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Does the U.S. Need a Large Strategic Petroleum Reserve?

Supporters say the reserve is essential to limiting the impact of oil disruptions. Opponents argue it can't fulfill its mission.

The Strategic Petroleum Reserve is the biggest government stockpile of oil in the world. *PHOTO: ENERGY DEPARTMENT/ASSOCIATED PRESS*

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The U.S. is sitting on the biggest government stockpile of oil in the world. Should it continue to maintain it?

The Strategic Petroleum Reserve was set up in the 1970s as a response to the Arab oil embargo and the shock waves it sent through the U.S. economy. The idea: to create a supply of oil that would let the nation weather those kinds of disruptions and give it more leverage with oil-producing nations.

Over the decades, Washington has tapped into the reserve only a handful of times. Now Congress has authorized another big draw on that supply. The recent budget deal allows the government to sell 58 million barrels from the stockpile.

Some observers say we should be cautious about dipping into the reserve—let alone thinking about abandoning it entirely. It serves a vital function in protecting the country's economy and giving the U.S. more strategic options on the world stage.

Others, however, argue that the world has changed so much since the reserve was established that it is no longer needed. America is a much bigger oil producer, they argue, and the global petroleum market has grown much more complex.

Lucian Pugliaresi, president of the Energy Policy Research Foundation and a member of the National Security Council staff under President Reagan, argues that the reserve remains essential to limiting the impact of oil disruptions. Fred Beach, assistant director for energy policy at the Energy Institute, the University of Texas at Austin, says the reserve is a charade that can't fulfill its purpose.

YES: It Can Help Limit the Economic Harm in Case of a Crisis

By Lucian Pugliaresi

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Before we join the stampede to shrink or dispose of the Strategic Petroleum Reserve, we should carefully evaluate what we're giving up. Shutting down the reserve would limit our options in responding to a major oil disruption and send the wrong signal to allies and adversaries alike.

Oil is not just another commodity but a central element in the functioning of the U.S. economy and our capability to project power. We cannot disconnect from the world oil market even when net imports are relatively low.

The domestic petroleum renaissance has delivered enormous benefits to the U.S. and the world, but we are still in an environment in which world demand totals 93 million barrels a day, and the U.S. produces about 10% of that demand. A disruption anywhere in the world affects prices everywhere—and the threat of war, revolution and terrorism in the Middle East represents a constant energy-security threat. Should a major terrorism event or revolution disrupt supplies out of the Persian Gulf, the price of oil in the U.S. and our allied nations will soar.

A strategic stockpile—in conjunction with the military and other strategic assets—allows us to weather these situations and provide leverage with suppliers with political agendas.

Continuing need

But aren't we planning to get off petroleum? Think again. According to the U.S. Energy Information Administration, looking out just 10 years, the reliance of the national economy on petroleum will remain substantial. Perhaps how we think about the reserve should change, but we certainly should be cautious in assuming that we will not be dependent on inexpensive oil for some time to come.

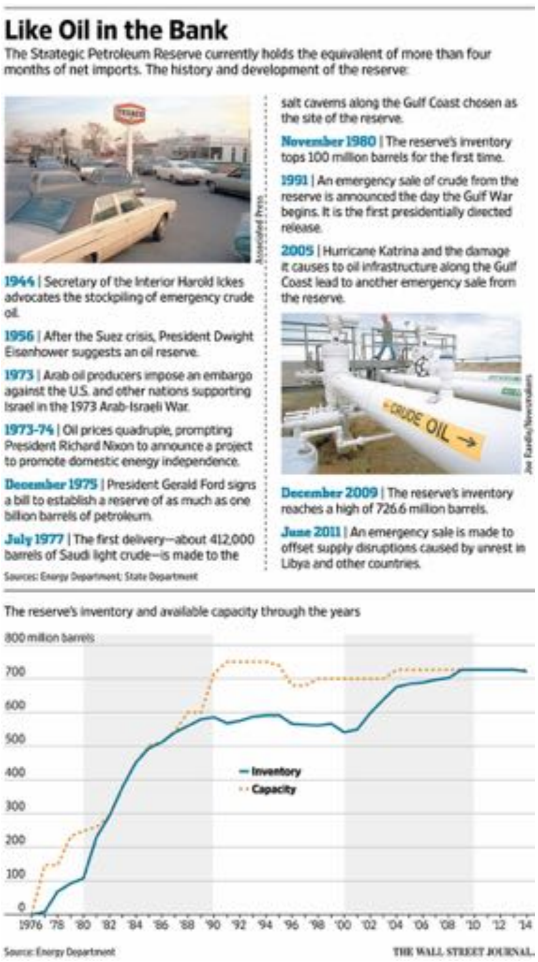
Some say the location of the reserves—on the Gulf Coast—makes them less useful now, because the coast has declined as a supply source for U.S. refineries. But Congress has plans to beef up the transportation system to make it easier to move reserve oil to market, thereby lessening the problem.

These critics also argue that the bureaucracy controlling the reserve is too unwieldy to respond quickly to emergencies. But we need to distinguish between types of emergencies. The reserve isn't intended for situations where a crisis drives up the price of oil but is relatively easily dealt with, such as an industrial accident or isolated terrorist incident. In those short-term situations, the government holds back and lets the market work. The reserve is intended to be used when a disruption appears to be severe or long term, such as the start of a war, and the U.S. wants to prepare for tough times ahead.

What's more, the critics say that the world has changed since the reserve was created. America is a much bigger producer of oil, and the global market is so big that the reserve cannot fundamentally affect the supply-and-demand balance of petroleum. True, the new petroleum environment is definitely better for the U.S., but we cannot guarantee it will last. And, once again, affecting near-term supply and demand is not the role of the reserve—it is intended to give us strategic leverage and limit economic damage of a major event.

Robert Kagan, historian and foreign-policy adviser to both political parties, has repeatedly pointed out that all the great features of the liberal order—free trade, individual liberty, rule of law and democratic governance—primarily exist because of U.S. leadership and our global power. The reserve is an asset that can permit us to limit the economic damage in the early stages of a crisis and continue to take a strong leadership role.

Mr. Pugliaresi is president of the Energy Policy Research Foundation and served on the staff of the National Security Council under President Reagan. Email him at reports@wsj.com.



NO: A Reserve Gives Only the Illusion of Control Over Oil Markets

By Fred Beach

Originally envisioned as a buffer to protect the U.S. from the impact of oil-import disruptions, the Strategic Petroleum Reserve has morphed into a charade for politicians wishing to maintain the illusion that our government has some control over the price of global oil and domestic gasoline.

There are three limitations that prevent the reserve from fulfilling its purpose: changes to our nation's petroleum infrastructure; a bureaucracy that can't respond to a dynamic marketplace; and a geopolitical environment that's vastly different than that of the 1970s.

First, the infrastructure. The reserve consists of four storage facilities in Louisiana and Texas—well-suited for our Gulf Coast refinery infrastructure in the '70s and '80s. However, the growth in U.S. and Canadian petroleum production means that refineries in the middle of the continent are no longer dependent on imports delivered from the Gulf Coast.

Not only is the reserve in a poor spot, we can't deploy it fast enough. The Energy Department advertises that "emergency sales" from the reserve can occur in as little as 13 days after the president has certified the emergency. Only in a bureaucracy as large as the federal government can a two- to three-week response to an "emergency" be considered timely.

Private stocks

The market would respond to any such disruption immediately and with the greatest economic efficiency. Private working stocks of oil in the U.S. are nearly twice that stored in the reserve and respond to market signals in hours. And even if the reserve could, in time, pump at its claimed four million barrels a day, the contribution would cause but a ripple in the 90 million-barrel-a-day global market.

Believing we can affect a rapidly unfolding crisis through lumbering government action borders on delusional. The same applies to Washington's plans to make it easier to move reserve oil to refineries. By the time we get that done, the needs of the market will have changed, and we'll need to concoct a new plan.

Just as the reserve isn't nimble enough to cope with sudden changes in the oil market, it isn't suited to deal with the broader shifts that have taken place since it was created.

For one thing, many of the problems the reserve was designed to address have gone away. At the time of the 1973 oil embargo, the U.S. had just signed the Paris Peace Accord that signaled the end of the Vietnam War, and OPEC was a focused alignment of four Middle Eastern exporters and Venezuela. Today the Cold War is a distant memory, and OPEC consists of 12 loosely aligned countries scattered across three continents. It might be premature to say OPEC and its influence are dead, but they are clearly in an inexorable decline.

What's more, the U.S. is again the world's single largest producer of petroleum and petroleum liquids. To believe that either the storage or pumping capacity of the reserve could have a timely or measurable impact on the vast global oil trade requires an inimitable congressional logic and an ever-tighter grip on politicians' favorite security blanket.

Some argue that responding to supply-and-demand pressures isn't the point; the reserve is there to give strategic leverage with oil producers and reassure our allies that we're prepared to maintain a stable Middle East and oil market. But a strong market-based oil industry provides far greater leverage with suppliers. And a sound and clearly defined national energy policy would reassure allies far more than a politically controlled oil piggy bank.

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