United States Senate
WASHINGTON, DC 20510

May 26, 2000

The Honorable Bill Richardson
Secretary of Energy
US Department of Energy
Washington, DC 20585

Dear Secretary Richardson:

We are writing you in the midst of yet another extended global oil price spike to urge you to make it clear to OPEC ministers that should they fail to honor their commitment to produce sufficient amounts of oil to ensure reasonable global prices, the United States is prepared to release oil from the Strategic Petroleum Reserve (SPR) to protect our consumers and our economy. Last March, OPEC agreed to increase production by 1.7 million barrels a day in order to bring prices down and ease difficulties faced by the economies of oil importing countries. The OPEC ministers also agreed to adopt a "price band" mechanism to govern production, whereby enough oil is to be produced to keep prices from rising above $28 per barrel for an extended period of time.

It has become increasingly evident that OPEC's production increase has not been sufficient to stabilize prices or bolster dwindling global crude oil inventories. In fact, the Energy Information Administration estimates that if current trends continue, by September 2000, US crude oil stocks will reach their lowest levels since the mid-1970s, when our economy was thrown into turmoil due in large part to a volatile oil market. With global demand projected to outpace supply by nearly a quarter of a million barrels per day in the third quarter of 2000, and by more than 1.7 million barrels per day by the fourth quarter, we once again face the likelihood of sky-high gas prices and significant pressure on our overall economy. As things stand right now, $2.00 per gallon gasoline this summer seems almost certain.

Although OPEC ministers are due to meet on June 21 to re-evaluate their production policy, organization leaders have indicated an unwillingness to consider a production increase. This is simply unacceptable. OPEC's quota policy of 1999 succeeded in putting OPEC, with its 40 percent market share, back in the drivers seat of the global oil market, and has given OPEC inordinate power over the global and American economies. At the very least, OPEC must be compelled to uphold its agreement to increase supply should the price of oil exceed $28 per barrel for a period of 20 days. The price has been fluctuating between $28 and $31 for 18 days now; should OPEC fail to act on its commitment to moderate the oil market, the United States must be prepared to respond by releasing oil from the SPR through a swaps policy.

Mr. Secretary, we recognize your successful efforts which helped convince OPEC to increase oil supply last March. But the small increase has not had its intended effects. In fact, at $30.50, the price of oil is trading more than four dollars higher today than on March 29th – the day OPEC agreed to increase production to ease price pressure. With global supply, demand, and inventories remaining out of synch with each other, and OPEC ministers apparently unwilling to play by the rules which they themselves created, the United States has every right to act decisively in the interest of its economic well-being.

We therefore urge you to make it clear to OPEC that unless they agree to significantly increase production to ease inventory shortages and bring global supply and demand into better balance, you stand prepared to commence a swaps policy using oil from the SPR. Under current market conditions, swaps would moderate the global oil market, and generally buffer against foreign supply manipulations. And best of all, a swaps policy provides the best way to increase the SPR from its current level of 570 million barrels to 1 billion barrels, at no cost to the taxpayer. Getting the SPR to 1 billion barrels, along with a viable swaps policy, would go far toward protecting the United States from future oil shocks based on supply shortfalls.

Mr. Secretary, nobody is looking for $10 per barrel oil. But we cannot allow our economy to be held hostage by foreign oil producers. We have the perfect tool to leverage OPEC's influence on the global oil economy, and the time to use it is now.

Sincerely,

Charles Schumer

Charles E. Schumer

Susan Collins

Susan M. Collins