

## Do They? Don't They? Will They? Won't They?

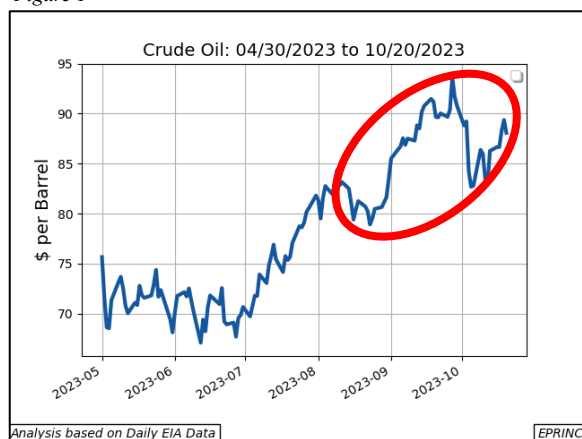
October 20, 2023

The Administration just came out with a solicitation to purchase oil for the SPR (Strategic Petroleum Reserve). But do they really want to?

Recently, they offered to buy oil for the SPR at a price between \$67-72/bbl. That was well below the market price at the time. It left open the question as to whether they were serious.

Briefly, the price got to the low \$70s. Yet, they passed on buying. Remember, they sold 220 million barrels at \$95/bbl. They collected \$20 billion. Where is that money now? Is it at the DOE or Treasury?

Figure 1



Now, they have produced a new offer. They want to buy 3 million barrels per month, but only if the price is \$79/bbl. The price closed most recently at \$88/bbl on Friday, October 20<sup>th</sup>; it has remained above \$79/bbl since August 16<sup>th</sup> (Figure 1).

They could get lucky, and prices could come down to their target. Remember, a low probability event, especially if it has large consequences, should be anticipated. While the risks of a short-term disruption are low, they are not zero. Setting a price below current levels signals the lack of seriousness on the part of the Administration. They sold oil at \$95; they could buy it back at somewhere in the \$80's. It's a home run.

Fundamentals indicate that supply should exceed demand between January and April of next year and prices may fall in their comfort zone. However, that is not the way you purchase Strategic National Security Assets. You wouldn't tell Raytheon you will purchase their drones, but only if it hits a target price.

I'm puzzled as to why they restricted the purchase only of domestic oil. U.S. Gulf Coast refiners process mostly mid-grade high sulfur crudes. They have limited capacity to process additional Permian Crudes. Taking mid-grade domestic crudes off the market decreases its supply and undermines the operations of these refineries. The SPR should be available to all who want to sell to it.

We just opened the markets for Venezuelan heavy, high sulfur crude oils. These crudes would have been incremental to our market. Now, it will only substitute for the lost domestic barrels that go into the SPR.

---

**Larry Goldstein** ([larryg@eprinc.org](mailto:larryg@eprinc.org)) is an internationally recognized authority on petroleum markets, and has extensive advisory relationships with energy companies, research institutes, and government agencies. He is a former president of the Petroleum Industry Research Foundation (PIRINC) now the Energy Policy Research Foundation (EPRINC), its successor organization, and continues to be on EPRINC's Board of Trustees. He was a founder and president of the PIRA Energy Group, a major energy consulting firm that was acquired by S&P Global in 2016.

He has testified numerous times before congressional committees and regulatory bodies and has been appointed to the National Petroleum Council (NPC) by every recent U.S. Secretary of Energy. He has briefed the Chairman of the Federal Reserve Board, senior officials at the Government Accountability Office, and a wide range of government agencies on developments in domestic and world petroleum markets. He has also served as consultant to the Iraq Coalition Provisional Authority. During the 1970s and 1980s he frequently appeared on the CBS Evening News anchored by Walter Cronkite.