



The Daily Dish

# Principles for Tapping the SPR

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## Eakinomics: Principles for Tapping the SPR

There have been several news [reports](#) that the Trump Administration is undertaking preliminary studies of the desirability of releasing oil from the emergency stockpile — the Strategic Petroleum Reserve (SPR) — to avert another rise in oil prices. Recall that the SPR is a complex of four sites with deep underground storage caverns created in salt domes along the Texas and Louisiana Gulf Coasts. The caverns have a capacity of 727 million barrels. The [current inventory](#) is 660 million barrels. The SPR was created in 1975 in response to the Arab oil embargoes as a domestic crude oil reserve to counter a severe import disruption.

Oil markets have changed enormously since the inception of the SPR, most notably in the large amount of domestic production. As a result, the SPR is currently best thought of as an insurance policy against physical supply disruption — whether as the result of a natural disaster in North America or geopolitical events abroad. Insurance works best to offset transitory supply disruptions; if there are relatively permanent changes in supply conditions, one would want a higher price of oil to signal to domestic producers to pursue previously non-economic expansions. Put differently, it makes sense to react to supply disruptions that would generate damaging price spikes. It does not make sense to try to micromanage oil prices in the short run or to undercut the value of prices in signaling the need for more production.

How does that match the current situation? Poorly, it would seem. Prices have risen, but there appears to be little threat of reaching the damaging \$140 per barrel witnessed in 2008. And the sources of supply disruption do not appear transitory. Reduced output in Venezuela has little chance of being restored quickly and the decline in Iran is a deliberately long-term cutback due to sanctions. To the extent that geopolitics are affecting global supply, the events in Libya are the only plausibly transitory event.

My former colleague Robert McNally [hit the nail on the head](#): “Few things terrify an American president like rising pump prices. Period. End of story.” But just as there was [no reason](#) for President Obama to use the SPR to manage oil prices, there is no reason for President Trump to do so either. The administration should stick to principles in thinking about using the SPR.