

Market Forces, National Security, and Stockpile Management

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Two Key Points

- 1) Size of potential disruption should determine the size of strategic stocks
- 2) Politicians are not the problem: even they can tell when we need stock draws for energy security

Bad Metrics of Stockpile Size

- Total oil use: it can't all disappear at the same time
- Import dependency: domestic disruptions are no different from foreign

Plausible Disruptions Are Key

- Biggest historical disruptions: just over 5 million barrels per day, lasting just a few months
- Global market helps compensate: other suppliers increase output
- Proper reserve size is a political decision -- with professional advice

Role of the Private Market

- Private inventories (and financial hedges) are much more sophisticated than in the past
- Private actions are the primary “defense” against normal ups and downs of prices
- Common definition of “energy security” is wrong: *reliable* supply, not *cheap* supply.

Politics of Stock Draws

- *Strategic* stockpiles are aimed at major disruptions -- the kind that politicians notice
- Experts fear political manipulation, but politicians fear *accusations* of manipulation; they are rightly cautious.

Conclusion

- Strategic reserves are a real success story
 - We measure reserve requirements poorly
 - But even so, we have filled stocks to a reasonable level, and they are managed reasonably well.
- Don't mess up the system: keep practicing, talking about scenarios, educating politicians and market participants.