

How market context informs emergency response

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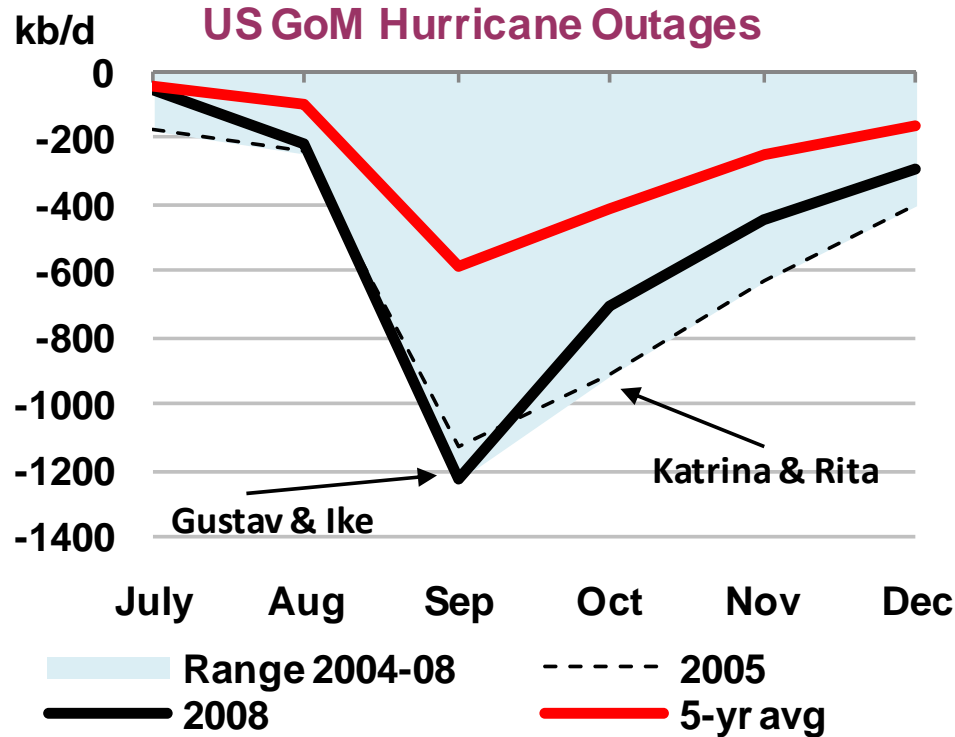
Emergency response: Key considerations

- **Intervention should be a last resort**
 - High prices alone are no reason to intervene
- **But leaving a significant supply disruption to the market could generate a significant economic cost**
 - The market will always balance supply and demand, given time and at the right price
 - Can the market cope with the disruption using resources available?
 - Will there be a significant cost?
- **Every supply disruption is different**
- **Speed & unity of response are key factors**

Making the assessment

- **What is the full extent of the outage?**
 - Will global supply be affected?
 - How long will it take to get a complete picture?
 - How long will supply be off line?
 - Are crude, oil products or both affected?
 - Will there be a direct impact on consumption?
- **Will spare capacity act as an offset?**
 - OPEC dialogue very important
 - Does crude quality match lost supplies?
- **Can consumer stocks act as a buffer?**
- **What will be the market impact of intervention?**
 - Katrina - too much crude in GOM, but European refineries increased throughput
 - Gustav/Ike different context – market could cope
- **Is a regional response necessary?**
 - Global market - outages rarely affect only one region
 - Arguably, regional response more suited to gas?

Similar disruptions can call for different responses



- Despite similar volume loss, 2008 was not just 2005 all over again
- In 2008, falling demand, higher stocks, higher spare OPEC capacity, plenty idle refining capacity elsewhere *& lower prices*
- So decision taken, with US colleagues, not to make coordinated release
- But market monitoring & impact assessment just as intense as in 2005
- Good data, analysis & communications are an ongoing necessity, not just for during crises

Why a swift response is necessary

- **Markets react quickly to news**
 - Price effect often instantaneous
- **Takes time to release official stocks**
 - Stock managers should make sure release mechanism is rapid and effective
 - Price volatility high after a disruption
 - Average price mechanisms could lag market
 - Make sure potential bidders are bona fide
- **Unified response sends strong signal**
 - Reduces speculation, calms market
- **Clear, concise communication with media also helps calm markets**

Summary

- **Only act if necessary**
 - not just for price
 - examine alternatives to strategic stock release
 - try not to un-necessarily disturb market mechanisms
- **Then act quickly**
 - Takes time to release stocks
 - But market response instantaneous
 - To both the outage and the emergency release
- **Coordinated action more effective than unilateral response**
- **Don't forget media communication**
- **Constant need for ongoing market analysis and efforts to improve data quality**



Thank you for your attention

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