Strategic Petroleum Reserve: Uncle Sam's Oily Boondoggle

Congress and the White House are about to agree on costly upgrading of an unneeded relic of the past.

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Ah, boondoggles! They cost us taxpayers dearly, but they're worth their weight in political gold. A boondoggle can birth rare bipartisan consensus among warring Democratic and Republican congressmen. Case in point: the $40 billion Strategic Petroleum Reserve, or SPR, which costs more than $200 million per year to operate. The Obama administration wants to spend $1.5 billion to $2 billion for upgrades to this money pit's aging infrastructure. Sequestration be damned, the House Energy and Commerce Committee is practically rubber-stamping the wasteful proposal. At a hearing in April, nary a dissenting voice was heard.

The SPR is a network of 60 operational salt caverns, carved out in 1975 after the Arab oil embargo, that hold up to 713.5 million barrels of oil. It's an anachronism. The private market is now capable of responding to the sort of supply disruptions envisioned by President Ford. The SPR also is superfluous. Under a yellowing international treaty signed in the immediate aftermath of the embargo, the U.S. is required to maintain public and private reserves to fuel the economy for 90 days. In 2014, the SPR had 106 days' worth of oil, and private industry had additional reserves of 141 days. Anyway, as the Cato Institute's Peter Van Doren posits, "The government shouldn't be in the commodities business."

Ken Glozer, president of OMB Professionals, a consulting firm, and former executive in the Office of Management and Budget, believes that the Strategic Petroleum Reserve should be sold and the proceeds used to reduce the nation's projected $486 billion deficit for this fiscal year. There are about 691 million barrels of oil in the SPR today, with an estimated market value of $41 billion. Had Congress moved to end the boondoggle a year ago, before oil prices slid, it could have pocketed nearly $70 billion. Oh well, that bird has flown.

SPR DEFENDERS CLAIM that it's a much-needed insurance policy that protects the U.S. economy from foreign and domestic supply disruptions caused by embargoes, wars, hurricanes, or other events. The SPR by law is supposed to be used only when there is a "severe" energy disruption in which a sharp increase in energy prices already has occurred. But the statute is so vague that, Van Doren says, "Pretty much anything on the supply side of the ledger that causes prices to go up can be construed as a severe energy-supply disruption." Politicians have taken advantage of this multiple times. In 1996, an election year, Congress sold oil from the reserve for deficit reduction and to hold down gasoline prices.

Now, in the name of clarifying the statute, the Energy Department has proposed allowing the president, in the event of a severe energy crisis, to draw down the SPR in anticipation of a rise in petroleum product prices. Energy price spikes generally are followed by recessions, and SPR releases haven't occurred quickly enough to prevent them, says Carmine Difiglio, the Energy Department's deputy director for energy security. Critics say the change would let a president undermine market forces and reduce energy prices any time he felt like it. In fact, at a recent conference, another top energy official said that, under the proposed change, anytime rising tensions in the Middle East started to affect prices, the president could tap the SPR. Difiglio says his colleague misspoke. But if DOE officials can't get their stories straight, what's to stop a president from taking it as he sees it?

We've got hydraulic fracturing, plus oil-producing Canada and Mexico as good neighbors. The SPR is insurance, all right—for the political class.