discretion of the President.

The SPR has supporters and critics. Supporters argue that its very existence has deterred oil-rich, anti-American governments from attempting any temporary cutoffs, because they know that the SPR allows the U.S. to wait them out. Critics argue two points: The fungibility of the international market for oil erases the need for an SPR; and, the cost of maintaining the stockpile could rival or exceed the economic damage it supposedly prevents.

The SPR: No Solution to High Prices. The SPR was meant as an alternative source to make up for a discreet supply disruption, and not as a means of flooding the market in times of high prices. Yet politicians, especially with consumers' anger at the pump in recent years, have been tempted to tap the SPR or to at least criticize the President for refusing to do so. With oil having recently reached the \$100 per barrel mark, and gasoline remaining well above \$3.00 per gallon, Congressional calls to release oil from the SPR have increased.

But the SPR is not up to the task of making oil cheaper—at least not for very long. The world uses about 86 million barrels of oil per day, and U.S. consumption accounts for 21 million barrels of that total. Relative to this, the 700 million barrels in the SPR is not very much. Granted, an extra 3 to 4 mil-

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lion barrels per day would lower prices, but the SPR could maintain that pace for no more than six months. After that, the price of oil would likely return to its previous level, and the SPR would be empty and thus no longer available for its intended purpose as an insurance policy against a supply disruption. It would then take many years to refill the SPR.

Other Sources of Domestic Oil. The SPR is not additional oil that could be introduced into the marketplace; it is 700 million barrels previously taken out of the marketplace and stored for an emergency. The real answer is to unlock the United States' genuinely new sources of domestic oil.

Recent studies conducted by the Department of the Interior estimate that federal lands contain more than 20 billion barrels of untapped oil—most of which is currently off limits—and that another 20 billion barrels exist in federally restricted offshore areas. It should be noted that initial energy estimates often prove to be low—sometimes by a wide margin. Thus, the amount of federally restricted domestic oil is well into the tens of billions of barrels—and could be upwards of 100 times more than the amount of oil in the SPR.

Unlike the SPR, which can be tapped in a matter of weeks, it would take years to bring this new oil online. But the process could have begun many years ago. In 1995, President Clinton vetoed a bill that would have opened up a small portion of Alaska's Arctic National Wildlife Refuge (ANWR) to production. The U.S. Geological Survey estimated that this area of only a few thousand acres could

contain 10 billion barrels of crude. If Clinton had signed the bill, ANWR would presently be the source of an estimated one million barrels per day, and unlike the SPR, it could maintain that pace indefinitely. Other onshore and offshore supplies could increase domestic production by another several million barrels per day for decades to come.

Some legislators get it backwards: They support opening the SPR but have denounced opening ANWR and other new sources of domestic production, arguing that the latter is insufficient to make any difference.

The federal restrictions on domestic access accumulated over time; many during a long span from the late 1980s through the 1990s when oil was cheap and additional supplies were not seen as critical. But times have changed. Not only has the demand for oil increased, but the environmental risks of accessing it have also declined. State-of-the-art drilling technologies greatly reduce the above-ground footprint as well as the risk of spills. All new drilling would be subject to stringent requirements.

Conclusion. Even with high prices likely to persist throughout 2008, Congress refuses to seriously consider altering the existing access restrictions on petroleum production. Tapping the SPR is not a solution, and proponents of doing so should focus instead on these far more promising sources of domestic energy.

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