

# Current event summary



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IEA May Tap Oil Stockpiles<sup>1</sup> of the Name of the Concerned Professor

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### IEA May Tap Oil Stockpiles

The flaring up of the political scenario in the Middle East has raised multiple challenges for both the oil producing and oil consuming countries. In that context, the International Energy Agency (IEA), a group that represents the energy interests of the developed nations is poised to hold a governors board meeting, sometime this week to discuss the viability of tapping into its emergency energy reserves in the light of the emerging political tensions in the Middle East, the source of most of its oil imports. At present, the IEA members are undecided about the relevance of this option.

The crisis in Libya is one major source of this emerging crisis. The IEA has already reached an understanding with the largest oil producer Saudi Arabia and the Organization of Petroleum Exporting Countries (OPEC), that the major oil producing countries will exploit their surplus production capacity, in case the energy crisis worsens. So far the oil producing nations and IEA seem to be in agreement in their understanding of the overall situation and the possible solutions.

IEA is a bit apprehensive about tapping into its oil reserves as even a little disruption of the supplies in an already constrained market could give way to an exceptional price surge. So the member countries cannot decide as to whether to allow the free market forces let decide and dictate the circumstances or should they intervene to check a possibly impending crisis. The IEA least wants to initiate this crisis by its actions. As per the estimates, so far there is ample oil available in the markets. So a wait and watch policy appears to be more appropriate.

Till date, IEA has not revised its supply estimates. The primary thrust is on quantifying the disruption constraints posed by the crisis in Libya, so as to decide as to the magnitude of the oil stockpiles that need to be released. Yet, there is a fear that this disruption may get prolonged. In such a situation the IEA will for the time decide to bridge the supply gap by releasing oil from its reserves. However, any further response will be dependent on the willingness of the oil producing countries to cull out the surplus production capacity.

One other fear is that a constrained political turmoil in the Middle East will directly hit the investments being made into the oil sector in this region. This withholding of investments will have an effect on the oil markets in the medium and long run. Political tension in the region will have a dampening effect on the companies desirous of making investments into the oil sector. This will further shrink the oil producing capacity in the middle and long run. The situation is tense and any further developments and decisions are solely dependent on the nature and length of political upheaval in the region.

## References

Malas, Nour (2011). IEA May Tap Oil Stockpiles. The Wall Street Journal, Retrieved February 22, 2011, [http://online.wsj.com/article/SB10001424052748703529004576159772846760758.html?mod=WSJ\\_World\\_MIDDLENews](http://online.wsj.com/article/SB10001424052748703529004576159772846760758.html?mod=WSJ_World_MIDDLENews)