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Congress Back Then: The Strategy Behind Stockpiling Oil



by K. Daniel Glover
Thursday, March 23, 2000
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When Gwen Ifill quizzed Howard Metzenbaum about rising gas prices on a recent segment of PBS' *NewsHour with Jim Lehrer*, the former Democratic senator and now chairman of the Consumer Federation of America was unwavering in his analysis of the issue. "[T]here's only one solution" to the current "crisis," he insisted: opening the spigot to the United States' Strategic Petroleum Reserve and flooding the market with millions of barrels of oil every day to "break the hold that the Arab oil nations and the OPEC nations have on the American economy."

Business Week congressional correspondent Lorraine Woellert, on the other hand, questioned such logic in a March 6 column rejecting the calls of then-presidential candidates Bill Bradley and John McCain to tap the reserve. The nation's 565-million-barrel petroleum stockpile, she said, is "the nation's first line of defense against an interruption in petroleum supply in a real emergency. But it's of little use against a cartel of the world's biggest crude producers when the world oil market tightens, as it will do from time to time."

If the debate sounds familiar, that's because it is. Ever since Congress created the Strategic Petroleum Reserve as part of the broader energy policy it adopted in 1975, lawmakers, lobbyists and the oil-hungry American public have bickered about the best time to use it. No consensus is likely now or ever, but some historical perspective may shed light on exactly what strategy Congress had in mind 25 years ago.

From oil producer to oil consumer



When is the time to use our petroleum reserves?

Although the petroleum reserve itself was born between the twin oil crises of the early and late 1970s, the idea itself did not originate amid crisis. (Former Interior Secretary Harold Ickes advocated one as early as 1944, as did Presidents Harry S. Truman and Dwight D. Eisenhower.) It was, however, based on fears of militarily and economically debilitating disruptions in the nation's oil supply.

The potential for disruption was hardly a concern in the 1950s and for much of the 1960s. Petroleum booms in the Middle East glutted a worldwide oil market that had faced shortages just after World War II. America and other countries had access to an almost unlimited supply of oil for importation -- so much so that the U.S. oilmen sought, and

received, tax breaks, quotas on imports and assistance for oil exploration.

Days before he left office in 1959, though, Eisenhower invoked his authority to make the previously voluntary import quotas mandatory because of a concern that the growing supply of imports threatened national security. And by the late 1960s, oil industry observers began to predict a supply crisis.

The U.S. share of oil in the world market had dropped from 63% in 1940 to 30% in 1962, according to *Congress and the Nation*. Imports of crude oil, meanwhile, had increased nearly tenfold between 1940 and 1963. The data forced policymakers to weight the benefits of importing oil -- lower costs for the industry and consumers, conservation of the nation's own oil supply and an economic benefit to nation's whose friendship the United States desired -- against the risks of being too reliant on foreigners for energy.

With the risks in mind, the Office of Energy Preparedness advocated a petroleum reserve in 1969, when Persian Gulf prices as low as $1 a barrel would have made stockpiling oil fairly cheap. The shah of Iran, whose nation stood to benefit from potential sales for the reserve, also pitched the idea to President Richard M. Nixon, according to investigative reporter Jack Anderson's 1983 book *Fiasco*.

But siding with domestic producers who opposed a stockpile because of the potential to use it to manipulate prices, Nixon balked. He did so again in 1970, when the Cabinet Task Force on Oil Import Control he had created a year earlier resurrected the idea of a petroleum reserve as one part of an energy strategy designed to, among other things, cap Middle East oil imports to 5% of consumption in the 1970s and 10% thereafter.

A defense to the 'oil weapon'

The federal government never did move to create an oil stockpile during Nixon's presidency. By the time the Organization of Petroleum Exporting Countries (OPEC) flexed its newfound political muscle with an Arab oil embargo in mid-October 1973 to mid-March 1974, Nixon and the nation were as preoccupied with the presidential Watergate scandal as with the burgeoning energy and economic crises.

New blood in the White House changed the dynamics. Heeding the Sept. 10, 1974, recommendation of the National Petroleum Council for a substantial petroleum reserve, President Gerald Ford, who took office upon Nixon's resignation in August 1974, crafted an energy policy that included an oil stockpile at its core. In his Jan. 15, 1975, State of the Union address, Ford called for the creation of a 1-billion-barrel domestic oil reserve and 300-million-barrel defense-related reserve.

A strongly Democratic Congress rejected much of Ford's proposed energy policy, which he submitted Jan. 30, but the idea for a Strategic Petroleum Reserve survived. Lawmakers considered it "a very essential move" in response to the "ever-present danger" of another

embargo or other disruptive uses of the "oil weapon." In addition to the military and economic benefits, Sen. Paul Fannin (R-AZ) said the estimated 90-day stockpile would give the United States negotiating leverage with OPEC.

The committee report for the measure Congress ultimately passed gave three reasons for the reserve: reducing the vulnerability to or impact from "any potential curtailment of oil imports;" undermining the use of an oil embargo as "a politico-economic weapon; and helping achieve the goal of energy self-sufficiency. "[W]e must have the capability to offset significant reductions in imports," Ford had said Jan. 30.

The Senate acted first, dismissing budgetary and technical concerns raised during floor debate and ultimately passing a stand-alone bill requiring the creation of a 1-billion-barrel petroleum reserve within seven years. The July 8 vote was 91-0. On a 255-148 vote Sept. 23, the House approved the stockpile as part of a larger energy bill that House Speaker Tip O'Neill (D-MA) called "perhaps ... the most parochial issue that could ever hit the floor."

Congress did not clear the law until Dec. 17, but the stockpile was not a sticking point. The oil embargo had convinced most policymakers that it was a necessity.

A strategic reserve without a strategy

Achieving a consensus on the administration of the Strategic Petroleum Reserve, on the other hand, has been far more challenging. Since the government made the first oil deposit July 21, 1977, the reserve has become something of an "oil weapon" itself, with policymakers using it to pander to the public whenever there is a sharp jump in gasoline prices.

As is often the case, Congress chose to be vague in defining the circumstances under which a "drawdown" of the reserve is appropriate. Authorizing phrases like the original law's talk of "any potential [oil-import] curtailment" and the 1991 addition of language about an "energy-supply shortage of significant scope or duration" give lawmakers a lot of room for interpretation as they pressure presidents to tap the reserve.

Sometimes the pressure tactics work -- as they did during the 1991 Persian Gulf War, when President George Bush bowed to "political reality" in approving a drawdown of 33.75 million barrels -- and sometimes they don't. The end result is that America has no clear strategy on when or how to use its oil stockpile -- a fact that seems to undermine the very existence of the *Strategic* Petroleum Reserve.

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