# Refiners Would Benefit From Misguided SPR Release

Let's cut right to the chase about Russian behavior and the efficacy of any economic sanctions: Anyone who believes these sanctions will bring Russia do its knees understands little about Russian history. Remember, this is a country that in the past 100 years:

1. Suffered the greatest military losses in World War I;
2. Had a revolution and bloody civil war before the Bolsheviks finally consolidated power;
3. Endured the horrors of collectivization and Stalin's engineered famine in Ukraine;
4. Endured Stalin's reign of terror;
5. Suffered the greatest losses known for one country in any war during World War II;
6. Endured the expenses of the Cold War and the economic stagnation produced by 45 years of communism; and
7. Suffered ten years of kleptocracy and the loss of an empire following the collapse of the Soviet Union

They are going to rethink the annexation of the Crimea because we are canceling a G-8 meeting and putting a few miscreants on a persona non grata list? Get serious. When Ukrainians do to Russians what Afghans have done to everyone over their history Russia will change and not one minute before.

**Strategic Petroleum Reserve Release**

Now some propose to release crude oil from the Strategic Petroleum Reserve (SPR) as a way of "punishing" Russia on the idea this would lower global crude oil prices. Maybe; this would depend on whether this short-term supply increase was negated by supply reductions from other producers. The release of 500-700,000 barrels per day from salt domes along the U.S. Gulf Coast into the Gulf Coast refining system should back out an equivalent amount of waterborne imports, but exporters could choose to fight for market share by offering price discounts.

I noted in December 2013 refiners at the Gulf and East Coast have been enjoying a period of strong profitability by converting rising U.S. crude oil production into exports of distillate fuel oil to Europe and Brazil; surplus gasoline had been put into storage. As distillate production capacity is near its maximum, additional crude oil supply would fall in price and lead to expanded refining margins.

If exporters competed with price discounts at the Gulf Coast, southward-flowing barrels from North Dakota and Canada would move into storage at Cushing, Oklahoma, and lead to expanded refining margins in the U.S. mid-continent. If exporters cut production by some amount less than the SPR release, refineries at the Gulf Coast will be the beneficiary.

The effects on the crude oil market would depend in part on the mix of crude oil released from the SPR. Rising U.S. production has displaced imports of low-sulfur crude oil from exporters such as Nigeria and Angola; further displacement would likely affect Canadian exports. If the barrels released are high-sulfur, imports from Iraq, Kuwait and Saudi Arabia would be displaced with those barrels likely to move into South and East Asian refining markets. The actual revenue effect on Russian crude oil exports to refining centers in the Mediterranean and Northwest Europe would depend on the release mix and other exporters' responses.

Regardless, the S&P Refiners group, home to Valero (VLO), Tesoro (TSO), Phillips 66 (PSX) and Marathon (MPC) should continue to outperform as their crude oil acquisition costs will remain under control while their throughput remains high. An SPR release would be a gift to them and quite possible to Asian refiners if those Persian Gulf exports swing eastward. The effect on Russia will be minimal and given their history, something they may or may not notice.