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Not the Time to Tap the Strategic Petroleum Reserve

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This weekend, White House Chief of Staff Bill Daley stated that the Obama Administration might release stocks from the nation's Strategic Petroleum Reserve (SPR) as a way to counter higher gasoline prices. That would be a mistake.

The SPR, managed by the Department of Energy (DOE), exists for moments of national crisis when there is a dramatic disruption in oil supplies. The current high prices at the pump are a national concern—but playing politics with a national security asset is not the way to address the problem.

Let Supply and Demand Work. The global oil market can adjust to supply disruptions. Releasing reserves now simply allows the Administration to avoid addressing the underlying problem with U.S. energy policy that exacerbates the market impact of global supply disruptions. The problem is that the Obama Administration is artificially constraining supply to the market by denying Americans access to domestic oil.

In the short term, increased production by global suppliers (particularly Saudi Arabia) will likely have a more significant impact on prices worldwide. As the President's own Secretary of Energy, Steven Chu, rightly stated to reporters last week, "That's going to mitigate prices.… Market forces will take care of this.[1]" Over the longer term, the Administration can best assure affordable energy by dumping its strategy of subsidizing and promoting alternatives that are not cost-effective and will not have a significant impact on fuel supplies in the transportation sector. Rather, the Administration should be removing obstacles and regulatory barriers that prevent the private sector from accessing natural resources.

First and Foremost, a National Security Instrument. After the 1973 Arab oil embargo, the United States and 27 other nations established the International Energy Agency (IEA) and agreed to maintain strategic reserves of petroleum products. Authorized in 1975, the SPR houses U.S. unrefined petroleum reserves in underground salt caverns at five storage sites in Texas and Louisiana.

Presently, the SPR holds about 700 million barrels, an amount representing approximately two months of net oil imports.

The President's authorities to release the reserves are limited by law. The Energy Policy and Conservation Act requires a presidential finding that there is a "severe energy supply interruption." Three conditions must be met:

1. "An emergency situation exists and there is a significant reduction in supply which is of significant scope and duration;
2. "A severe increase in the price of petroleum products has resulted from such emergency situation; and

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3. "Such price increase is likely to cause a major adverse impact on the national economy."

This authority was modified in 1990 after the Exxon *Valdez* oil spill to give the President authority to deal with spot shortages and price spikes that impact specific regions of the country.

Presidents have only sparingly used their authorities to tap the SPR during times of crisis. Use of the reserve was authorized and partially drawn down during the 1991 Gulf War. The SPR has also been tapped for natural disasters such as Hurricanes Ivan and Katrina.[2]

Politics and Policy. Neither the intent for establishing the SPR nor the President's authority to tap it suggests that the release of stocks is appropriate for the current situation. A mere rise in price is not what the reserve was intended to deal with. Furthermore, it is clear that some are pressuring the White House to access the reserves merely to make a political statement. For example, *Politico* reported that last week "six Democratic senators urged action calling for the sale of the reserve oil to go toward advancing electric cars and reducing the deficit."[3] Using the reserves to advance such agendas not only goes against the purpose of the reserve but violates U.S. commitments under the treaty it joined establishing the IEA.

Finally, with no end in sight to the unrest in the Middle East, now is the least prudent time to give up the U.S. strategic reserves of petroleum. For example, an attempted Iranian blockade of the Strait of Hormuz would result in a widespread disruption of global commerce. The impact on the U.S. would be immediate and significant. According to a 2008 Heritage Foundation analysis, the U.S. would in short order lose over a million jobs, the price of gasoline would about double, and real disposable income would decrease by $260 billion.[4] Given the current turmoil in the region, now is not the time give up the nation's energy safety net.

SPR Obligations. If the SPR were to be released, the federal government would still need to make plans for replacing the current supply to meet its domestic and international obligations. In 1999, President Bill Clinton initiated the Royalty in Kind program. This allowed the government to collect oil from federal leases in lieu of cash royalty payments so that appropriated funds do not need to be used to fill the reserve. However, the U.S. still makes direct purchases of oil from foreign countries, most recently following the drawdown after Hurricane Katrina in 2009. In 2010, the Department of Interior closed out the program.

Currently, the average purchase cost per barrel in the SPR is $29.76. Selling the reserves at market price could ostensibly generate revenue for the federal government. The Energy Policy Act of 2005 directs the DOE to refill the SPR as expeditiously as possible and try to avoid excessive costs. In replenishing the current stock, DOE considers the "current level of the SPR and private inventories; national and regional import dependency; the outlook for international and domestic production levels; oil acquisition by other stockpiling entities; the extent to which the SPR fill rate and prices paid will impact supply availability and prices in the marketplace; incipient disruptions of supply or refining capability; the level of market volatility; the demand and supply elasticity to price changes; logistics and economics of petroleum movement."[5]

1. Reuters, "White House Considers Tapping Oil Reserves," March 6, 2011, at *http://m.yahoo.com/w/ynews/article/politics/14?url=http%3A%2F%2Fxml.news.yahoo.com%2Fus%2Fnews%2Frss%2Frichstoryrss.html%3Fu%3D%2Fnm%2F20110306%2Fpl_nm%2Fus_usa_energy_reserves&.ts=1299427074&.intl=US&.lang=en&.tsrc=rawfront&ref_w=frontdoors* (March 8, 2011).
2. U.S. Department of Energy, "Strategic Petroleum Reserve Profile," at *http://fossil.energy.gov/programs/reserves/spr* (March 8, 2011).
3. Kendra Marr, "White House Considers Tapping Oil Reserves," *Politico*, March 6, 2011, at *http://www.politico.com/blogs/politicolive/0311/White_House_considers_tapping_oil_reserves.html* (March 8, 2011).
4. William W. Beach, James Jay Carafano, Ariel Cohen, David W. Kreutzer, Karen A. Campbell, and Hopper Smith, "The Global Response to a Terror-Generated Energy Crisis," Heritage Foundation *Center for Data Analysis Report* No. CDA08-11, November 10, 2008, at *http://www.heritage.org/Research/Reports/2008/11/The-Global-Response-to-a-Terror-Generated-Energy-Crisis*.
5. U.S. Department of Energy, "Strategic Petroleum Reserve: Quick Facts and Frequently Asked Questions," updated March 7, 2011, at *http://www.fossil.energy.gov/programs/reserves/spr/spr-facts.html* (March 8, 2011).

If the price of oil continues to rise, DOE would be forced to fill the SPR at a higher price than for what its oil sells for. Simply put, one cannot debate the release of the reserves without also considering the price of future refill actions.

A Better Way. There are more responsible actions that the U.S. could take to ensure that high oil prices do not curtail long-term economic growth. Foremost, increasing access to oil reserves in the U.S., both onshore and offshore, would help offset rising demand, increase jobs, and stimulate the economy. Moreover, this will help improve the nation's strategic position vis-à-vis oil-exporting countries.

As the only country in the world that places a majority of its territorial waters off-limits to oil and gas exploration, the U.S. should at the very least be drilling in the areas where it does have access. Removing the de facto moratorium on drilling would immediately increase supply and obviate the need to tap the SPR. A market-based energy policy that opens supply and prudently balances economics with environmental benefit would lower prices, create jobs, and reduce the need for foreign imports.

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