Libya unrest forces IEA oil draw down

By Bryan McManus (AFP) – 2 hours ago

PARIS — The developed countries took the near unprecedented step Thursday of drawing down their oil reserves to make good the loss of Libyan supply, aiming to keep prices in check ahead of peak demand.

The United States, the world's largest oil consuming nation, took the lead, saying it would would release 30 million barrels from its stocks, which at 727 million barrels, were at a historic high.

At the same time, it would monitor the situation and stood "ready to take additional steps if necessary," a statement said, as the news sent oil prices tumbling on the markets.

The International Energy Agency said meanwhile that 60 million barrels would be taken from reserves over the next month to cover lost Libyan output, only the third time the 28-member group has taken such a step.

In Washington, a senior US administration official said President Barack Obama "has been deeply concerned" about the disruption to oil supplies which has led to higher prices, dampening economic growth at home and abroad.

"We're taking this action ... to increase supply, to try to counter any shortfall and to meet the seasonal increase of oil demand over the summer."

"Today, for the third time in the history of the International Energy Agency, our member countries have decided to release stocks," IEA executive director Nobuo Tanaka said.

"This supply disruption has been underway for some time and its effect has become more pronounced as it has continued," the IEA said.

The reaction on the markets, which were falling earlier because of fears of a global slowdown, was immediate.

In late London trade, New York's main contract, West Texas Intermediate (WTI) for delivery in August, was down nearly $6 and Brent North Sea crude shed more than $8 to $105.72.

"The IEA totally surprised the oil market and shocked investors after deciding to supply ... 60 million barrels of oil in an attempt to drive crude oil prices lower," said Sucden analyst Myrto Sokou.

Libyan supplies have dried up to a trickle since a popular uprising against leader Moamer Kadhafi began, prompting a coalition of NATO countries to launch air strikes against government forces to protect the civilian population.

The IEA is the energy arm of the Organisation for Economic Cooperation and Development. It was set up in response to the oil shocks of the 1970s and now has 28 members among advanced economies.

Total oil stocks in IEA countries amount to more than 4.1 billion barrels and of this nearly 1.6 billion barrels is in the form of public stocks exclusively for emergencies, the IEA said.

IEA net oil-importing countries have a legal obligation to hold crisis reserves of 90 days of net oil imports and stocks were currently at 146 days of imports, the statement noted.

The IEA said it estimated that "the unrest in Libya had removed 132 million barrels of light, sweet crude oil from the market by the end of May."

Despite "huge uncertainties (analysts agreed) that Libyan supplies will largely remain off the market for the rest of 2011."

In this light, the IEA said it "warmly welcomes" the announced intentions by major oil producing countries to increase production but this would take time.

The world economy was still recovering and "the threat of a serious market tightening, particularly for some grades of oil, poses an immediate requirement for additional oil or products to be made available to the market," the IEA said.