



Storage & Strategic Stocks: Where to Next?



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Revisiting the stock/price nexus

- **Price plunge, record stocks**
- **Once upon a time...**
 - Reverse correlation – outcome or driver?
 - Calling the tipping point
- **New era**
 - Broken link
 - 2003-2008: fat stocks, tight curve
 - Today: curve-wide; steady in the storm
 - Illusion of immediacy
- **Measuring stocks is not enough**
 - The function of stocks, not just their level, is changing
 - Current market reveals lack of conceptual framework to understand stocks and the risks associated with them



Five ways in which the role of storage is changing

1. OPEC spare capacity & demand for storage in the age of shale
2. Stock opacity
3. Stocks as profit centers
4. Stocks and the expanding product supply chain
5. Revisiting strategic reserves



1. The shale revolution & demand for storage

Demand for storage on the rise...

- 2003-08: Storage demand fueled by scarcity
- 2014-XX: Storage demand fueled by abundance

Logistics buildup – blending, transport, storage

Shale paradox: deflates OPEC capacity cushion, but its swing potential is untested

US export ban paradox: lifting of ban prompts build



2. Increasing opacity

Absolute stocks levels vs. capacity utilization

Elusive stocks data as storage moves to non-OECD

- Chinese black box
- US stocks move offshore to Caribbean

Storage capacity black box

- Systemic: OECD *and* non-OECD
- Dynamic, swing up & down (just in time...)

New hubs

Missing barrels



3. Profit centers

Storage has gone from integrated cost center to independent profit center – storage as trading

Increased flexibility or market risk?

- **US MLPs: Big Oil spin-offs**
- **International trading firms' midstream push into storage**
- **New business incentives**

Location, location, location (levels are just part of the story)



4. Extended product supply chain

Globalization of product markets

Rise of refining mega-hubs with a global reach

Increased disruption risks as product supply chain gets longer

Product storage increasingly needed to balance seasonal demand swings and as insurance against disruption



5. Revisiting strategic reserves

Changing conditions call for overhaul

- IEA reserves rooted in OECD age and petrostate nationalism
- Aged infrastructure hard to deploy as oil flows have changed
- Petrostates under pressure: stocks vs. flow disruptions
- Price as trigger? Price swings as disruption risks in globalized, interconnected markets
- Need for coordination as markets have globalized...
- ...or opportunity for unilateral action as US oil balance has improved?



Thank you



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