



A QUARTERLY JOURNAL FOR DEBATING ENERGY ISSUES AND POLICIES

This is the one hundredth issue of the *Oxford Energy Forum*, a quarterly publication that Robert Mabro started back in 1990 to stimulate debate on the key drivers shaping energy markets and energy policies. This special issue is dedicated to Robert Mabro who founded the Oxford Energy Policy Club in 1976, the Oxford Energy Seminar in 1979, and the Oxford Institute for Energy Studies in 1982. The fact that these institutions still thrive today is testament to his strong leadership, deep vision, sheer determination, great intellectual ability and, not least, his extraordinary bonhomie. Over the last 50 years, Robert's many insightful books, articles, and papers have enriched our understanding of energy markets, the behaviour of the various players, the dynamics within OPEC, and the interaction between governments and oil companies. With his writing and through the various institutions he created, he has persistently tried to bring producers and consumers closer together, despite his recognition of the challenges involved and the wide divergence of interests. In this issue, some of Robert's many colleagues and friends reflect on the man and his work: the diplomat, the interlocutor, the friend, and above all, the generous intellectual and thinker whose deep insights and intellectual integrity keep shaping and influencing our ideas in so many ways.

The issue begins with a personal memoir reflecting on a key episode in the oil market and about which little information and detail are known. Based on unpublished documents, media comments and dispatches of the time, and personal logs, *Adrián Lajous* reflects on the 1998–9 oil price crisis, revealing some unknown facts about the secret negotiations that brought together Venezuela, Saudi Arabia, and Mexico in an attempt to stabilize oil prices in the first quarter of 1998. His account of events unveils some fascinating details and reveals the complexity involved in negotiations between oil producers and the interactions between OPEC and non-OPEC countries. In forging the agreement on output cuts only a few individuals – Mabro being one of them – played a key role, and his role in these negotiations has been only partially recognized.

Ibrahim Al-Muhanna's article sheds light on Mabro's role not only as a writer and analyst, but also in bringing parties with divergent interests together. His memories of Mabro's talks with OPEC governors and ministers behind the scenes remind us how Mabro was an effective intermediary, a friend, and a behind-the-scenes diplomat, who engineered an opening up of the different oil market interest groups to one another.

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Bassam Fattouh reflects on the most recent oil price fluctuations (since June 2014) and asks what Robert Mabro would say about them. Fattouh argues that every oil price cycle has its own special features and this one is no different: the advent of the US shale revolution, the associated shifts in crude oil and product trade flows, the entry of a new set of players with a new business model, and the changing nature of the geopolitical risks, just to mention a few. However, some fundamental features have run across all previous cycles: the problem of excess supplies, rising levels of inventory, the over-investment question, OPEC behaviour and its relation with non-OPEC producers, the fundamental trade-off between maximizing revenues and maintaining market share, and the role of market sentiment. Fattouh reviews Mabro's analysis of the 1998–9 oil price crisis and his views on these features, arguing that Mabro's intellectual edge in analysing the oil market can be attributed to his extraordinary ability to understand and identify the fundamental questions facing the oil market and to brush aside transient factors.

Giacomo Luciani revisits Mabro's work on the oil price crises in 1985–6 and 1998, commenting on the most recent oil price collapse in 2014–15. Luciani recalls Mabro's view in 1986: that Saudi Arabia had already given up its role as a swing producer at times of falling oil prices, in favour of taking on the role of a 'fixed-volume producer'. Luciani argues that today's non-OPEC producers continue to rely on OPEC to cut output in response to price declines, while OPEC producers essentially place the burden of cuts on Saudi Arabia. However, Saudi efforts to signal to the market have, in his view, been ineffective in the absence of remedial action. Much in line with Mabro's work, he points to the market's dire need of reform and for a more coordinated approach between producers to reduce price volatility as recently seen by the market. In two separate articles, *Mark Moody-*

Stuart, and *Nordine Ait-Laoussine* and *John Gault* reflect on Saudi Arabia's role on the oil market through the lens of Mabro's work. Moody-Stuart reminds us of Mabro's work during the 1980s and 1990s, when non-OPEC production was repeatedly forecast to decline about five years out from the forecast date before technology (in the form of improved seismic imaging, deep water drilling, and horizontal wells) repeatedly pushed this decline further into the future. This long historical perspective of the industry, Moody-Stuart says, puts the present rise of shale oil production in context. Saudi Arabia's historical advantage remains access to low-cost oil reserves; Aramco's status as a highly adaptable company; and the Kingdom's solid market access, built strategically over many years, which also forms part of the Saudi influence on OPEC. But Moody-Stuart warns that Saudi Arabia's prominent position may be threatened by uncontrolled domestic energy consumption driven by subsidized fuel, electricity, and water prices.

Ait-Laoussine and Gault argue that the challenge facing OPEC is even greater today than it was in 1986 and reinforce one of Mabro's messages that the current strategy of seeking market share is likely to prove costly for OPEC in the medium term. The authors argue that OPEC should reconsider its current strategy and adopt a plan that would reverse the foreseeable revenue loss.

Pedro Haas draws comparisons between Saudi Arabia's role in the 1980s and in the current cycle. The differences in details, Haas points out, cannot obscure the fact that the current Saudi oil policy shares its DNA with the Saudi oil policy of the 1980s and is based on a deep understanding of the need to preserve the role of oil and the corresponding Saudi production volumes. Haas argues that one of the implications of Saudi Arabia's current decision is to push other OPEC members to accept a new normal and a lower price point, reflecting a new equilibrium in the market.

Oil and development in the Arab world

Ali Aissaoui reflects on the legacy of Mabro's work in the area of oil and economic development or, as Aissaoui argues, the illusion of development as we perceived it. He reminds us how Mabro, as always ahead of his time, had begun to look at economic diversification policies in Egypt during the early 1970s. Aissaoui moves on to pick up from where Mabro left off, with a closer look at today's debate surrounding the economic diversification of the oil-rich economies of the Middle East. Looking at the GCC economies in greater detail, Aissaoui emphasizes the vulnerability many of these economies experience as a result of their continued dependence, for much of their economic output, on the export of oil; and arguing that today, with flat demand, greater uncertainty about the future direction of prices, and growing domestic fiscal needs, these countries face even more dire threats.

Paul Stevens looks back at Mabro's contribution to our understanding of the role oil has played in Arab economic development. The three dominant themes around which Mabro's work has focused:

- concern over sustainability,
- emphasis on the central importance of developing human capital,
- rejection of the concept of 'resource curse',

are undoubtedly as relevant as ever, and Mabro's views still guide the debate today. The Arab Uprisings, Stevens argues, offered a brief glimmer of hope, but for the most part these glimmers have been extinguished, at least for the time being. Stevens calls for more political and economic reforms to be made in the Arab world, to unleash the enormous talents, abilities, and imaginations of the Arab private sector, releasing it from the shackles of the kleptocracies that have dominated the region for centuries.

This is followed by *Majid Al-Moneef's* memories of Mabro as a sceptic of the



day's theories back in the 1980s, and his contribution to providing critical analysis at exactly the right time.

Energy security

John Mitchell traces the beginnings of Mabro's work on energy and oil markets. Looking back at 1973, the time of the Arab oil embargo, he provides a valuable perspective of the trend, at the time, to study energy primarily within the 'energy security' paradigms. The search was for solutions which would defend the USA and the OECD, he notes, rather than developing a system for governing oil trade and investment which both sides would find it attractive to support. When Mabro's work emerged, it gave a very different perspective of the issue of energy security; namely that a 'solution' would involve both producers and consumers.

David Robinson revisits Mabro's views on energy security and explores four questions of interest today:

- the issue of defining energy security,
- the question of how oil importers should manage the risk of supply disruptions; ,
- the idea that unconventional oil and gas resources could provide the USA with a greater sense of energy security,
- the puzzle of how lower oil prices will affect all the above.

In his article, *Jonathan Stern* revisits lessons drawn by Mabro during the 1980s on the security of gas supplies in Europe. Looking at today's Ukraine conflict, Stern sees the same kind of bargaining problems and political disagreement mix as was perhaps feared during the 1980s, when a major policy question was whether and where Europe would be able to secure sufficient gas to meet demand. Part of Stern's response is to ask where Europe's alternatives to Russian gas this decade are. He also links this discussion to an often underrepresented element in today's vast media hype around the security of

Russian gas supplies, and that is the question of price security.

The producer–consumer dialogue

In two separate articles, *Walid Khadduri* and *Ian Skeet* look more closely at Mabro's role in promoting dialogue between producers and consumers in response to what, during the 1970s and 1980s, emerged as 'the oil problem'. Mabro's motivations in doing so developed, as Skeet highlights, in response to a set of market problems that still very much define oil markets today:

- the risk of national or regional conflict to affect oil supply,
- under-investment in producing countries,
- a slack market that threatens an oil price collapse.

And, as Khadduri emphasizes, Mabro's work contributed significantly not only to bringing parties together but also to removing barriers, and to dispelling what Mabro calls some damaging misconceptions and irrational fears.



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