Crisis management of crude oil shortage: the case of Libya in 2011

Overview

Soon after the start of the hostilities in Libya between the regime-supporters and opposition in February, 2011, the major international companies pulled out their employees. With fighters deliberately targeting the oil-production capacities and oil pipelines, the oil production stopped. The world oil market lost overnight more than 1,2 mln b/day supply of the highest quality and the oil markets became volatile. When the capital Tripoli fell to the rebels in August, it was estimated that at least a year would be necessary to take the Libyan oil production to the pre-civil war levels. In this paper, I would analyze how the major energy organizations replied to this loss and what kinds of policies were implemented both by producing and consuming countries. In doing so, I intend to highlight the strengths and weakness of emergence case responses and the particulars of this crisis.

Method

Emergency case responses of OPEC and IEA as well as individual production levels would be analyzed.

In first part, I would argue that OPEC members have increased their production output, but could not agree on formal institutionalization of those new quotes due to disputes between price doves – Saudi Arabia/United Arab Emirates/Qatar bloc – and price hawks – Iran Venezuela/Nigeria.

In second part, the production output of Saudi Arabia and Kuwait would be analyzed during this crisis. Despite Saudi Arabia producing 1 mln b/day higher than its OPEC quota, it could not find customers due to the quality of the new oil.

In third part, the qualities of Libyan oil and specifics of its application and customers would be review.

In fourth part, the decision of IEA in June 2011 to release 60 mln barrels of oil from Special Petroleum Reserves would be analyzed in terms of timing of released oil, quantity and impact on the market.

Expected results

Firstly, the Libyan oil loss has stressed the importance of what type of oil has been retracted from the market not what amount of oil.
Secondly, the IEA response has led to stabilization of the sweet oil price margins but was of little impact due to its low amount, belatedness and short-termism.
Thirdly, the production increases of OPEC members have little impact due to lack of demand for their heavier oils and the lack of refining capacity in the Europe and US to refine those.
Finally, the price fluctuations during the crisis have been caused not by the loss of the Libyan oil but by inherent issues to the world's premium benchmarks.

References

Press releases from IEA, OPEC, JODI
Data from NYMEX, London Exchange
Middle East Economic Digest and Arabian Business Journal