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The Oil Security System, by Daniel H. Newlon and Norman V. Breckner

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BOOK REVIEWS

The Oil Security System

by
DANIEL H. NEWLON and NORMAN V. BRECKNER
Lexington, Mass.: Lexington Books
1975, 112 pp.

The United States faces a number of economic and political policy dilemmas, and one of the most critical relates to petroleum—namely, the balance to be struck between imports and domestic production and the instruments to be used to attain the balance selected. Completely free trade would result in importation of a substantial portion of our petroleum, allowing lower cost and preserving domestic supplies for the future. But such a policy places the country at the mercy of foreign embargoes, sharp price increases, and disruption of trade for other reasons, which would necessitate extremely painful and rapid readjustments. The economy of the U.S. is so geared to petroleum that substantial loss in supply or sharp price increases would have devastating effects on the economy, even though the economy could in time adjust.

Once the decision is made that there must be a controlled balance, and what the nature of this balance is to be, the government must choose among alternative approaches to implementation. These include:

1. An oil import quota system, as used in the 1960's and early 1970's, restricting imports and resulting in substantially higher domestic prices.

2. Sharp increases in tariffs on imported oil.

3. Government stockpiling.

4. Some form of rebatable tariff system, as outlined in a *National Tax Journal* article in March 1975, by James C. Cox and Arthur W. Wright, "A Tariff Policy for Independence from Oil Embargoes." The amount of rebated tariff would be related to the firms' unused domestic capacity and reserves.

5. The "oil security system," as proposed by the authors of this book, originally developed as a project for the Center for Naval Analysis.

The oil security system involves providing an incentive to private firms to build oil reserves, rather than for the government to stockpile. With this system there is no restriction on imports of oil, provided that the importing firms provide guarantees that they have adequate emergency oil reserves to replace the imported oil if neces-

sary for a specified period. Several features can be summarized briefly:

1. Importers are allowed a wide range of choices for their oil reserves: actual reserves in storage tanks, salt domes, or abandoned mines; additional capacity in oil fields; rights to unleased oil lands.

2. The firms would provide a guarantee to the government of their ability to replace the imports; they would not necessarily have the reserves themselves but could buy the guarantees from other firms.

3. In an emergency the government would authorize and require use of the reserves and suspend the matching requirement on imports for the duration of the emergency.

The chief advantage claimed for the proposed system over the quota system is one of lower oil prices for consumers; the quota system costs consumers very substantial amounts by raising the price of domestic oil unnecessarily. The same merit is offered relative to tariffs. Quotas and tariffs also speed depletion of domestic reserves and aggravate future problems. Compared to government stockpiling, the authors claim several advantages for their plan: the firms will seek those methods of holding reserves that involve the least cost, so that overall costs would be less than with a government system. Private firms would be more successful in devising optimal methods of keeping reserves. The detailed specifications in the various guarantees, in terms of place and timing, would allow better planning for emergencies.

The proposal warrants consideration, along with other possible alternatives. The approach does lessen the amount of direct governmental participation in stockpiling, but the government must play a significant role. A major question to be raised about the proposal is that conflicts of interest between the oil industry and government are inevitable and policing is likely to be difficult. Government stockpiling, despite its bureaucratic limitations, does minimize this form of conflict. The plan calls for a number of forms of keeping oil reserves, including unused productive capacity. This flexibility has merit—but it must be recognized that the standby capacity approach costs several times as much as actual stockpiling. The proposal that abandoned mines be used for storage does not appear to be feasible; there is no assurance that they will not leak oil and cause serious environmental damage, and their locations are typically unsatisfactory in terms of transport to areas where the oil is needed. The Gulf of Mexico salt domes offer one of the best storage facilities. A final criticism is that the plan relates to the U.S. alone—yet loss of oil

to other countries can be of great concern to the United States; we cannot consider our problems alone.

In summary: The book is a useful contribution to analysis of the oil issue, although it does not provide a general analysis of the issue. The presentation leaves something to be desired; it is repetitive, as what could have been a long journal article was expanded to a book, and it is just a little too pat—all questions raised have perfect answers.

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