Chapter 5

Consumers Responses to Crisis with Special Reference to IEA
in Geneva from 19 to 21 December and from 27 to 29 December 1984. No concrete decision has been taken on price differentials. The decisions of 72nd meeting which had followed the recommendations of the ministerial committee on differentials headed by Sheikh Yamani, for an increase of 50 cents on heavy crudes (to $26.50/B for Arabian heavy) and 25 cents on medium crudes (to $27.65/B for Arabian medium) and a drop of 25 cents on extra light crudes (to $29.31/B for Murban). It was also decided to keep the Arabian light marker price intact at $29/B. But some member-states have strong opposition to this decision and were in the favour of the narrowing of the differential gap. It must be brought about by a further rise in the price of heavy to between $27 and $28/B. The gap between official and spot prices for light crudes was so wide that it was virtually impossible for light crude producers to sell at official prices. There was only 25-30% of OPEC production mainly heavy crudes and light/heavy package mixes, was moving as crude to customers at official price.

Emergence of OPEC as an effective organisation of oil producers was viewed as threat by the leading oil consuming countries of the West. Therefore they decided to form a counter organization, apparently promoting co-operation with oil producers but in effect, monitoring the move of OPEC and preparing counter strategies. The IEA was formed in 1974 as an organisation to keep watch on OPEC policies. Efforts have been made to promote co-operation between OPEC and consuming countries. In 1977, International Economic Co-operation was held in Paris where it was agreed that "the participating countries will endeavour to promote co-operative relations with oil producing countries and with other oil consuming countries, including developing countries. They will keep under review developments in the energy field with a view to identifying opportunities for and promoting a purposeful dialogue, as well as other forms of co-operation, with producer countries and with other consumer countries 1.

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Oil producers and consumers are highly interdependent. But interdependence between producer and consumer does not necessarily make them complementary. Only when the two groups of countries bypass their short-term conflict of interest and concentrate on the long-term need for global energy, they become complementary and work together. This hope was reflected during North-South dialogue which was convened in Paris from December 1975 to June 1977. The CIEC negotiations resulted in proposals for co-operation in energy investment, research and development and transfer of energy technology for the whole world. But such proposals did not become final agreement because there was a strong tendency to make them conditional on the solution of the short-term conflict of interests².

For the first time, since the conference of International Economic Co-operation of 1977, the OECD consumer governments prepared to resume multilateral talks with producers. It was on the condition that this time, discussions would not be for negotiations but rather expert

technical exchanges on substantives issues other than price and production. Industrial co-operation exchanges centered upon the incentives to investments in upstream and downstream. In addition, consideration was given to capital requirements and technology co-operation. It was recognized that significantly greater investment will be required in the coming decade than was the case of the 1980s. Actual and expected oil demand growth was again recognized as a prime influence along with environmental concern on the size and timing of investments.

The oil price increase and sudden awareness of oil's importance for the OECD economies led to a corresponding increase in OPEC's stature as the representative of oil exporters. The importing countries were naturally interested to establish good relations with OPEC and to pave the way for future co-operation. In 1979 the Islamic revolution in Iran had led a wave of panic buying with oil stocks reaching unprecedented high levels and oil prices shooting up to $40 per barrel. There were no joint efforts between producers and consumers to tackle the situation Instead the consumers

took a series of defensive measures partly to protect themselves against supply disruptions and partly to undermine the price.  

The crisis of 1986, when oil prices fell to unprecedented low level, and once more joint efforts were seen to be weak on the ground, although there were a few bilateral contacts entered into between some major producing and consuming countries. These events have to be seen against the background of structural changes taking place in the oil industry. Firstly, following the nationalization by producer countries of their reserves, the dominance of multinationals on the oil industry of member countries became very weak with the upstream and downstream ends. The emergence of the spot market was the direct result of disintegration of the oil industry, and it was the spot market which linked both ends together. The market played an important function, but it should be seen as a solution for issues which was beyond the market's capability. The consumer governments were ultimately responsible for securing oil and energy supply.  

for their nationals. Arising from this obligation one can only assess their interest and motivation for co-operation. In times of over-supply as in the 1980s, there was little incentive for such a dialogue. However, following the gradual increase in demand and the gross under-investment of the early 1980s, interest was again switched to production, capacity and to security of supply.

The timing was an important element for any producer/consumer dialogue. The conditions of the eighties warrant a reassessment of each party's interests policies. It was in response to that of the eighties experience, and the eighties crisis could trigger another round of costly and restrictive policies in the consuming countries if the cooperation approach was not taken. Following the 1973 price rise, the consuming countries embarked on a series of unilateral measures aimed at reducing oil demand by substitution and conservation.

The 1980s oil price crisis had influenced both consumer and producer. It is imperative here to discuss consumer

organization like I.E.A. has responded on crisis situation of eighties.

International Energy Agency (I.E.A.)

The I.E.A. was created in 1974 in direct response to the Arab Oil embargo and the oil market structure in the early seventies. The I.E.A. is run by a secretariat consisting of the executive director and assisting staff members, and specific programmes are developed by the four standing group which focus on (I) emergency questions, (II) Long-term co-operation, (III) The oil market, (IV) relations with producers and other consuming countries. There is also a committee on energy research and development, with the status of a standing group. The I.E.A.'s work is overseen by a governing board composed of energy ministers of member-states and during an oil crisis, the crisis management committee of senior energy officials is formed. The major oil companies participate in the I.E.A. through international advisory board.

The constitution of the IEA strictly delineates the purpose for which it was established within the framework of
the OCED in 1974. At that time, the immediate measures was to deal with oil supply crisis of 1974; But the energy plan - drafted by the USA, Japan, Canada, Norway and eight EEC countries - included among its long-term objectives was the promotion of security of oil supplies on 'reasonable and equitable terms'. The development was energy self-sufficiency in case of emergency, and a more active role of its members governments in relation to the oil industry. Emergency self-sufficiency was to be achieved through demand restraint, conservation and the development of alternative sources of energy. The international energy programme was then an essentially defensive strategy, whose emphasis lay on co-operative action between participating countries. The text of the agreement on an international energy programme is as follows. There are four chapters consisting of 24 articles. The first chapter is the emergency-self sufficiency under the article 2 of the emergency self-sufficiency, there are three important rules: (I) "The participating countries shall establish a common emergency in oil supplies. To this end, each participating country shall main-

tain emergency reserves sufficient to sustain consumption for at least 60 days with no net oil imports. Both consumption and net oil exports shall be reckoned at the average daily level of the previous calendar year". (II) The second point under this article "The governing board shall, acting by special majority, not later than 1st July, 1975, decide the date from which the emergency reserve commitment of each participating country shall be for the purpose of calculating its supply right referred to in article 7 be deemed to be raised to a level of 90 days. Each participating country shall increase its actual level of emergency reserves to 90 days and shall endeavor to do so by the date so decided". (III) The term "emergency reserve commitment" means the emergency reserves equivalent to 60 days of net oil imports. Under the article 3, the emergency reserve commitment set out in article 2 may be satisfied by: oil stocks, fuel switching capacity stand by oil production, in accordance with the provisions. (II) "The Governing Board shall, acting by majority, not later than 1st July, 1975, decide the

extent to which the emergency reserve commitment may be satisfied by the elements mentioned in paragraph 1\textsuperscript{8}. The chapter II: (Demand Restrained) under the article 5:(a) "Each participating country shall at all times be ready with a programme of contingent oil demand restrained measures enabling it to reduce its rate of final consumption in accordance with chapter IV. (b) The standing group on emergency question shall, on a continuing basis, review and assess: each participating country's programme of demand restrained measures the effectiveness of measures actually taken by each participating country. (III) The standing group on emergency questions shall report to the management committee, which shall make proposals as appropriate, to the governing board. The Governing Board may be acting by majority, adopt recommendations to participating countries\textsuperscript{9}. The chapter III is the allocation. Under the article 6: "Each participating country shall take the necessary measures in order that allocation of oil will be

\textsuperscript{8} Ibid, p. 206.

\textsuperscript{9} Ibid, p. 206
carried-out in pursuant to this chapter and chapter IV"10.

Under the article 7, the term "permissible consumption means the average daily rate of final consumption allowed when emergency demand restraint at the applicable level has been activated, possible further voluntary demand restraint by any participating country shall not effect its allocation right or obligation. The chapter IV: Under the article 12 "whenever the group as a whole or any participating country sustains or can reasonably be expected to sustain a reduction in its oil supplies, the emergency measures which are mandatory demand restraint referred to in chapter II and the allocation of available oil referred to in chapter III, shall be activated in accordance with this chapter". According to Article 13 "whenever the group sustains or can reasonably be expected to sustain a reduction in the daily rate of its oil supplies at least equal to 7% of the average daily rate of its final consumption during the base period," each participating country shall implement demand restraint measures sufficient to reduce its final consumption by an amount equal to 7% of its final consumption during the base period.

period"\textsuperscript{11}. According to article 18 "the term "base period"
means the most recent four quarters with a delay of one quarter necessary to collect information while emergency measures are applied with regard to the group or to a participating country, the base period shall remain fixed\textsuperscript{12}.

Since its creation in 1974 which was the first common concern of Western industrialized countries was the oil crisis of 1973-74. The basic political objective in setting up the IEA went beyond the need for pragmatic measures to deal with major oil disruptions. The main objective of the IEA's medium and long-term policies is to improve the energy position and security of IEA countries by bringing about better balanced energy economies and reducing their dependence on oil and other fuels which are imported from insecure sources. Through these policies of the IEA aims at preventing a repetition of the large economic damage that was caused to member countries by the oil supply disruptions

\textsuperscript{11} Ibid, p. 211.
\textsuperscript{12} Ibid, p. 212.
and the price increases of the seventies\textsuperscript{13}.

Since 1974, the 21 member countries of the IEA had made considerable progress. They had adopted national policies to the changed conditions of the energy market and were agreed on the general lines of their policies at an international level. IEA countries strongly reduced their dependence on oil by improving the efficiency of energy use, in particular oil, or by substituting other energy sources for oil. At the same time they had increased domestic energy production. The most important factor affecting energy policy in the IEA countries generally in the seventies had been the impact of political events on the supply and price of oil. Since 1973 the World Economy had to cope with two disruptions of supplies resulting from the Arab-Israeli war in 1973 and Iranian revolution in 1979. These disruption was neither major nor of long duration. The 1973-74 oil crisis was resulted in supply disruption of four million barrels a day (mbd) for five months and the 1979 crisis reduced the world oil supply by 2.5 mbd for three months. However, these

disruptions, combined with high demand levels and the reaction of consuming countries, raised average world oil prices from about $3 per barrel (bbl) in 1973 to about $12 bbl in 1974 and a peak of more than $35 bbl in 1981. The second oil price increase of 1979-80, which was exacerbated by a strong build-up of oil stocks in the consuming countries: It led to OECD oil import bill to $187 billion in 1979 and a peak of $264 billion in 1980. In addition to this transfer of real resources equivalent to almost 6% of G.D.P. in 1980, Governments this time moved towards restrictive fiscal and momentary policies to meet the situation. As a result, there was clear slowdown in economic activity in OECD countries in 1980 and 1981. World trade stagnated and even shrank in the years 1980 and 1981\textsuperscript{14}.

The disruption in supplies caused by the Iranian revolution presented IEA countries with a problem quite different in nature from the oil embargo of 1973-74. The disruption was relatively small in volume terms and did not require implementation of the formal oil sharing system. The response by industrialized countries was mixed. On the one

\textsuperscript{14} Ibid, p. 13.
hand, there was general agreement by IEA ministers that coordinated efforts were required to reduce pressures on oil markets. Some countries were ready to let oil prices increase rather than take strong policy measures to reduce oil demand\textsuperscript{15}.

To respond to this situation, industrialized countries tried various methods to moderate developments in the oil market. In March 1979 IEA countries agreed to reduce their demand for oil on world markets by 2 mbd by the end of 1979, an amount equivalent to about 5% of anticipated oil consumption of the group. Recognizing that these restraints measures would have to be continued and strengthened, IEA ministers adopted national oil imports ceiling for 1980. This approach was a reasonable response to a difficult situation. There was a major shift from quantified approaches when IEA ministers put emphasis on policies rather than target, this shift which was completed at IEA ministerial meetings in 1980 and 1981\textsuperscript{16}.

\textsuperscript{15} Ibid, p. 151.

\textsuperscript{16} Ibid, p. 16.
The outbreak of the Iraq-Iran war in September 1980 could have led to a repeat of the market tension of 1979. The initial supply shortfall was about the same as a year earlier. There was similar erratic behaviour in the spot market which could have led to significantly higher contract prices. The trend of demand was downwards and many oil producing countries had surplus production capacity. Moreover, with the lessons of 1979 in mind, industrialized countries reacted with greater prudence and with a clear objective of calming the market. IEA countries reached at agreement to: (a) encourage their oil companies to draw-down their sizeable stocks to make up part of the short falls; (b) discourage undesirable purchases on oil markets, (c) hold down demand and encourage greater indigenous production, (d) reduce imbalances between countries and companies to minimize undue pressure on global oil markets. These measures, coupled with responsible reactions by some of the major producers helped to prevent a price explosion similar to the one in 1979. With falling demand and some resumption of supplies from Iran and Iraq the supply shortfall was largely over by January 1981. The resulting price rise was less than 10%. Similarly some of the developments in the
Middle East, including repeated attacks on shipping in the Persian Gulf, did not lead to fundamental change in the global oil market. This was essentially due to large excess capacity for oil production and low demand levels. Also government oil stock levels have increased substantially since 1979\textsuperscript{17}.

Since the foundation of the IEA in 1974, energy policies of member countries have made continuous progress towards common objectives. In developing such objectives, the IEA has recognized the differences in the energy situation of member countries. These situations vary greatly from countries like Canada, Norway and the U.K., which were self-sufficient in energy, to countries like Italy, Japan and Switzerland with few indigenous energy resources and high-import dependence. The IEA might also take account of the different approaches to energy policies in member countries. These countries all have mixed economies and their energy policies were based on a combination of reliance on the operation of the market and government intervention and

\textsuperscript{17} Ibid, p. 17.
planning. In general the task of the government was seen as being to set a more or less detailed framework within which market can operate. There was a spectrum of combinations of reliance on market and government action which varies with such factors as the energy situation of a country its constitutional structure, the extent to which the energy industries were publicly or privately owned and the political attitude of the government. The IEA was concerned that there should be effective policies to advance agreed international objectives

In the last ten years, since its creation the IEA has developed two main areas of strategy: (1) The establishment of arrangements for handling an oil supply emergency and for keeping in touch with developments in the oil market on an ongoing basis; (2) The encouragement of long-term policies designed to bring about better-balanced energy economies in IEA member countries than existed in 1973.

The commitments made in 1980, defined the building

blocks necessary to construct an energy strategy which turned the situation around. Further decisions were necessary, both on a national and international basis, to implement this strategy effectively. These were three broad considerations that define the framework within which these commitments were pursued: (I) The 1980s was a period of major transition toward a "minimum oil" economy. Efforts to break the link between economic and energy growth was promoted in order to manage this transition. Fostering the necessary adjustments in a timely and smooth way continued to be major focus on energy and economic planning; (II) Availability of oil from OPEC countries would continue to be constrained, due to increasing domestic use by OPEC countries and increasing demands for oil from other developing countries and countries with centrally planned economies (CPE). Potential OPEC oil production limitations were exacerbated this trend. Thus, the world oil market balance through the eighties would at best remain precarious. Short-term instabilities have the potential as was evidenced in 1979 and 1980 the past two years to increase world oil prices suddenly and massively. This would again choke off economic growth and substantially impede the process of
structural change required in IEA energy systems. To avoid such situations, effective co-ordination between long term measures aimed at reducing dependence on imported oil and short term measures aimed at stabilizing the oil market was pursued. (III) Achieving structural change would call for adjustments in IEA economies. The high energy prices, in particular for oil products, which would be a driving force to bring about structural change. It led to changing resource mix for industrial production. Economizing on energy use could require substantial investment in new energy efficient capital equipment and might also lead to greater employment opportunities. During the transition, better integration of economic policy and energy policy at the operational level, not only on a short-term basis, but also on a long-term basis.

"The 1980 review scenario of IEA" took account of oil price increases and resulting lower prospects for economic growth. It identified the areas where reduction of net oil


imports might be done to maintain a balanced oil market for the period 1980 and 1985. The move towards a balanced world oil market was a continuous process that allowed for adequate flexibility in the planning of energy supply and demand policies, to take account of the inevitable change.22

The large oil price increases together with the wide gap between oil prices and other energy prices in particular sectors in individual countries, helped to enhance efficient use of oil and to bring about expansion of the use of non-oil energy sources. This process was supported by non-price measures introduced by IEA governments, ranging from information programmes, through specific programmes to provide financial incentives and support for energy conservation and fuel switching. There was modification in regulatory framework governing the production and the use of energy. During the course of the 1980 review, there were a number of indications that major structural changes were gathering momentum. Price induced conservation and fuel substitution have substantially reduced oil consumption in 1980. Substantial potential remained in these areas and results were expected

22. Ibid, p. 17.
to continue to build up over the years, with an increasing effect on overall oil consumption. The cost of imported coal in many countries stood at approximately half the cost of oil on a comparable basis.\textsuperscript{23}

The result of the 1980 review show that a significant transition towards less oil dependence was under way. However, the process had been slow and uneven and lessons could be learned for the 1980s. The discontinuous nature of the transition so far has been evident by a rapid rise in oil consumption between 1976 and 1978 after a decline between 1973 and 1976. This was related primarily to economic recovery and oil price movements in IEA countries. But it led to a situation where economies became increasingly vulnerable to disruptions in oil markets, with results that became evident in 1979 and 1980. In addition, the transition so far has been uneven when viewed either from a country or regional perspective. During the 1980s developments in world oil market were uncertain but that OPEC production was, on average 30-31 mbd, some 3-4 mbd higher than 1980 production.

\textsuperscript{23} Ibid, p. 22.
healthy economic growth was a pre requisite and it would be around of 3.5 % a year between 1982 and 1990. IEA countries strengthened their energy policies to attain oil market balance throughout the 1980s and promote a smooth transition.

As a result of increases in oil prices in the late 1979 and early 1980, together with sharply reduced economic growth during 1980, total energy requirements had declined and oil consumption had fallen considerably in absolute terms in 1980. The context in which the energy transition was in taking place has changed fundamentally. Expectations about future oil production from outside the IEA had been altered radically and uncertainties about possible physical interruptions to oil supplies have increased. The events of 1979 and 1980 have clearly shown that uncertainties would continue and that either small decreases in oil supply or small increases in oil demand could quickly cause large and irreversible oil price increases. Such uncertainties were not conducive to healthy economic growth. They might be addressed by determined action to ensure a smooth transition.

away from oil\textsuperscript{25}.

The 1981 saw the end of the surge in oil prices which began with the revolution in Iran at the end of 1978. These difficulties were overcome but at a heavy economic cost. Oil prices in dollars increased by 17\% in 1979 and 1980 at a time when the world economy was recovering from the first oil price shock of 1973 and 1974. The second oil price shock was estimated to have resulted in a total loss of income in OECD countries in 1980 and 1981 of almost $1,000 billion (in 1980 dollars), about $1300 per person in the OECD area. From late 1981, demand for oil began to weaken and real oil prices began to decline\textsuperscript{26}. This situation presented both a danger and an opportunity. The danger was that the easy oil market combined with the difficult economic situation would lead to a relaxation of efforts to increase energy efficiency and develop alternative fuels to oil. The implications of situation in the oil and energy market were considered by IEA ministers at their meeting on 24 May 1982. They noted

\textsuperscript{25} Ibid, p. 50.

that substantial improvements in energy efficiency away from oil had been made as a result of market reaction to higher prices, supplemented by effective government policies, and low economic growth. They concluded that despite the relaxed oil market situation, considerable uncertainties existed about energy developments. In recognizing that sustained improvement in the level of structure of energy use was a critical element for revitalizing the economics of member countries of the IEA, they reaffirmed the objectives of improving overall energy efficiency and bringing about more balanced energy mix which minimizes the use of oil. They agreed to this end to pursue policies and research in the following areas: energy investment, energy pricing and taxation, conservation and substitution of oil by other fuels; electricity prospects and nuclear expansion, coal use, natural gas trade and security issues; and research, development and demonstration. The main features of the 1982 energy scene were: a decline of 3.5% in TPE requirements and a fall of 5.1% in oil requirements to 3319 Mtoe and 1479 Mtoc, respectively:

27. Ibid, p. 29.
a decline of 15.0 % in net oil imports to 773 Mtoe the lowest level since 1968; a reduction of the shares of oil consumption and net oil imports in TPE requirements to 45 % and 23 % respectively\textsuperscript{28}.

In 1982, demand of oil in IEA countries was 5 % below the 1981 level. This reductions in oil demand can be attributed to the combined effects of a number of factors like lower rates of economic growth, the cumulative effects of earlier price increases and the unusually mild weather in most member countries in the last quarter of 1982. In the rest of the world outside the centrally planned economies, oil demand fell by 2 %. Demand increased by about 3 % in the OPEC countries but fell by just over 4 % in the non-OPEC developing countries due to significant difficulties in financing oil imports and the slow pace of economic activity. There were important changes in 1982 in the pattern of world oil production. Average production outside the OPEC (including natural gas liquids), net imports from CPE was 2.5 Mbd (5 %) below 1981 production and 9.2 Mbd (17 %) below the peak production of 53.2 Mbd in 1979. The drop on produc-

\textsuperscript{28} Ibid, p. 15.
tion in the OPEC countries however, has been even larger. Their share of world oil supply fell to 43.5% in 1982 compared with 59% in 1979. Supplies from non-OPEC countries averaged about 24.3 Mbd in 1982 an increase of 1.3 Mbd on 1981 level. These figures are given in table 1:

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Table - 1

The share of world oil production

(Percent)

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<td>(49.7)</td>
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Source: IEA secretariat

29. Ibid, p. 17.
Decreasing oil demand had marked effects on prices in 1982. The average price paid for crude oil by member countries of the IEA declined from $36 a barrel in the first quarter of 1981 to just over $32, a barrel by the end of 1982. Officials or contract prices were adjusted downward particularly for the light crudes - in early 1982 reflecting weak market conditions and sharply lower spot prices. From mid 1982, contract prices were mostly unchanged as the market stabilised. Spot crude prices behaved erratically during the year. They declined sharply during the first quarter of 1982, Arab light, for example, fell from $34.20 a barrel of $28.10 a barrel during 1982 but increased after an OPEC decision in March to adopt production quotas. They declined sharply again towards the end of 1982 as OPEC production quotas were not adhered to and no agreement was reached on setting new quotas. However, spot prices at the end of year remained above those in March 198230.

The 1982 reviews, however, suggested that short-term market signals might cause uncertainty to delay energy

investments. The various distortions were impeding the proper functioning of the market, and that government programmes to promote alternative energy sources and energy efficiency were being reduced in response to financial strigency and easing of the energy market. Investments in both energy supply and demand was being adversely affected by the low level of economic activity and uncertainties about the future trends in the energy market. The specific factors which adversely affected investments in energy supply in 1981 and 1982 were: 31

(I) Real oil prices have fallen in dollar terms and expectation of future price level were lower. This had particularly affected investment in marginal projects in both conventional fuels and synthetic fuels, and in electricity generating plant, both, coal fired and nuclear (II) The economic development in member countries had resulted in: low operating surpluses among companies who would normally be investing in new energy projects, high interest rates which increase the cost of capital intensive projects with long lead times and high rates of inflation. The combined effect of these had

been to increase the uncertainty surrounding future cost estimates. These factors have combined to produce lower levels of investment in all forms of energy supply development and the cancellation of some important projects. Most member governments were reluctant to change radically the market allocation of economic resources. The 1982 countries review showed that the energy economics of the IEA group countries were at a crossroads. The rise in oil prices which was caused the Iranian revolution in 1978 had come to an end. Significant progress has been made in achieving structural change through improved efficiency and the development of alternative fuels to oil. This progress was to continue. Some were identified as a result of 1982 reviews in which government action might strengthen, either to remove distortions which impede the full operations of market forces or to reinforce the effect of those forces. Some of these measures were specific to particular situations.

32. Ibid, p. 56.
34. Ibid, pp. 63-64.
The continues downward trend in total energy and oil demand which started in 1979, was arrested in the autumn of 1983, largely as a result of the economic recovery in the US and Japan. In 1983 total primary energy requirements of IEA countries (3339.8 Mtoe) were slightly above the 1982 level. In 1984 there was a fairly strong increase in overall energy and oil demand. The oil demand rise was concentrated in north American and pacific areas where demand grew by 3.5 % and 3.9 % respectively. European oil demand increased by only 2.5 % largely due to poorer economic performance and higher oil prices in terms of local currencies. However, the upturn in oil requirements in IEA countries has been much less marked in 1982-83 than during the recovery following the oil price increases of 1973-74. In 1976, for example, oil requirement increased a substantial 6.6 % faster than the rate of growth of GDP. In 1984, however, oil requirements increased 3.3 % while GDP growth was 4.9 % the same rate as in 1976. The main features of the 1984 scene were:

(I) For the first time since 1979, total primary energy

requirements (TPER) grew in 1983. As a result TPER in 1984 were 3487 Mtoe or 4.4 % higher than 1983; oil demand increased in 1984 by 48 Mtoe, or 3.3 % compared to 1983. Of this increase in total energy demand, nuclear energy accounted for 17.7 %, natural gas accounted for 21.7 % and the share of solid fuels and oil were 27.3 % and 32.3 % respectively, (II) Net oil imports grew strongly in 1984. On average, IEA imports increased by 4.7 % from 739.4 Mtoe in 1983 to 774 Mtoe in 1984; The increase of oil imports was strongest in North America (15 Mtoe or 6.9 %), followed by pacific area (12 Mtoe or 5.2 %) and Europe (8 Mtoe or 2.6 %). Nevertheless, the share of oil imports in TPER, which had fallen yearly ever since 1973, remained unchanged between 1983 and 1984 which was at 2.2 %. (III) The overall energy intensity of IEA countries, as measured by TPER/GDP ratio, fell again in 1983 to 0.73, compared to 0.90 in 1973. In 1984 this ratio did not change; (IV) Requirements for solid fuels, which had declined steadily since 1981, recovered slightly in 1983 and much more strongly in 1984; (V) Energy production in IEA countries grew by 140 Mtoe or 5.5 % in 1984, due to strong increases in the production covered 77.5 % of IEA total energy requirements in 1984, compared to
76.8% in 198336.

The 1984 country reviews showed continued progress towards the objectives set in the conclusions on energy requirements and security adopted by ministers from IEA member countries at their meeting on 8th May 1983 to improve the efficiency with which energy was used and to diversify sources of energy supply. At the same time, the energy and oil markets were imperative to world economic recovery, have led to less governmental and public interest in maintaining the momentum of energy policy and programmes. There were some redirection of energy efficiency programmes away from subsidy schemes to financially less onerous motivation, consumer education and demonstration programmes and to efficiency standards. Member governments have placed great emphasis on evaluating policy measures to determine their effectiveness and to make them more appropriate for the future significant initiatives in 1983 and 1984 include37:

(I) Belgium substantially increased the budget for efficiency programmes, particularly for the industrial and public


37. Ibid, p. 73.
administration sectors; (II) Japan and extended the industrial, tax credit for energy efficient investment for another two years; (III) In the Netherlands an evaluation of various subsidy schemes showed that these programmes were generally effective, and the government decided to continue and partly to extend them. (IV) The National Energy Plan of Spain adopted in June 1984 had given high priority to energy conservation policy. (V) Switzerland had undertaken a series of new energy efficiency initiatives in its efforts to combat environmental damage to forests (VI) In October 1983 the United Kingdom created energy efficiency office in the department of energy to co-ordinate the government's energy efficiency efforts. 38.

The IEA governing board decision in July 1984 on stocks and supply disruptions. These decisions were basically responding measures to meet oil supply disruptions. The oil supply disruption involving a significant net loss of world oil supply. Appropriate responses would reflect a realistic assessment of then existing circumstances attending the

38. Ibid, p. 75.
disruptions (even though there would inevitably be uncertainty especially in its early stages) which vary from nation to nation, depending among other things, upon their respective national policies and capabilities. The aggregate of national responses designed to minimise economic damage was more likely to achieve a coherent overall result if they were co-ordinated as complementary as the circumstances. The IEA had the following measures for responding to oil supply disruptions:

(I) The agreement on an international energy programme (the "IEP"), which among other things required all member countries to hold stocks equivalent to 90 days of net imports and in the event of specified supply disruptions, to restrain demand and to share available oil supplies on an equitable basis. The IEP assumes that stocks will be drawn down to meet remaining consumption requirements.

(II) The decision taken by the IEA Governing Board on 10th December 1981 which required prompt governing board decision, in the event of supply disruptions which threatened to

cause serious economic damage. These arrangements reflected the basic IEA concept that in the events of a significant net loss of world oil supply. All member countries would contribute, in one way or another, to solution of the problem for the benefit of the group as a whole. The need for an agreed policy regarding stockdraw in supply disruption had become more apparent, based on experience of previous supply disruptions. The ability of many countries to use stocks for this purpose has increased significantly. The purpose of July 1984 decision was to provide procedures for reaching decisions as to use of oil stocks by these countries which were objectively in a position to do so, and as to actions to be taken by all other countries its support. 40

The Governing Board of the IEA met at ministerial level on 9th July 1985 in Paris under the chairmanship of Mr. G. M. V. Van Aardenne, Ministers of Economic Affairs of the Netherlands. Ministers reviewed energy results of the past decade, characterized by two sharp oil price increases each of which contributed to a serious economic recession. They

40. Ibid, p. 220.
welcomed the extensive structural adjustments by which the energy sectors of IEA countries economics have responded to the consequences of higher oil prices. These responding measures were: 41

(I) The reduced amount of energy especially oil, needed for each unit of GDP, thereby holding total energy consumption level while their economies grew by 29%.

(II) Major changes in the fuel mix, reducing the share of oil from 53% to 42%.

(III) An increase in indigenous energy production by the equivalent of over 10 mbd of oil.

They attributed these changes to the effects of sharp price increases working through market mechanism and also to government policies addressed to energy security, conservation, market oriented pricing, energy R & D, open international trade and, in general, toward greater indigenous production growing efficiency and public awareness of energy problems. They recognized the importance of dynamic energy

industries capable of responding to the need for structural change and, flexible and transparent energy markets. They also recognized the crucial importance of international energy co-operation within the IEA in achieving these results.42

The severe economic losses caused by the recession which followed the oil price increases. The Governing Board of IEA believed that structural adjustments in energy economies contributed to subsequent recovery and helped to prevent GDP losses and unemployment. Further structural adjustment in energy sectors would be necessary to sustain economic activity in the future. The oil market situation was characterized by relatively weak demand, considerable over capacity and downward pressure on prices were in order to further reduce the energy intensity of IEA economies, government conservation policies should be actively pursued and should focus on following types of action which depending on national circumstances, could assist in achieving greater energy efficiency:

42. Ibid, p. 92.
(I) Ensuring that the energy pricing and tariff systems give the right signals to consumers. (II) Ensuring that information programmes were well directed towards the removal of the obstacle to energy conservation. (III) Identifying what financial barriers exist, helping to improve access to financial resources and encouraging where appropriate the use of innovative financing schemes by the parties concerned. (IV) Improving the skills of the conservation service industry. (V) Developing more effective evaluation of their conservation programmes and a better understanding of the factors which influence consumer decisions. (VI) standard and regulations. (VII) well designed programmes of research, development and demonstrations

The review of IEA member countries energy policies in 1986 took place against the background of a sharp decline of global oil prices. After six years in which average annual oil prices paid by IEA importers ranged between $27.56 per barrel (1985) and $36.25 per barrel (1981) average. IEA oil import prices fell to a low point of $10.69 per barrel in

43. Ibid, p. 98.
July 1986 and after massive fluctuations, recovered to an average $14.12 per barrel in December 1986. This fall in crude oil price yielded general economic benefits to the OECD countries as a whole, and to oil importing LDCs, mainly through terms of trade effects and through a further dampening of inflation. These aggregate benefits were partially offset by the difficulties caused in OECD oil and gas producing countries and regions and by reduced demand for OECD goods and services from oil exporting countries. The economic stimulus of lower oil prices in 1986 was smaller than the dampening effect of higher oil prices in the 1979 to 1981 period. It was mainly because the volume of oil imports into OECD area, and therefore the corresponding savings or costs from price changes became smaller. The IEA countries as a whole imported 705.2 Mtoe of oil from outside the IEA in 1985, in 1979 these imports were 1206.1 Mtoe.

A reduction in oil imports of such a magnitude was a considerable achievement, and this reduction over the last six year was one of the contributions made by IEA countries.

to the fundamental changes in the world oil supply and demand. It contributed to the fall in oil prices. The cause in 1986 were market pressures which led to changes in oil price strategies. 45

The flexibility of IEA economies with regard to energy has been improved as a result of consistent, steady and co-operative government policies over a period of several years and of the operation of market forces. When economic growth had been restored and inflation had been reduced in IEA countries, energy policy and high oil prices remained the main force working to restructure IEA economies away from oil. The energy and oil intensity of IEA countries continued to decline. The governing board of the IEA decided in April 1986 that there was at that time no need for new international action by member countries in the area of energy policy. The governing board stated that concerns about energy supply security might be intensified by a prolonged period of relatively low oil prices and bring forward that period when tighter energy markets could be expected. They stressed that the energy policy objectives which had been

agreed upon by all member governments to meet those long term concerns remained valid under the changed circumstances.\(^{46}\)

Development in 1986 suggested giving particular attention to the following aspects of energy policy:

(a) The development of indigenous energy resources had proceeded very successfully in an environment of high oil prices. Most notably, oil production in the OECD had been stimulated in frontier areas, deep offshore and by high levels of in-fill drilling and well work-overs in established producing regions.

(b) The level of energy prices and restriction of some government conservation budgets might increase the difficulties of achieving the full potential for energy conservation.

(c) The development of alternatives to oil might be threatened in some areas by renewed competitiveness of oil products against other fuels, especially in industrial countries.

\(^{46}\) Ibid, P. 14.
the regions where industrial gas prices were not flexible enough to meet the competition.47.

(d) As the current trend of growing demand for electricity was expected to continue, new generating capacity would be needed to come on stream in the 1990s. Decision on the fuel choice for new power stations might be taken without worsening the security of energy supply.48.

Before 1986, indigenous oil production has been on a steadily rising trend: IEA oil production in 1985 was some 15% higher than the 1979 total of 7041.1 Mtoe. Production has increased in all the major IEA producing countries with most of the gain coming from the North-Sea discoveries of the 1960s and 1970s. United States production mostly from geologically mature areas and frontier areas such as North slope of Alaska, has been greatly assisted by the level of prices which prevailed between December 1979 and January 1986. Low prices in 1986 have triggered a change in direction in areas with high operating costs. There have been ------------------

47. Ibid, p. 15.
some swift policy responses to this new situation among IEA producer countries especially in the area of taxation. Tax and royalty regimes have been substantially modified in Australia, Canada, Germany and Norway. There have been no major overhauls of production taxes in the IEA, where reliance has rather been placed on automatic adjustments of tax regimes to lower prices. This was the case in the United States where the incidence of the windfall profit tax was reduced zero at the sort of oil prices which were prevailed in 198649.

Energy conservation through improvements in efficiency was made a major contribution to reducing oil imports and easing energy markets in general. It has also reduced the need for new investment in production facilities such as electricity generation and it has made a positive contribution to the quality of environment. The 20 % drop in energy intensity, (the ratio of energy use to GDP) from 1973 to 1985 was a rough indicator of past progress. This decline in energy intensity translated into about 880 Mtoe per year.

49. Ibid, p. 16.
between 1973-85. During 1985 energy intensity declined by only 1.5%, about the half of the rate of decline from 1979-84. The steep decline in crude oil prices during 1986, reflected in significantly lower prices for oil products and other competing fuels, has reduced cost effectiveness of most conservation actions and increased the uncertainty of investments which are dependent on future energy prices. This might result in even smaller declines in energy intensity (on average 0.4% per year until 1990). In addition, prices trends have lessened the motivation that rising energy prices provided to those energy users who were usually less concerned about energy costs, such as tenants, most building owners and the managers of non energy intensive industries50. During 1985 and 1986, there was also some reduction and reorientation in government conservation activity due to factors such as budget constraints, less public concern and a continued reliance on market forces throughout a period of low energy prices. Financial incentives for conservation investment and support of research and development on improved efficiency were often reduced,

50. Ibid, p. 18.
and some regulatory requirements for improved efficiency were either lowered or eliminated.

The governing board of the IEA met at ministerial level on 11th May 1987 in Paris under the chairmanship of Hon Marcel Masse, minister of energy mines and resources of Canada. The energy policies of the IEA and its member countries were remained to maintain security of supply in both the short and long term in order to sustain economic well being. The policies pursued by IEA member countries since 1974 have been successful. The decision reached at the meetings of the governing board at ministerial level on 8th May 1983 and 9 July 1985 remain valid. There was a need for energy policies for the 1990s which would stress on following issues:

(a) Maintain energy security through continued development of indigenous energy resources and technologies and improvements in the efficiency of energy use;
(b) Secure the benefits for IEA countries as a whole of lower energy and oil prices

51. Ibid, p. 53.
(c) Promote free and open trade in energy
(d) Further improve preparedness to deal with disruption in energy supplies.

The falling oil prices occasioned considerably industry-wide expenditure cuts in oil exploration, development and production in the IEA area. Governing board reaffirmed the high priority given to the IEA emergency preparedness system, including both IEP oil sharing and co-ordinated early response stipulated in the governing board decision of 11th July 1984. Total stocks held in IEA countries were equivalent to more than 160 days of 1986 net imports which was considerably more than the minimum legal obligation of 90 days by each country. IEA governments would maintain emergency response programmes, including stock levels that would be available at "the instance of governments under clear and definite authority so as to assure their ability to implement these programmes in an oil supply disruption in accordance with national law or policy".52

The market turmoil in 1986, caused by the sharp decline

52. Ibid, p. 58.
in world oil prices, followed by falls in other energy prices, had subsided by the following year. By 1987 the market reaction to lower energy prices had became more balanced and the short term effects of lower oil prices were becoming obvious. OECD's total energy demand grew by 0.7 % in 1986 and by 1.2 % in 1987. Improvements in energy efficiency continued in both years, although at a slower rate than previously. The only primary energy source whose use increased was oil, with demand particularly high in the transport sector. However, some of higher oil demand in 1986 was due to stock building by industries and private consumers.

The response of OECD consumers to lower oil prices varied among sectors. The strongest increase in demand was for transport fuels, which accounted for more than three quarters of the overall increase in oil consumption. The upward trend in these fuels has continued for more than five years both due to higher transport demand and lower oil prices. These accounted for more than half of total OECD

oil product sales. The transport sector was critical for oil consumption. In the short term, the oil price decline of 1985-86 did not have a negative impact on overall non-OPEC supplies. OECD oil production fell, however, to 16.9 mbd in 1986 from 17.0 mbd in 1985. Most of this came from a decline in the United States oil production by almost 0.3 mbd in 1986, partially made up by production gains in Norway and elsewhere. Production in United States also dropped by 0.3 mbd in 1987. As a result, total OECD oil production in 1987 fell to 16.8 mbd. Production in other OECD countries, such as the United Kingdom and Australia were remained fairly constant, total north sea production even increased in 1986 and 1987 because of higher output in Norwegian fields.54 World-wide capital expenditure by oil and gas industries on exploration and development in 1986 declined by about 40 % from 1985. Nearly 80 percent of this drop was in United States which historically accounted for the largest share of upstream investment. The decline in capital expenditure was partially offset by sizeable drop in oil exploration and in development costs and a major streamlin-

54. Ibid, p. 18.
Energy policies of IEA countries have contributed to improvements in world energy markets. They have helped in reducing growth in Energy and oil demand and in increasing the diversification of energy sources. The main instruments were:

(I) The continued maintenance and improvement of the IEA's system to cope with oil supply emergencies;
(II) The expanded use of market signals to achieve energy policy goals;
(III) The encouragement of energy conservation and efficiency;
(IV) The improvement and adaptation of investment conditions to increase indigenous energy productions;
(V) The removal of barriers to market operations including barriers to energy trade;

Oil remained the dominant fuel with about 43 percent of TPER in 1987. The transport sector was a key one because it was dominated by oil and continues to account for a growing share of OECD total final consumption (TFC), reaching about

30\% in 1987. There were very limited prospects to replace oil in this sector on an economic basis\textsuperscript{56}. The transport sector contributed to only 11\% of this reduction. OECD oil consumption rose by an average of 1.2\% per year between 1983 and 1986. In 1987, OECD oil demand increased by 1.4\% and in 1988 by about 2.7\%. The underlying average growth rate for 1986-88 was about 2-2.5\% annually. Heavy fuel oil consumption has continued to decline but at a slower pace, which rose by almost 2\% per year in 1984 and 1985 and about 3\% annually thereafter. Demand for products other than heavy fuel oil in 1988 was estimated to have reached the peak demand level of 1979, while total OECD oil demand in 1988 was more than 5 million barrels per day (mbd). Most of the increase in oil demand since 1983 has been in transport fuel, mainly for road transport, demand for aviation fuel also increased significantly due to higher air travel. In the transport sector widespread substitution was not economically feasible\textsuperscript{57}.

\textsuperscript{56}.Ibid, p 13.

\textsuperscript{57}.Ibid, p 22.
OECD oil production continued its decline from 16.9 mbd in 1986 to 16.8 mbd in 1987 and 16.6 mbd in 1988. Two largest OECD oil producers the United States and United Kingdom both recorded production declines but for different reasons. In the United States the drops in oil production in 1987 and 1988 were less than that in 1986, since oil production from Alaska was increased and lower well servicing and maintenance costs in rest of the country helped sustain the profitability of older producing fields. In the United States the drops in oil production from Alaska was increased and lower well servicing and maintenance costs in the rest of the country helped sustain the profitability of older producing fields58. The share of oil in total energy supply in OECD countries in 1989 was 43 %. This was compared with oil dependency of over 55% in 1973 and over 52% in 1979, although oil occupied as the OECD region's most important energy source oil dependency of individual countries varied greatly. While some countries depend on oil for less than 40 % of their energy needs, the oil share in others exceeds 50 % of TPES. Crude oil reserves of OECD

58.Ibid, p 23.
countries fell by 2.4% in 1989. (approx. 53.4 billion barrels). This represented only 5.4% of proven world crude oil reserves. Among OECD countries only Norway, the United Kingdom and Canada were net oil exports and Australia produces most of its oil needs. While about half of the oil supply in the United States, Denmark and New Zealand came from indigenous production, but other OECD countries depend more heavily on oil imports. In 1989, oil production in OECD countries fell by more than 0.7 mbd or 4.9%.

It is therefore evident after an indepth study of the policies and programmes of IEA countries during eighties period that all above measures adopted by IEA were only on micro level to safeguard the interest of its member countries, nothing to do with the stability in the International oil market. The whole text of the agreement on International Energy Programme and 1984 decision of the Governing Board of IEA on stock and supply disruptions were to meet emergency requirements in case of fluctuation in the international oil market. But in these two decisions, nothing

has been said for maintaining the stability in the international oil market. Ultimately the responsibility to maintain stability in International oil market was borne by OPEC.

Despite efforts since the creation of IEA to substitute oil from other sources of energy like electricity, coal, gas and nuclear, oil continued to play dominant role in IEA member countries economies. Oil would remain the single most important energy sources for IEA countries, with its share in total energy demand 43.8% in 1983 expected to be of 39% in 1990 and about 34% in 2000. The IEA countries as a group expected a substantial increase in net oil imports. It was projected to grow from Mtoe in 1990 and 894 Mtoe in 2000. Whereas the share of coal was 22.2% in IEA's total primary energy requirements (TPER) which was expected to rise to 27% by 2000. The contribution of Nuclear in TPER was 4.7% in 1983 expected to increase to 10% by 2000. The gas contribution was 19.3% in TPER expected to decrease slightly to about 18% by 2000.  

It is therefore proved from the above analysis that oil still holds key importance for IEA member countries. IEA has been criticized that far from dealing promptly with supply crisis, instead it has been concentrated on over analysis of supply situation, thereby contributing to atmosphere of panic in the market and even promoting price increases. This accusation was made with particular reference to IEA's action in the crisis of 1979.61

The IEA has accepted these criticisms. The then Executive Director of IEA, Dr. ULF Lantzke told in London on 11th December 1980 about the 1979 situation. Uncertainties about the future supplies had resulted in 'less than optimum cooperation' between consumer countries. The IEA objectives was to reduce imported oil demand by 5% in March 1979 and the introduction of oil import limits proposed at the Tokyo Summit had not been successful. Dr. Lantzke conceded that these measures might have been too general, with insufficient implementation of the plan at ministerial level within

the individual participating governments. The oil import ceiling established at Tokyo were 'inflated and there was inadequate discouragement of 'undesirable purchases'. The result was that countries faced severe difficulties in securing supplies went out into the spot-market while the better placed countries concentrated on building up stocks. Oil companies, for their part, took advantage of the situation to consolidate their long-term position. Stimulated by these combination of activities, price increases by 140%.

Dr. Lantzke maintained that the 1979 situation was different in a number of respects although the anticipated shortfall as a result of Iran-Iraq war was in the same range as in 1979 (1-2 mbd). The spot market has also shown erratic behaviour similar to 1979 and certain oil companies have been willing to pay OPEC surcharges. Dr. Lantzke pointed out that the present plan was structured to anticipate and forestall a potential crisis, and not (as in 1979) as a remedy to a major supply emergency 62.

Notes of protest from individual countries were centered around two issues - the speed with which any emergency

can be dealt with and the IEA's lack of strict implementation mechanism. At the group of seven ministerial meeting, French minister for industry Andre Giraud suggested that the IEA should impose a compulsory percentage drawdown of stocks in excess of 90 days requirements to become effective after a given date, instead of the present scheme to reallocate it.\textsuperscript{63}

The US administration had the idea of early use of stocks in the event of a supply disruption of the sub crisis variety. One of the first signs of this change in US appeared during on IEA committee meeting in Paris on 16 February 1984. The meeting was held to review the emergency response programmes of member countries and during discussion of US programme. American officials spoke of their administration plan to use stocks early in supply distribution.\textsuperscript{64}

Five days after the Paris meeting on 21st February

\textsuperscript{63} Ibid, p. 70.

1984, secretary Hodel of US appeared before the House subcommittee on fossil and synthetic fuels of the committee of Energy and Commerce and made public the administration plan for dealing with supply shortfalls: "I believe that, in a major disruption, the early sale of strategic petroleum reserve (SPR), oil in large volumes ordinarily in the best policy for SPR use. This policy makes it possible to replace rapidly some oil lost because of a disruption and therefore, reduce price increase while world wide supply and demand reach equilibrium. The market place needs to know in advance that this is our general policy so that unnecessary panic behaviour can be avoided. I know we have been relatively silent in the past concerning the use of our SPR in an emergency. While the SPR was in its earlier stages of development, it was not a particular valuable tool.... The SPR now has reached an important goal of representing more than 90 days of US crude oil imports (355 million barrels). The SPR therefore, is an operational tool, and I have no hesitancy in declaring our willingness and intention ordinarily to use it to optimum advantage early in a serious oil supply dis-
It is therefore clear that the USA was championing the idea of a co-ordinated stockdraw. It had publicly expressed its plan to use the SPR in supply disruption and was concerned that if it acted unilaterally in undertaking a stockdraw while other consuming countries built stocks, this would reduce the benefits to American action. The administration was conscious of potential domestic criticism on this issue. Furthermore, given its non-market interventionist ideology, the US administration, wanted to come up with a means to respond shortfalls which would reduce the likelihood of using the interventionist IEP. Moreover, given their experience with it, the administration wanted to avoid the possibility of a real AST-4. Hence, the USA became the major force promoting the idea of a co-ordinated stockdraw in a sub crisis situation but other countries were less enthusiastic. The Japanese had mixed feelings. They clearly wanted the USA to use SPR in a sub crisis and were pleased that the Americans were moving in that direction.


Yet they were cautious about a coordinated stock agreement because they were still in the process of building their own stock reserve. They also felt that the discussions were unclear on how to use the stocks in a pre-crisis situation would effect calculations in the IEP if a full blown crisis followed. Moreover, the Japanese felt the discussion was emphasised demand restraint enough, which reflected the US reluctance to impose restraints on its consumers during a crisis. Some of other countries were also ambiguous. The German were cautious about the idea as they were convinced that their demand restraints programme was very good and that they had good stock level. The Dutch tended toward German position while French and Italian were supportive of the proposal even though they had less well developed stock-piles. While many countries were concerned that the decision did not pay enough attention to the IEP, they also realized they were looking at a pool of 450 million barrels of oil which they wanted to get into the system in the event of supply disruption, and they acknowledged the US position that if other countries tried to get access to SPR oil without themselves making some supportive effort, then a
stock draw would not be likely to happen\textsuperscript{67}.

It is therefore obvious from the above analysis that there were two major constraints on the agency's autonomy, namely the decision to rule or the informal tradition of taking decisions by consensus and with unanimity and the national interest of member countries. There were several informal categorization of countries in the IEA, with the most important of these being the big four (USA, Japan, Germany and UK) of these the USA, UK and Germany were throughout eighties led by ideologically conservative, free market oriented administrations. The USA position in IEA is like as Saudi Arabia in OPEC. Its economy alone is as large as those of each of other two regions in the IEA, that is Europe and the pacific. It is not only the largest consumer and importer of oil the largest producer also. The economics of the situation were such that if the USA did not draw stock, it would be futile for others to do so.

From preceeding analysis it became clear the IEA has been able to provide counter strategy option to its members

\textsuperscript{67} Ibid, p. 56.
to manipulate the market to their interest. However, it is clear that many times IEA could not be effective because there were differences among its members as well. This limitations imposed by the member states, have had restrictive impact on its performance. Though IEA has been successful in providing oil saving regime in case of its members, yet so long as oil is going to be the major source of their energy and OPEC remains the leading supplier. IEA will continue to have its relevance as an organisation of protecting the interest of oil consuming countries of the OECD nations.