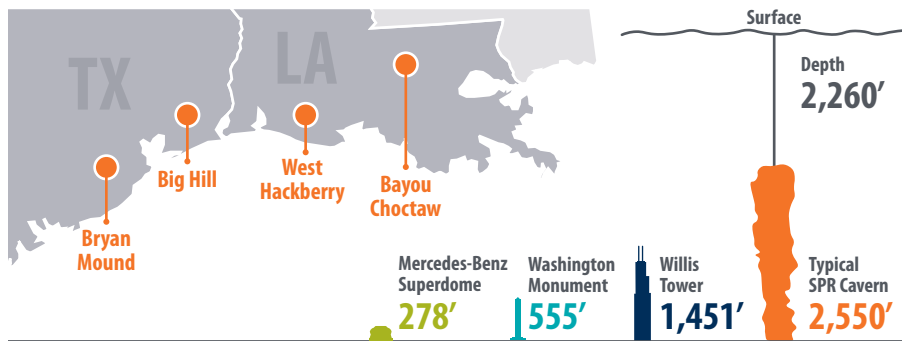


In this week's edition of "Three on Thursday," we take a deeper look into the U.S. Strategic Petroleum Reserve (SPR). After the 1973 OPEC oil embargo, the International Energy Agency (IEA) was formed in large part to help mitigate damages from any future shortages in oil. Members of the IEA were tasked to hold inventory of petroleum equivalent to at least 90 days of their net petroleum imports. President Gerald Ford signed the Energy Policy and Conservation Act of 1975, which created the SPR, which then began to be filled in 1977. Over the past three years as inflation has run rampant, along with a war in Ukraine, President Biden gave orders for emergency drawdowns from the SPR to help mitigate price increases. This, coupled with other exchanges and planned sales, has drained the SPR to its lowest level in 40 years. Many are concerned about this, but do they need to be? For a more in-depth perspective on the SPR and what is going on, we've included the three graphics below.

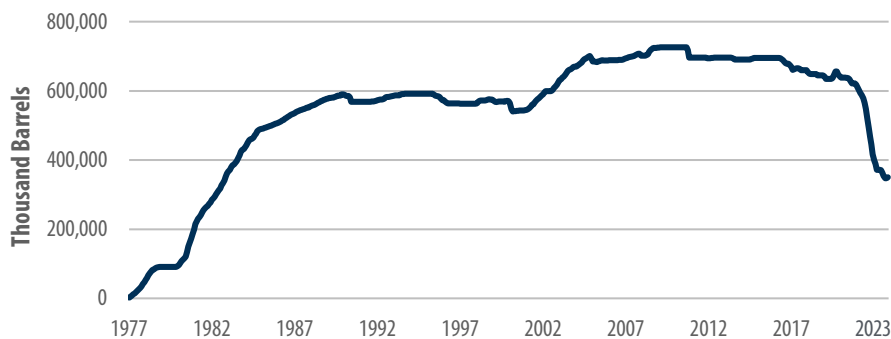
### Strategic Petroleum Reserve



Source: Energy.gov, First Trust Advisors. Data as of 7/31/23.

The SPR comprises 60 salt caverns strategically situated across four locations along the Gulf Coast, with two sites in Texas (Bryan Mound and Big Hill) and two in Louisiana (West Hackberry and Bayou Choctaw). These central locations facilitate the efficient distribution of oil to nearly half of all U.S. oil refineries through interstate pipelines or barges. The salt caverns are roughly cylindrical in shape with an average height of 2,550 ft (almost half a mile) and diameter of 200 feet. At present, the average price paid for the oil in storage is \$29.70 per barrel.

### U.S. Ending Stocks of Crude Oil in SPR



Source: U.S. Energy Information Administration, First Trust Advisors. Monthly data from 10/1977 – 8/2023.

The SPR began filling in 1977 and peaked at 727 million barrels on December 27, 2009 hitting maximum capacity. However, since 2020, the SPR has been cut 45%, plummeting to levels last observed in 1983. The contemporary energy landscape in the United States differs significantly from that of 1983, owing much to the transformative technologies of fracking and horizontal drilling. Notably, the domestically produced oil is characterized as light sweet crude, obviating the necessity to replenish the SPR with this type. Instead, the Department of Energy has set its sights on medium sour barrels, which would be much harder to access should a foreign disruption occur.

### U.S. Net Imports of Oil and Petroleum Products



Source: Energy Information Administration, First Trust Advisors. Monthly data from 1/1973 – 8/2023.

In 1983, the SPR averaged 379 million barrels, providing an 88-day supply based on total net petroleum imports. Today, the U.S. has transitioned from a net importer to a net exporter, making the exact days of supply incalculable. Among the 31 IEA member nations, the U.S. is now one of only four operating as a net exporter. While the SPR remains a significant backstop, its role has evolved, no longer as crucial as before, reflecting the changed dynamics of the U.S. energy landscape.

This report was prepared by First Trust Advisors L.P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.