



New Jersey Gasoline, C-Store, Automotive Association (NJGCA)

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Strategic Posturing or Strategic Foolishness?

*Suggestion by Senator Menendez and others to open Strategic Oil Reserve is unwise;
Reserve was intended to be used for supply interruptions --- and none exists;
Sensationalizing doesn't serve the public or help alleviate peoples' pain!*

Sal Risalvato, Executive Director of the New Jersey Gasoline, Convenience, Automotive Association (**NJGCA**), made the following remarks in response to Senator Robert Menendez's call to open the national Strategic Petroleum Reserve:

"Earlier today Senator Menendez held a press conference and, among other suggestions, urged President Obama to open the Strategic Petroleum Reserve (SPR) in an effort to lower national gasoline prices. While I appreciate the collective public frustrations of motorists, small business owners, and the larger-public in coping with high prices, I respectfully disagree with the Senator's recommendation and vocally oppose any move to waste this vital resource," said Risalvato.

"The SPR is exactly what it says it is – a **strategic** asset that is to be used only in limited, emergency situations. When the Reserve was created in the mid-1970s by the Energy Policy and Conservation Act (EPCA), President Ford and the Congress intended it to be used chiefly in urgent circumstances to alleviate a significant oil production shortfall or supply disruption. They anticipated this would mean during wartime or in light of natural disasters; not to lower gasoline prices or stabilize energy markets," Risalvato said.

"Looking to recent history, SPR was only used successfully during emergency circumstances, such as in the early 1990's during Operations Desert Shield and Desert Storm, and right after Hurricane Katrina devastated the Gulf States. Whenever SPR was used outside of these purposes – such as when President Clinton opened the Reserve in 2000 to help lower fuel prices – the effects on the market were negligible. In fact, when President Clinton announced the that SPR would be tapped, prices at first fell slightly but stopped soon-after since Saudi Arabia cut its production to match the release. A release from the Reserve would likely be countered again from the oil cartels or market speculators. Why play games with a **strategic** asset like SPR when it should only be used for real

emergencies?" asked Risalvato.

"Unlike in past emergency situations, the current rise in gasoline prices has almost nothing to do with oil supply interruptions or gasoline production capability. The price of gasoline is high because speculators in the market place are worried about how the instability in the Middle East will affect the long-term energy markets. This has caused investors to hedge their bets and buy into oil. We would like Senator Menendez to focus solely on reigning in speculators and not on a "feel good" suggestion that will mortgage our children's future security," stated Risalvato.

Reviewing industry statistics over the last six months illustrates that supplies of gasoline and crude oil have remained stable despite the unrest in Libya, Egypt and other Mid-East nations. Furthermore, demand has been flat and is trending toward a decline, further undercutting any assumption that a supply or production problem exists.

"Everyone is suffering under the high price of gasoline, including gasoline retailers whose profit margins shrink under the onslaught of sky-high pump prices and back-breaking credit card processing fees. As a small business advocate, I should be the first to recommend that SPR is opened just to alleviate their economic hardship, but that would be wrong!" said Risalvato.

"The public and political elite need to keep things in perspective. Comparing the current situation to the long gasoline lines of the 1970s is misleading and fans the flames of public fear. The plain fact is that gasoline continues to be widely available, no production or supply shortages threatens to leave motorists or industrial businesses stranded, and no rationing will be needed to survive this predicament. Those of us who survived the aforementioned supply disaster in the 1970s lived through a real crisis and this is not nearly as severe," Risalvato stated.

"Senator Menendez and other politicians should worry more about the dangerous precedent they would establish if SPR were tapped. The SPR currently has a supply of 725 million barrels. If we were to begin to use that oil to stabilize energy markets today, what will happen the next time prices spike? Won't Washington be called upon every few years to sell more of our reserves to counterbalance pump prices? And over the long term, how many of those 725 million barrels will be left in a time of war or a legitimate disaster?" Risalvato asked.

"Long term, the prospect of crude supplies growing tighter as the growing economies of China and India consume more resources will eventually drive up prices not matter what. When this happens, will national figures again call for tapping the SPR? The answer is obvious, but the rhetoric creates a dangerous precedent that leaves the United States vulnerable to future problems", said Risalvato.

"The Reserve is not a well that's supposed to be tapped when times are tough; it's a resource that's to be used when no other alternatives exist or when natural disaster strikes. Even as this issue is deliberated in the court of public opinion, this option shouldn't be exercised merely to make one's constituents believe '*something is being done*' about a problem. That kind of thinking is what has crippled the creation of a truly viable national energy policy for the last four decades and it won't help the average motorist today. Remember, any release from the Reserve now would have to be replenished sometime in the future, at a price that would be higher than it was when we originally purchased it. The politicians in Washington have already mortgaged enough of our future; don't let them sell out even more," Risalvato concluded.

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