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## Robert Mabro and the theme of energy security

John Mitchell

'Energy security' falls within the broad range of Robert Mabro's work on energy, but it was not a leading issue. The phrase is a label for policy debate focused on the interests of developed oil importing countries. Mabro's approach has always been broader, with particular attention being paid to understanding the global market and

its geopolitical context and making sure that the position of the oil exporting countries was examined and explained. His views were (and I think still are) that security depends on co-operation, based on interdependence; that 'the market' is an insufficient basis for co-operation; and that there is a role for governments of exporting and

importing countries to work together in the development of a structure for oil prices, moderated by some kind of expert advice. Over the years, the balance between states and markets has shifted against his view. However, the recent collapse in oil prices and its repercussions may mean that the story is not completely over.



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**‘THE BALANCE OF THE OIL WORLD AND THE CONVENTIONAL WISDOM SURROUNDING IT WAS TIPPED OVER DECISIVELY IN 1973 ...’**  
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My acquaintance with Mabro in the late 1970s developed into friendship and I worked closely with him in the Oxford Institute for Energy Studies (OIES) during the 1990s after I had retired from employment in the thinking parts of an international oil company (IOC). Mabro had begun his career outside the oil industry, as I had, and we both were born and grew up in countries outside the OECD. He once told an interviewer (about a scheme to substitute a computer room for the wine cellar of St Antony’s, where he was Wine Fellow): ‘I’ll be blamed because I’m an outsider, not a true Brit.’ This position gave him a vantage point beyond the conventional wisdom of OECD governments and of the international companies based there. Growing up in Alexandria allowed Mabro to be at ease with people from other cultures. He collected pictures, maps, and books about Alexandria, lectured on its economy, and later wrote a thoughtful review of the nostalgia expressed by foreign writers who had spent time there.

**Waning influence of the ‘Seven Sisters’**

Mabro came to oil at the end of the 1960s as a development economist, with published work on Middle East economies. (His book on Egypt<sup>1</sup> is still in print and a college text.) The oil world (described by Anthony Sampson in the early 1970s in his book *The Seven Sisters: the great oil companies and the world they shaped*) was disintegrating, as were the neo-colonial relationships between governments in the USA and Europe and the ‘host’ governments of the developing countries – whose oil the seven sister companies had controlled. At that time only a handful of people, such as: Wanda Jablonski,

Jack Hartshorn, Walter Levy, and Edith Penrose, had access to high players in both government and companies, while in 1972 Morris Adelman of MIT had produced *World Petroleum Markets* his great work of economic but apolitical analysis.

**1973, the Arab oil embargo, and warnings of finite oil stocks**

The balance of the oil world and the conventional wisdom surrounding it was tipped over decisively in 1973 by the Arab oil embargo and the decision of OPEC member countries to break off negotiations with the IOCs and assume direct control of pricing and oil production in their countries. At the same time, press and politicians picked up the idea that ‘oil is running out’, supported by geologists and conniving oil company spokesmen. The position of the few academic and political specialists was overwhelmed. As Mabro wrote later: *‘Not that those involved in governments, companies, consultancies, the media etc. are incapable of critical analysis. They just find it more comfortable to adopt the prevailing conventional wisdom. It is easier to communicate with others within a framework of shared views than to stand alone on the fringes.’*<sup>12</sup>

The events of 1973 had been a great shock to the western political establishments. They set up a confrontation between the OPEC countries and the OECD. The USA appeared a particular target, partly because of its role in provoking the oil embargo, but also because of its rapidly expanding dependence on imports from the Middle East. Henry Kissinger persuaded the OECD to create the International Energy Agency to manage and share supplies in the event of a similar supply crisis. During the 1970s, the IOCs were trying to sail against the wind of change, to maintain at least some of the economic value of

their former concessions even as the host governments were carrying out the 1968 OPEC policy of ‘participation’ – which led in most cases to complete nationalization.

**‘Energy crisis’ analysis – consumers’ hopes for energy security**

Into this new situation stepped new experts from other backgrounds – from economics, engineering, political science, even particle physics, with ideas for ‘solving the energy crisis’. Funds became available to universities and institutes for work on energy, but, in the OECD countries, this was generally framed within the ‘energy security’ paradigms: the search was for solutions which would defend the USA and the OECD, rather than developing a system for governing oil trade and investment which both sides would find it attractive to support.

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Mabro was perfectly placed to create a new role in this situation, both for himself and for energy analysis generally. He had not been one of the pundits of previous conventional wisdom (though he said to me much later that anyone who had not been in the game before 1973 could not properly appreciate later developments). He was not personally or institutionally committed to thinking of ‘energy security’ in terms of the USA or the OECD; nor was he a ‘front’ for OPEC although, due to his personal history and his work on the economies of the Middle East, he understood the Middle Eastern oil producers, and took care that their interests were aired. He realized that a ‘solution’ would involve both producers and consumers. He personally had a very sympathetic manner (from cosmopolitan

Alexandria?), which made it easy for him to establish personal rapport in both camps. He was extremely intelligent and intellectually honest. His Oxford base, and its tolerance (or benign neglect) of new initiatives, gave him the freedom to move.

**Establishment of bodies promoting energy policy debate and mutual understanding**

The result of Mabro’s involvement was a series of innovations: the Oxford Energy Policy Club (1976) for senior executives, the Oxford Energy Seminar (1978) for hopeful future senior executives, and the Oxford Institute for Energy Studies (1982) for future advisers and experts. In every case the idea was to bring together people from producing and consuming (in fact: exporting and importing) companies, governments, and institutes who would otherwise meet only in bilateral negotiations and lobbying. Mabro’s skill was to preside over seminar meetings and research programmes with sympathy, academic rigour, and an attention to detail to induce participants to share observations, on topics presented by relatively nonpartisan experts, about the state of the energy and oil worlds.

When Mabro formed the Oxford Energy Policy Club (OEPC) in 1976 it met twice yearly and was attended by very senior company executives, officials, and a few ‘pundits’ such as Edith Penrose and Jack Hartshorn. This was a forum – unique at the time – where senior people could exchange information and sense the mood among their peers. Over the years many forums have come into existence for this kind of contact, so the OEPC now has less significance – and a lower level of attendance. At the time, however, the Club seem to be a raft in the somewhat stormy sea of relations between oil companies and their diverse governments.

**Control vs cooperation**

The 1970s was an era of economic planning in Europe, and of prices and incomes controls in the OECD generally. In the UK, nationalized power and coal industries confronted strong trade unions. Against this background Mabro found the person he considered the ideal chairman for the OEPC: Aubrey Jones who, from 1965 to 1970, had been chairman of the Prices and Incomes Board set up by the Labour Prime Minister Harold Wilson. In this capacity Jones had been tasked to set the framework for price controls and wage negotiations in the UK economy. Jones was a classic in-between man: son of a miner, ex-Conservative minister for fuel, successful industrialist, a graduate of the LSE, and nearly a member of the Labour Party.

I suspect that in Mabro’s mind, the OEPC was a kind of trial version of the council of experts which he believed should guide a cooperative oil price regime organized by governments. The international oil market as we know it today did not exist in 1976. For decades, most international oil trade had taken place between upstream and downstream subsidiaries of the major IOCs. During the 1970s, as national oil companies (including the UK’s short-lived British National Oil Company) replaced international companies in producing their countries’ crude oil, they also took over the marketing of it. The increasing numbers of sellers and buyers made the idea of a closed trading system less realistic, but the open, regulated commodity markets we know today did not yet exist. It was not until 1983 that the New York Mercantile Exchange launched its contract for West Texas Intermediate, and not until 1988 that a similar futures market for Brent crude was created by the International Petroleum Exchange in London. These markets have, over the years, become the benchmarks for international and

domestic oil trade, although there are still questions about the influence of so-called speculators or financial investors on them. There are also commercial reporting agencies which estimate the prevailing daily price on the basis of interviews with traders.

**Development of the international oil market**

Mabro viewed the rise of these half-open markets with scepticism rising to suspicion. Were the markets manipulated by the companies of the importing countries? Were the reporting agencies’ reports similarly interfered with? Surely the price of Brent crude is too important to be left to reporters? Mabro and his colleagues carried out a pioneering study<sup>3</sup> at the Oxford Institute for Energy Studies (OIES) into the Brent market which put some of these doubts to rest, but I think in his mind ‘market forces’ were not the best answer to the pricing problem. Even if the markets regulated in New York and London could be trusted, up to a point, there remained the problem of the dominant producers and exporters. The relative stability of prices during the period 1986–2005 reflected the ability of OPEC members to regulate supply from production capacity, which typically exceeded demand. Was this a ‘fair market’? Mabro was infinitely intrigued by the question of how the OPEC members would or should share production quotas, and before every OPEC meeting would test various combinations against his contacts, but no guiding principles emerged.

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The decision by Saudi Arabia in November 2014 to step aside from attempts to control the price in favour of ‘the market’ leaves many questions unanswered:



- 1 How long will they maintain this policy, which is similar to that which they adopted in 1986?
- 2 As long as it lasts, and there is no OPEC regulation of supply (because of its inability to agree amongst its members on how to allocate production cuts), oil faces a fairly typical commodity cycle in which price movements affect investment, which in turn affects supply and demand in a later period.
- 3 The commodity cycle destabilizes oil exporting countries which are critically dependent on their oil export revenues both to pay for their imports and to support the government budgets which transfer income to the dependent non-oil sectors of the economy. A short period of US\$100/bbl prices had enabled some of these countries to build up financial reserves – there was hardly time to spend the new income before the fall in price – but

these will not last for long unless spending is cut. Austerity is at the door.

#### The need for stability

There are important differences between oil and other commodities. In some countries, waves of austerity will be extremely hard to manage and future exports are therefore at risk from political destabilization. The stocks which have built up in the OECD countries, and which are being built up in China and India, will provide some protection for importers against short-term disruptions, provided the stocks are used. However, in theory these stocks are not supposed to be used to stabilize prices per se or to stabilize the economic development of the exporters. Moreover, like the exporters' financial reserves, the importers' oil stocks will not last very long.

Is this the only or the best way? Mabro,

and others, raised the question of a government-structured oil price framework in a book published by Brookings in 2010.<sup>4</sup> Such a framework, however, may not be wide enough. There is a case for combining issues relating to a form of price stability with some kind of economic stability for export-dependent countries.

However, such issues are now on different agendas in different organizations (there is also an agenda, under the current UN Climate Change negotiations, for countries affected by climate mitigation policies). Perhaps some version of Mabro's OPEC needs to be evoked to look for ways in which these subjects can be addressed holistically, without challenging the power or existence of markets represented by the commodity exchanges, or the sovereignty and economic independence, such as it is, of the oil exporting countries.

#### Notes

<sup>1</sup> *The Egyptian Economy 1952–72*, Robert Mabro, Oxford: OUP, 1974.

<sup>2</sup> 'The International Oil Price Regime: Origins, Rationale and Assessment', Robert Mabro, *The Journal of Energy Literature*, Volume XI, No1, June 2005, page 2.

<sup>3</sup> *Oil Markets and Prices: The Brent Market and the Formation of World Oil Prices*, Paul Horsnell and Robert Mabro, Oxford: OUP/OIES, 1993.

<sup>4</sup> *Global energy governance: the new rules of the game*, Andreas Goldthau and Jan Martin Witte (eds.), Washington DC: Brookings Institution Press and Global Public Policy Institute, 2010.

