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After a century of exponential growth, the international oil industry suddenly slowed down in the 1970s, faltered during the 1980s, and by the early nineties was only just about back to its 1979 level. That discontinuity in its dominance of world energy became clear after 'the Opec decade' from 1973 onwards had gained an intoxicating but temporary surge of riches for oil-exporting countries.

In a descriptive analysis of current influences upon the world oil trade, this book explores the reasons behind that slowdown – which are *not* all attributable to Opec or its nationalisation of international major oil companies. It assesses the growth and decay of Opec monopoly power in the crude oil market, as the latest demonstration of a paradoxical but persistent imbalance in this international business: its tendency to maximise the production of high-cost rather than low-cost oil.

The author draws upon nearly thirty years of experience as a consultant to oil companies and governments on all sides of this trade. His book is objective and forward-looking: it is not a history.

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To Judy and Jemima

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No one really knows the cost of Middle East oil; but it is reasonably certain it is so low that the extent to which the expanding free world demand is met from this region will be governed by policy and not by either scarcity or comparative cost.

de Chazeau and Kahn,
Integration and Competition in the Petroleum Industry
(Yale University Press, 1959)

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Preface

During and after the Suez affair in 1956, as an economic journalist, I became interested in the international oil business, and in 1962 I wrote a book about oil companies and governments. In the late 1980s, Richard Eden asked me to do the same again for Cambridge Studies in Energy and the Environment. This book is the result. The first one looked at ‘the kaleidoscopic international circumstances of an industry in course of change’. Those circumstances have been transformed, though not out of recognition. They remain no less kaleidoscopic.

In the thirty years between, moving out of journalism, I have had reason to study the business more closely, as a consultant on many facets of oil companies’ relations with governments of all kinds, advising one side or the other. That career drew me more deeply into some of the relationships involved. But one’s role as a consultant continued to be outside the oil industry looking in, as distinct from the practical experience within it of company and government oilmen, many of whom became friends. So my judgement of this business has remained detached, for whatever that is worth.

Rather to my surprise, initially, closer contact with the industry did *not* bring me much more ‘inside’ information than a journalist could readily obtain; simply, more time to watch what went on. (This is a business remarkably well served by an expert daily and periodical press, upon which everyone in it depends.) The occasional confidences of clients remain outside the scope of this book. But those too, I hope, contributed to such understanding as I gained of what we all saw.

I am indebted primarily to three people who read this book in manuscript (one of them a second time, after the hiatus of the second Gulf war), and gave me painstaking and salutary comments, page by page: John Jennings, John Gault and David Heal. Other friends and former colleagues read parts of the MS and discussed some of the questions in it with me: Morris Adelman (continuing a long argument over the years),

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Frank Parra, Edith Penrose, Sylvan Robinson and Joe Roeber. None of them agrees with most of what is said here.

I am sorry not to have had the chance to show this book to the person who more than anyone else provoked me into closer acquaintance with what she so often called ‘this fascinating business’: Wanda Jablonski, who died early in 1992. The files of *Petroleum Intelligence Weekly*, which she founded in 1961, with those of Ian Seymour’s and the late Fuad Itayim’s *Middle East Economic Survey*, together form an indispensable database, current as well as historical, for all students of the international oil trade.

In this text, the \$ sign always means US dollars, and the word ‘billion’ means a thousand million. Quantities of oil are expressed mostly in terms of barrels per day (b/d; MBD for millions of barrels per day), but occasionally in tonnes per year, usually for refined products priced wholesale in tonnage or for comparison with the ‘oil equivalent’ of other forms of energy. (For detailed conversion factors, also in process of change internationally, see Appendix 2.) In the simple rule of thumb of the trade, a barrel of crude oil a day equals 50 tonnes a year.

Abbreviations

API	American Petroleum Institute
CGES	Centre for Global Energy Studies, London
CIF	cost, insurance and freight (delivered price)
EIA	Energy Information Administration, US Department of Energy
FOB	free on board (export value or price)
IEA	International Energy Agency
IPE	International Petroleum Exchange
LNG	liquefied natural gas
LPG	liquefied petroleum gases (produced in refining crude oil)
MEES	<i>Middle East Economic Survey</i>
NGL	natural gas liquids (separated in natural gas production)
NCW	non-Communist world
OAPEC	Organisation of Arab Petroleum Exporting Countries
OGJ	<i>Oil & Gas Journal</i>
OGSP	official government selling price
OIES	Oxford Institute for Energy Studies
Opec	Organisation of Petroleum Exporting Countries
PIW	<i>Petroleum Intelligence Weekly</i>
USGS	United States Geological Survey
WOCA	world outside Communist areas
WOCANA	world outside Communist areas and North America