



Insight

Coordinated Petroleum Release Would Be Misguided

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In an effort to combat rising oil prices, the International Energy Agency (IEA) is poised to ask 28 nations to release oil reserves as soon as next month. This would be the 4th release in IEA's 38 year history, and the first coordinated in response to the self-imposed supply constriction associated with Iranian sanctions. The Administration has been publicly contemplating a unilateral release [since April of this year](#); as AAF has pointed out, such action is ill advised.

The last coordinated release, in June 2011, was prompted by the Arab Spring in the months leading up to peak driving season. Global oil production dipped by about 1.5 million bpd, pushing IEA to coordinate a 2 million bpd release over 30 days; half of this stock came from the U.S. Strategic Petroleum Reserve (SPR). The result was underwhelming. Oil prices, already declining when the release was announced, continued a slight decline for the first week. Within the first 15 days, prices fully rebounded. In short, increasing supply on a temporary basis did nothing to counteract the market forces that price oil based on overarching supply, demand, and risk structures.

The release being considered now would counter concerns that rising oil prices are diminishing the desired impact of strict sanctions against the Iranian government. Though Iran has fewer buyers for its oil at the moment, fetching a higher price for that limited supply could conceivably allow Tehran to ride out the sanctions with some temerity. If we learned anything from the last release, we'd predict a temporary, and minor, dip in oil prices. At \$112.16 a barrel for Brent crude – still 12% below its peak spot price over the last year – this is not a rational time to act. Unfortunately, the most economically significant outcome of such a release would likely be smaller emergency stockpiles at a time that we have reasonable concern over the fate of oil passing through the Strait of Hormuz.

Thankfully, officials at IEA continue to express considerable hesitancy over the utility of a coordinated petroleum release in the current environment, and may hold out for a legitimate supply disruption. Isolated from the pressures of domestic politics, it appears they've learned that coordinated releases have only a marginal and temporary impact on global oil prices. Still, major oil consumers like the U.S., U.K, and France can exert undue influence on the IEA process. Temporary price swings – like the current increase from Tropical Storm Isaac in the Gulf – may prompt unwise action nonetheless.