



Making a Mountain Out of a Mole Hill

7/15/22

Binary means introductory and often without prerequisites. It is also used in computer language and more often in introductory courses like Economics 101. It has become clear that many in Congress and the media lack the basic skills and understand of E.101 and how markets work.

U.S. refiners have been operating flat out. Capacity utilization has been averaging in the mid-90's and 98% at the Gulf Coast. There is little flexibility to run more crude oil regardless of where it comes from.

For many years, the Gulf Coast was a conduit for crude oil imports to the Mid-West. But in the past decade, the pipelines from the Gulf Coast to the Mid-West have been reversed. Crude oil now flows from North to South. Thus, the Mid-West is in no position to take crude oil directly from the SPR. With the Gulf Coast refiners operating at capacity, where would you expect much of the SPR to go to? Many foreign entities are prequalified to bid, and they did.

We are currently releasing 1MMB/D. China may have taken 1+ million barrels in total. Are we making a mountain out of a mole hill? I think we are. The politicians and the media have jumped all over the fact that we are selling our strategic stocks to China.

We can argue that the release of 1MMB/D was excessive. We can argue that there should not have been any release. But we should have understood that foreign entities would be bidding for it. We recognize that the Administration was grasping for political straws. They wanted to show they were doing something. They at least recognized that oil prices



are set in a global environment, something many in Congress fail to recognize.

However, its release was ill-advised. The SPR is there for emergencies, i.e., a disruption in supply, and not as a price-dampening mechanism. But at least they apparently registered for Economics101. Did they pass, no. But a C- for effort.