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**The International Energy
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March 1982

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The International Energy Agency

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The author of this paper is Office
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welcome and may be directed to the Chief, European
Issues Division, EURA,

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March 1982*

Confidential**The International Energy Agency** [redacted]

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Summary

During the oil crisis in 1973-74, governments of oil-consuming countries realized that they needed a contingency plan to deal with oil-supply problems. To counter OPEC leverage and establish cooperative means to meet any future severe oil shortages, the major industrialized countries created the International Energy Agency. Very much an American initiative, the IEA has been referred to with some exaggeration as an economic NATO and an oil-consumers' cartel. Despite the diversity of energy interests and problems of its members, the Agency provides a valuable framework along with the Organization for Economic Cooperation and Development and the European Community for discussing mutual energy problems and for formulating common energy policies for the consumer nations. [redacted]

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The IEA has put its members in a better position than they were in to deal with oil shortages, but conceptual problems and internal strains hamper the effectiveness of the organization. It is not clear that emergency allocation plans tested in simulated situations will work in a real crisis. Also, the IEA has no mechanism for handling oil shortages of less than 7 percent. Such small shortages include those that occurred during the revolution in Iran and at the beginning of the Iran-Iraq conflict. More broadly, a consensus on ways to enhance energy security is lacking. Disagreement on the acceptability of the Soviet gas pipeline provides a dramatic example of differences over energy security. [redacted]

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The International Energy Agency [redacted]

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Membership and Objectives

Membership in the IEA is open to any of the 24 countries in the Organization for Economic Co-operation and Development (OECD) that are able and willing to meet the requirements of the Agency's charter, the International Energy Program (IEP). The charter, adopted provisionally on 18 November 1974, entered into force in January 1976. There are 21 member countries:

- | | |
|------------|-------------------------|
| Australia | Netherlands |
| Austria | New Zealand |
| Belgium | Norway |
| Canada | Portugal |
| Denmark | Spain |
| Greece | Sweden |
| Ireland | Switzerland |
| Italy | Turkey |
| Japan | United Kingdom |
| Luxembourg | United States |
| | West Germany [redacted] |

France is the only major OECD country and the only EC country that is not a member. Although many French policies parallel in principle those of the IEA, Paris prefers to follow an independent course with oil producers, emphasizing bilateral relations. The French Government believes that the energy policy mechanisms of the EC and the Big Seven Summits give it the same advantages of protection against future oil shortages that IEA members have and enable Paris to avoid the risk of alienating oil producers through association with the IEA.' [redacted]

The IEA hoped that the newly elected Mitterrand government would decide to join the IEA after its recently completed review of energy policy, but Paris merely pledged to continue its energy dialogue with

¹ The Big Seven—Canada, France, Italy, Japan, the United Kingdom, the United States, and West Germany—hold annual summits to discuss economic issues. Energy plays an important part in these discussions. In preparation for the summits, the IEA furnishes reports on energy performance and prospects to the high-level Monitoring Group of Summit Countries. Decisions and recommendations that evolve from the summits are the basis for many IEA policies. [redacted]

the industrialized countries. France does participate indirectly in IEA activities as a member of the European Community, which has observer status in the Agency and the right to state its views. [redacted]

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The common aim of the members of the Energy Agency is to avoid, or at least minimize, economic problems that result from energy shortfalls. Specific objectives stated in the International Energy Program—valid until at least January 1986—are:

- To promote the security of oil supplies on reasonable and equitable terms.
- To take common measures to counter oil-supply crises by developing self-sufficiency, restraining demand, and allocating supplies among member countries equitably.
- To promote relations with oil-producing countries and with other consuming countries, including less developed countries (LDCs).
- To play an active role in relation to the oil industry by establishing an inclusive international information system and a permanent framework for consultation with oil companies.
- To reduce long-term dependence on imported oil by undertaking cooperatively to conserve energy, develop alternative sources of energy, and engage in energy research and development. [redacted]

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Organization

The IEA has a Secretariat, a Governing Board, a Management Committee, and four Standing Groups dealing with Emergency Questions, Long-Term Cooperation, Relations With Producer and Other Consumer Countries, and the Oil Market. These major units are further organized into various other committees, groups, and subgroups. [redacted]

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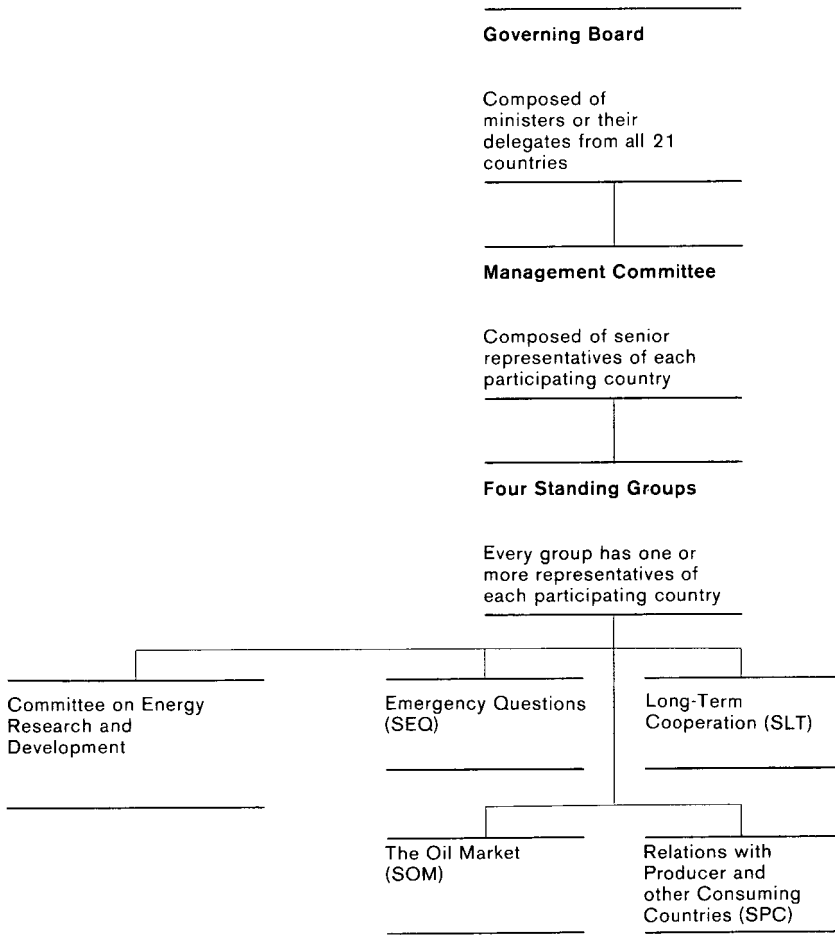
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Figure 1

IEA Organizational Chart

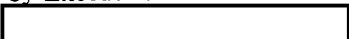


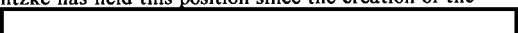
In addition, high-level groups have formed subgroups and working parties to assist them with specific tasks as necessary.



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The Secretariat, Governing Board, and Management Committee

The IEA *Secretariat*, which assists all organs of the IEA and also serves as the Combined Energy Staff of the OECD, is headed by Executive Director Dr. Ulf Lantzke of Belgium.² 

² Dr. Lantzke has held this position since the creation of the Agency. 

The *Governing Board* is composed of ministers or their delegates from member countries. The board, which meets at least quarterly, appoints the Executive Director and is charged with assuring the proper functioning of the IEP by adopting decisions and making recommendations. To fulfill its role, it must keep abreast of international energy developments,

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including the economic and monetary implications of such developments. The Board may delegate its functions to any other organ of the Agency. [redacted]

proposals to the Governing Board on any matter within the scope of the Agency's charter. It can be convened upon the request of any member state. [redacted]

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Decisions adopted by the Governing Board to fulfill the obligations of the IEP are binding on member countries; recommendations are not. Ministerial meetings are held yearly. The focus of the ministerial in May 1982 will be on endorsing a concept of "energy security." [redacted]

Standing Groups

The *Standing Group on Emergency Questions (SEQ)* supervises the Emergency Allocation Scheme (EAS) of 1974, which has been called the core of the IEA. The scheme's purpose is to provide for equitable sharing of oil supplies by member countries in the event of an oil crisis. [redacted]

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The Governing Board's voting scheme—rarely used—is complex and does not allow veto power to any single country.³ Votes are weighted in three ways:

The four major components of the scheme are:

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- General, giving each country the same weight.
- Demand weighted, depending on a member's consumption of oil.
- Combined, adding the general and demand weights.

- A commitment by member countries to maintain emergency reserves—oil stocks, fuel-switching capacity, or standby oil production—capable of sustaining consumption for at least 90 days without any net oil imports.⁴

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A majority vote—60 percent of the combined vote cast and 50 percent of the general vote cast—is required to adopt decisions on the management of the IEP. A unanimous vote is required to adopt most other decisions, including those that impose new obligations. Specific types of decisions relating to emergency measures require a special majority. A special majority includes a vote of 60 percent of the combined voting weights and either 45 or 51 percent of the general voting weights, depending on which measures are to be voted on. [redacted]

- A commitment by member countries to reduce oil consumption by 7 to 10 percent (depending on the severity of the crisis).
- Equitable distribution of oil supplies—crude oil, all petroleum products, all refinery feedstocks, and all finished products produced in connection with natural gas and crude oil—based upon each country's imports prior to any activation of the emergency sharing procedures.

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The Governing Board reviews the voting weights annually. A decision to increase, decrease, or redistribute voting weights because of a member country's change in total oil consumption requires a unanimous vote. [redacted]

- The maintenance of an international data reporting system. [redacted]

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The primary function of the *Management Committee*, composed of senior representatives from member countries, is to review reports submitted from the Standing Groups. But the Committee may make

The process for activating the scheme is complex. It begins when the Secretariat (with assistance from oil companies) determines that either the IEA membership as a whole or an individual member is experiencing or will experience a 7-percent reduction in oil imports. The Secretariat's findings are reviewed by

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³ The scheme was used for determining when the IEA would move from a 60- to a 90-day emergency reserve commitment and for determining how the elements specified in the charter should be used in fulfilling the emergency reserve commitments. Other usages of the voting scheme are specifically outlined in the charter. [redacted]

⁴ Emergency stocks are computed as total oil stocks (crude and products) less 10 percent to account for completely inaccessible inventories (working stocks) required by the oil companies to keep the distribution system operating. The number of days of emergency reserves is equal to stocks divided by the previous year's daily rate of net imports. [redacted]

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the Management Committee and then by the Governing Board. Finally, activation of the scheme is confirmed unless the Governing Board, by special majority, decides otherwise. An International Advisory Body of oil companies implements the scheme. [redacted]

Each phase of the activation process has specific time limits; the entire process takes 23 days plus the time required by the Secretariat to complete its findings. If the Secretariat fails to make a finding upon the request of a participating country, the Governing Board can act faster by taking a majority vote [redacted]

The IEA Secretariat is obligated to initiate a second review process when the emergency drawdown obligations have reached 50 percent of emergency reserve commitments.⁵ The Secretariat again reports its findings to the Management Committee and then to the Governing Board. The board must decide within nine days, by special majority, on the measures required, including whether to move from 7- to 10-percent demand restraint. Lastly, the board by unanimous vote may activate "any appropriate measures beyond those specified in the IEP Agreement." Similar procedures are followed to deactivate the emergency scheme. The emergency procedures would be carried out in cooperation with the oil companies, and oil would be distributed through normal channels and at market prices. [redacted]

Although the scheme does not contain a formal pricing mechanism, it follows a guideline that the price of allocated oil will be based on price conditions for comparable commercial transactions. [redacted]

The *Standing Group on Long-Term Cooperation (SLT)* agreed in 1976 on a Long-Term Cooperation Agreement consisting of broad policy guidelines including a concerted four-point program of specific

⁵ Emergency reserve drawdown obligations are defined as the emergency reserve commitment of any member country divided by the total emergency reserve commitment of the group and multiplied by the group's supply shortfall. [redacted]

long-term measures to reduce the dependency of member countries on imported oil. The program is aimed at:

- Strengthening energy conservation.
- Developing alternative sources of energy.
- Removing economic and political obstacles that hamper accelerated development of indigenous sources of energy.
- Stimulating investment in energy development, including a strategy for energy research and development. [redacted]

The SLT regularly assesses the policy and performance of member countries on the four long-term IEA goals. These reviews form the basis for IEA policy recommendations to member countries. [redacted]

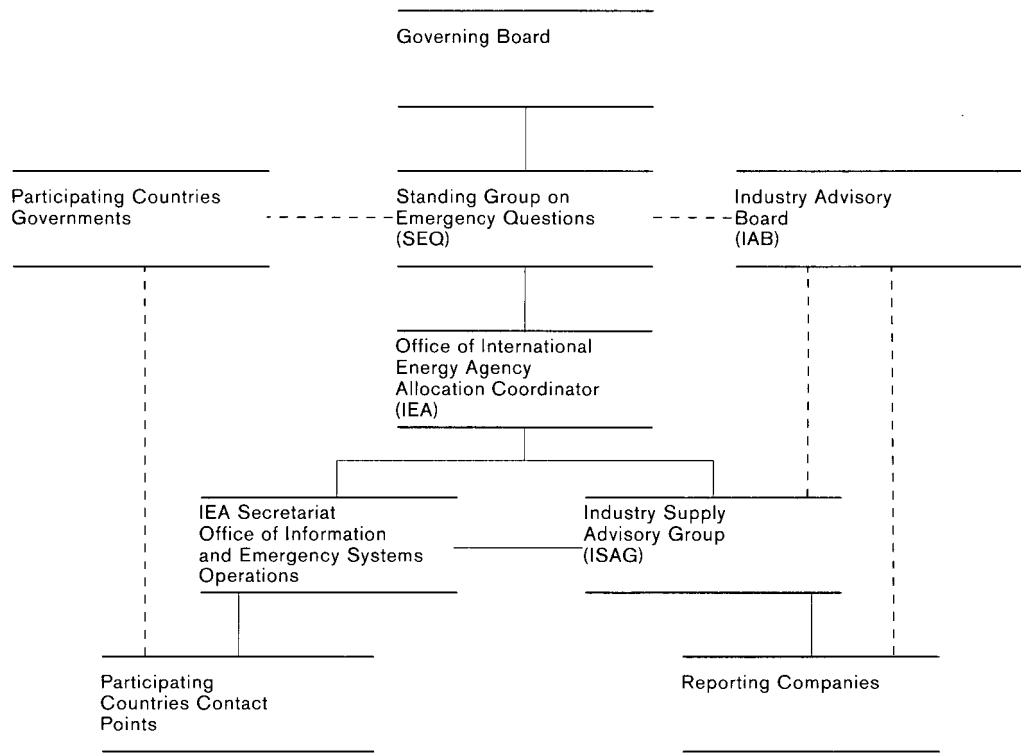
In the area of conservation, the SLT assesses success in implementing regulations, incentives for increasing the efficiency of energy use in both residential and commercial sectors, and progress toward deregulation of oil and gas prices. The IEA's pricing policies have been particularly controversial. Canada long opposed the pricing of domestic oil at world levels but is now moving its prices substantially in that direction. Problems exist throughout the IEA membership regarding pricing principles for nonoil fuels and electricity. Difficulties are compounded by differing national regulations and controls. The pricing issue is expected to be discussed at the spring 1982 ministerial meeting. [redacted]

Looking at alternative sources of energy, the SLT assesses progress in substituting coal and natural gas for oil in industry. It also assesses efforts to study the potential use of nuclear energy. Although all IEA countries have agreed on the need to achieve structural change in energy supply, the IEA effort on nuclear energy has varied. At the June 1981 ministerial, the IEA called on member countries to take prompt action to promote the use of nuclear energy and to take other steps to enhance the use of nuclear technology. Vocal opponents of nuclear energy, however, are causing some member countries to proceed cautiously in this area. [redacted]

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Figure 2

IEA Emergency Allocation Scheme



[Redacted]

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Regarding energy development, the SLT looks for more incentives and fewer constraints for exploration and development of indigenous energy sources and for increased international trade in nonoil fuels.⁶ [Redacted]

In research and development, the SLT assesses growth in the funding and the numbers of R&D projects.⁷ The IEA now has 54 collaborative R&D projects under way. [Redacted]

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⁶ IEA members agreed in 1976 to establish a minimum safeguard price to protect investment in indigenous energy resources. This measure was designed to protect high-cost conventional energy sources against a substantial drop in the price of oil produced outside the IEA countries. The minimum safeguard—\$7 per barrel—is so low, however, that it no longer has much relevance. [Redacted]

In addition, to promote measures aimed at reducing dependency, IEA ministers agreed in 1977 to a group objective of an oil import ceiling of 26 million barrels per day (excluding bunkers) by 1985. In 1979 the goal was revised downward to 24.6 million barrels per day, [Redacted]

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⁷ A high-level Committee on Energy Research and Development has been created to promote cooperation on energy R&D among member countries. [Redacted]

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and IEA countries agreed to impose country-by-country import ceilings. The SLT reviews the progress of member countries in meeting these objectives. Imports subsequently have fallen substantially below the revised ceiling. [redacted]

The IEA's policies to encourage structural change have certainly played a role in the recent substantial reduction in oil use and price, but economic recession in the industrial countries has been a more significant factor. The IEA is concerned that the recent downturn in the oil market and in economic conditions will lead IEA members to curtail their political commitments to the energy restructuring that is necessary to avoid later problems. [redacted]

The Standing Group on Relations With Producer and Other Consumer Countries (SPC) provides a forum for regular consultation and coordination among IEA members on energy cooperation with oil-producing countries and other consuming countries. Thus far, the activities of the SPC have been limited. [redacted]

Most IEA members agree there is little to be gained and much to lose by fostering a dialogue with OPEC under current circumstances. OPEC does not oppose the efforts of industrial countries to reduce oil consumption and develop alternative sources of energy, but it still views many IEA policies as confrontational. The country that chairs Governing Board meetings regularly informs an OPEC country—most recently Saudi Arabia—of IEA decisions, Governing Board meetings, and ministerial gatherings. IEA ministerials are generally held prior to or concurrently with OPEC ministerials. [redacted]

Although the IEA recognizes the problems facing the oil-importing LDCs, its relations with them have been limited, and SPC activities have concentrated on research and development projects. The IEA has been criticized for failing to organize the developing countries and to capitalize on wavering Third World support for OPEC. The LDCs believe that IEA

initiatives to deal with their problems are insufficient and would not permit them to change their relationships with OPEC. [redacted]

Despite the failure of efforts to get importing and exporting countries together, the idea of a dialogue between producers and consumers as a means of managing energy problems is still very much alive in multilateral forums. In this context, the SPC monitored closely the work of the UN Conference on New and Renewable Sources of Energy held in Nairobi in August 1981. [redacted]

The *Standing Group on the Oil Market (SOM)* is responsible for providing a framework for regular consultations in which governments of member countries can request information from oil companies on all aspects of the oil industry. The SOM reviews the results of these consultations and the information collected. [redacted]

Consultation with the oil companies is essential to maintaining the information system on the international oil market used not only by the IEA but also by the Combined Energy Staff of the OECD. The information system has two categories: a general section containing data on oil companies and the international oil market and a special section on the oil situation of member countries to ensure the efficient operation of the Emergency Allocation Scheme. [redacted]

The SOM reviews operation of the general section on a continuing basis and reports changes in the condition of the international oil market to the Management Committee. Data voluntarily supplied by the oil companies through governments cover: corporate and financial structure; terms of arrangements for access to major sources of crude oil; current and anticipated changes in production rates; oil stocks; and cost of crude oil and oil products. Data supplied under the special section include: oil consumption and supply; demand restraint measures; and current and projected levels of international supply and demand. [redacted]

* First efforts at discussions involving industrialized countries, LDCs, and OPEC (in which the IEA participated) culminated in the 1975-77 Conference on International Economic Cooperation (CIEC), which failed to obtain LDC agreement to a continuing dialogue. Demise of the CIEC left the consuming countries without a multilateral forum for discussion with oil producers. [redacted]

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Cooperation between US-based oil companies, which serve on the IEA advisory committees, and the IEA has been facilitated by special limited exemptions from US antitrust laws. These exemptions are intended to allow oil companies to supply the IEA with corporate supply-demand figures without becoming vulnerable to antitrust suits for exchanging confidential data and colluding. However, because of the limitations of the exemptions, oil companies at times have expressed antitrust concern and have delayed furnishing the IEA with data.⁹ [REDACTED]

The Secretariat is responsible for the operation of the system. All information collected is handled confidentially. [REDACTED]

Outlook

Although the IEA has put its members in a better position to deal with oil-supply cutbacks and another crisis like that of 1973-74, conceptual problems and internal strains lessen the effectiveness of the organization. [REDACTED]

The Emergency Allocation Scheme has never been tested in a real crisis and some IEA members doubt that it will work effectively in an actual emergency.¹⁰ Three simulated allocation tests have been conducted, the most recent in 1979-80, with mixed results. Problems that surfaced during the third allocations test included communications and data processing errors, difficulty in starting national sharing programs, allocation gaps caused by uncertain transport, and inability to export indigenous oil because of national legal restrictions. The IEA, nevertheless, considers the test a major success. A fourth allocations test is scheduled for late spring 1983; a major goal will be a full test of pricing procedures. [REDACTED]

The IEA lacks a mechanism for handling oil-import shortfalls of less than 7 percent. Such supply disruptions occurred during the Iranian revolution in 1979 and in 1980 at the beginning of the Iran-Iraq conflict.

⁹ The exemptions are contained in US Energy Policy and Conservation Act 252, which has been renewed several times and is scheduled for renewal at the end of March 1982. [REDACTED]

¹⁰ In 1979 Sweden requested that the IEA activate the scheme on its behalf. The IEA rejected Sweden's request but held private conversations with oil companies to acquire more oil for Sweden. [REDACTED]

The 1979 shortfall was overcome by increased OPEC production and OECD conservation, but only after steep price increases. The 1979 shortfall in particular highlighted the inability of the IEA to deal effectively with problems faced by its smaller members. [REDACTED]

The IEA recognizes the need to deal more effectively with short-term supply interruptions and has taken steps to reduce the likelihood of temporary shortfalls. For example, at both the December 1980 and March 1981 Governing Board meetings, ministers agreed on measures to reduce IEA oil-import demand, to discourage purchases of oil at spot market prices, and to monitor oil supply and stocks. [REDACTED]

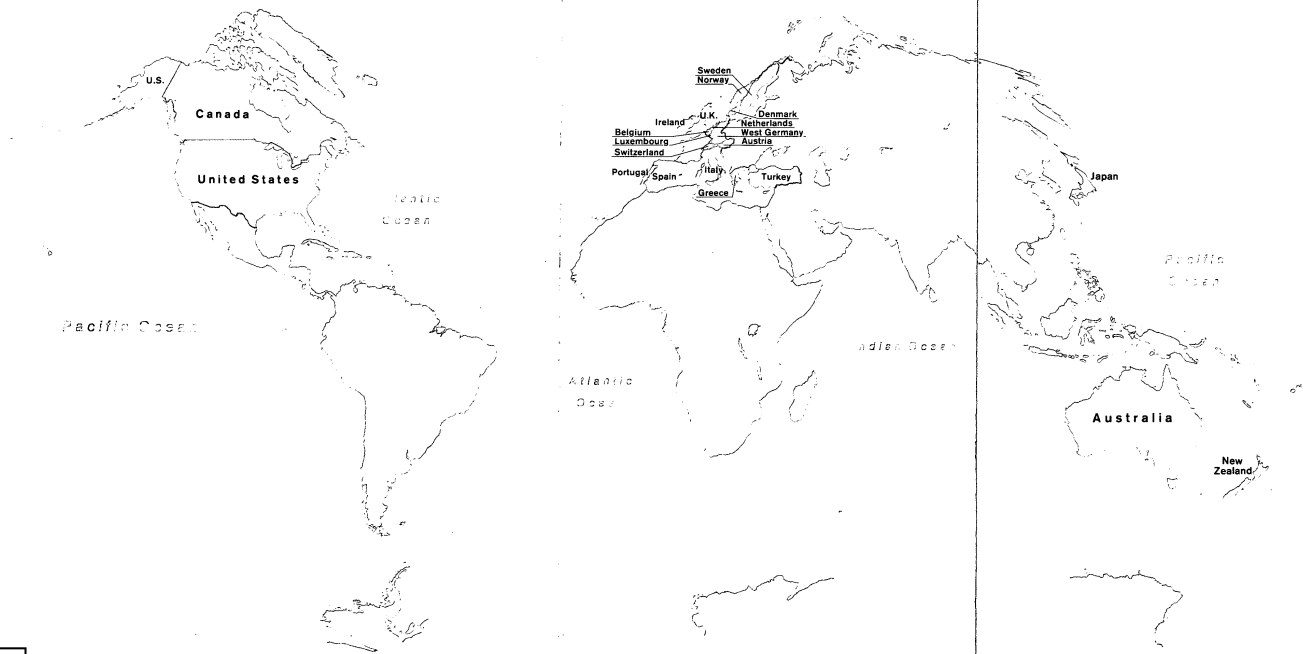
Despite these measures, reliable concrete mechanisms still do not exist to deal with subcrisis situations. Some IEA members have opposed the creation of such formal mechanisms, believing they would reduce the very market flexibility needed to handle each interruption as it occurs. The members agreed at the ministerial meeting on 14-15 June 1981, however, to national consultations with oil companies on ways of improving the ability of member countries to respond to small supply interruptions. [REDACTED]

More broadly, many IEA members are concerned at the absence of a working consensus on ways to enhance energy security. Uncoordinated national actions such as those taken during the 1979 Iranian revolution inevitably result from a lack of consensus. Disagreement on the acceptability of the Soviet gas pipeline provides a dramatic example of differences over energy security. [REDACTED]

The varying political, economic, and energy needs of the member countries make the achievement of cooperation and coordination a problem. However, IEA countries have ample incentive to continue striving for the group's objectives of reduced dependence on imported oil and increased energy security. [REDACTED]

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Figure 3
International Energy Agency Membership



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