

Globalizing Oil: Firms and Oil Market Governance in France, Japan, and the United States, by LLEWELYN HUGHES. (Cambridge University Press, Cambridge, UK, 2014), 254 pages, hardcover US\$95.00, ISBN 9781107041998

This book is a study of changes in oil market governance in the advanced industrialized countries over the last 30 years based upon case studies of France, Japan and the United States.

Two hypotheses underlie the analysis. The first hypothesis is what Hughes calls “industrial compacts” which shaped the characteristics of the oil companies operating in these environments. These “compacts” were agreements negotiated between the companies and the governments in earlier stages of the industry. They regulated market share and shaped the organizational structure and incentives of the oil companies in each of the markets. Because these “compacts” were bargained outcomes between business and government, inevitably they differed across countries because of the different contexts and histories. The second hypothesis is that these characteristics of the oil companies affected the types of demand they made on the policy makers, which in turn influenced the way in which the governments chose to oversee the oil markets in those countries. Thus, the outcome of the interactions is determined by the nature of these demands and the incentives governments have to acquiesce to the demands. The results set the direction of travel and the governance of the oil sector within the country concerned. For example, in some cases the “compact” produced more diversified and large firms that were less likely to respond to the shift in opportunities. Firms were less likely to demand support from the state, while smaller firms in only one section of the oil industry value chain would continue to demand government support. Thus, Hughes argues that only by identifying the origins of firm heterogeneity and how this affected the ways firms tried to renegotiate the institutional status quo, is it possible to understand the patterns of change in oil market governance.

The book examines these two hypotheses in the context of three case studies, France, Japan and the United States. France and Japan are chosen because they present similar contexts, specifically the lack of a significant domestic resource base for oil. The United States is added to complement the first case studies in two ways. First in terms of the industry structure there are within-case variations with major vertically integrated international firms along side small and medium sized firm focusing on particular segments of the value chain in a purely domestic context. This division allows an examination of the effects of oil company characteristics on their strategy to government while holding national political institutions constant. It also allows examination of how the “compacts” interacted with domestic resource endowments to shape the characteristics of the firms and therefore the strategies they took towards governance.

The overall aim of the book is to explain changes in the way the advanced industrialized states governed their oil markets, which of itself is an ambitious objective. Part of the reason for the complexity is that the oil sector is operating in a wider milieu. It is therefore subject to a great many pressures and influencing variables both endogenous and exogenous. Some of these are used in Hughes’ analysis although at times some of the arguments over cause and effect and the direction of travel between company and government might be disputed and some appear to be understated. One such area relates to what might be called the “political cycle.”¹ This concerns the ideological basis for government intervention (or absence of intervention) in an economy. Thus there was a clear cycle whereby the consensus view in Western economies of the need for government intervention post World War II is gradually reversed in the 1980s and 1990s by the encroachment of the “Washington Consensus” based upon the economic theory of politics and theories of public choice. The book has limited discussion on the role of ideology in the economic role of government although to be fair references are scattered throughout the analysis. Hughes argues that the changes

1. Paul Stevens (2008), “National Oil Companies and International Oil Companies in the Middle East: Under the Shadow of Government and the Resource Nationalism Cycle.” *Journal of World Energy Law and Business* 1(1): 5–30.

in oil market governance in the past three decades characterized by “partial liberalization” was “surprising.” However, it is always dangerous to neglect the power of Keynes’ “academic scribes” and more attention to their role in oil markets might have reduced the element of surprise.

Arguably the greatest contribution of the book, which is very well written and very thoroughly researched, is that the three case studies give an excellent and plausible factual narrative on the history of the domestic oil sector in the three countries. This in itself represents a major contribution to the literature and will be of great value to all students interested in the history of the oil industry. Another contribution that may have been unintended is that stories clearly show it is impossible and indeed undesirable for governments simply to leave the oil sector to the whims of market forces. The book well illustrates, especially in the United States, that one of the first things governments learn about market forces is that the market forces them to intervene left right and centre in any economy, especially in the oil sector where there are so many sources of market failure.

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Wheel of Fortune: The Battle for Oil and Power in Russia by THANE GUSTAFSON. (Belknap Press of Harvard University Press, 2012) 662 pages, ISBN 978-0-674-06647-2, Amazon Price Hardcover \$30.79, Kindle Edition \$26.49.

When contemplating the transition of the Russian oil industry from communism to capitalism, I can’t help think about Churchill’s comment in a wartime speech about Russia being a “a riddle wrapped in a mystery inside an enigma.” Dr. Gustafson’s lifetime study of the Soviet/Russian economy, personal acquaintance with many of the main actors, and well researched account of this transition for the oil and gas industry has made these changes less enigmatic for me.

This book takes up the oil and gas story, where Gustafson (1989) leaves off. In this earlier book, Soviet energy policy is chronicled from the 1970’s through the late 1980s from a bit broader lens with some discussion of coal and nuclear power. It discussed the oil crisis in the late 1970s, Breshnev’s resource intensive response to stem the stagnation, and gas abundance providing some respite. Gustafson suggests that problems in the oil market as well as in the wider economy that contributed to the demise of the USSR can be attributed to both systemic causes as well as mistakes in leadership.

This newer volume continues this theme and focuses more exclusively on oil and gas and chronicles their changes with the collapse of the USSR and the resurrection of Russia. Given the role of the government in markets, the political changes are always a backdrop both before and after the collapse of the USSR. Although the book’s point of view is more from that of a political scientist there is an acknowledgement of economic ideas as well. As an economist I also appreciated the insights on how the political changes impacted the economic operation of the oil and gas industry.

The introduction lays out many of the themes that reoccur throughout the book. Why oil and gas matter to Russia, why their roles and evolution differed, how they form a core within the economy, and their role in Russia’s reintegration into the international economy. Gustafson reminds us that Russia is not really a petrostate but rather an advanced but inefficient industrial and technological power with a well developed political system staffed by well-educated professionals. Oil is not a curse but it has shorn up an economy in turmoil with the economic disruption, abrupt re-entry into the world economy while still mired in the Soviet legacy—“physical, technological,

cultural and political.” It also has promoted more corruption and rent seeking while reducing budgetary discipline and the pace of needed reform.

Westerners immersed in the capitalism tradition thought with the fall of communism and rise of capitalism all would be good. Gustafson shows us otherwise and argues that Gorbachev’s *perestroika* was a “blend of good intentions, bad economics, and fatal political naivete.” Although there were winners in the battle for Soviet legacy rents and later the global windfall rents from high oil prices, there were many losers and much resentment of West. There was the humiliation of the collapse from super power status with more insult from the invasion of western brands, ideas, arrogance, and technology. Within the oil industry and the economy, you see the same tension between the reformers with a bent toward markets, private ownership, and foreign ideas and the old guard that looked towards known technology within the oil industry and an authoritarian but paternalistic state.

Within the book, chapters 1-5 describe the collapse of the oil industry and how a weakened Russian state allowed five independent oil companies to form—Lukoil, Yukos, Surgutneftegaz, Sibneft, and Rosnet, which remained state owned. Each company had its own champion or champions, history, culture and corporate strategy that are recounted in these chapters. In these chapters we also see the arrival of foreign interests, and the oil miracle from 1999-2004 as a new line of financial entrepreneurs were overtaking the old guard of geologists, engineers and Soviet oilmen.

Chapters 6-8 give an account of the rise of Putin and his home city of St. Petersburg along with the rise and fall of others from St. Petersburg, known as Pitersty. A fascinating account of the Yukos affair is given and the battle Putin won to consolidate and put the majority of the oil industry back under state control in the state-owned champion Rosneft was largely accomplished by 2005.

The remainder of the book is less dramatic but indicates happenings from the mid 2000’s to the book’s publication date. It follows the tax debates and changes, the recession of 2008-2009, which hit the Russian economy hard, and discusses Russian regulation of the oil industry. It comes back to foreign companies in Russia along with increasing Russian oil costs and the need for foreign technology. Although there has been increased foreign participation, the author argues that the Russian industry is still quite isolated and indicates why. The re-occurring theme of increasing costs rises. There is the reiteration of the need for resuscitating brownfields, developing greenfields (the remote onshore), as well as moving towards the even more difficult Arctic offshore, which the author calls “blue fields.” He argues for reforms in taxes and regulations that can off stave declining production and discusses some high price and low price scenarios and their implications for Russia in the concluding chapter.

This book is suitable for a general audience. It has an index and is a good reference for those wanting to know the historical chronology of events in the Russian oil industry for the past couple of decades. It also provides analysis of underlying tensions and motivations that may provide some insights for the future. I very much enjoyed this book, although at times I got lost in some of the Russian names, acronyms and words. I learned much about the chronology of events as the USSR came apart, as the Russian oil industry came apart, and then as Putin strengthened the state and re-consolidate the majority of oil and gas back under state control. I appreciated seeing the human face put to the bureaucracy and being reminded of the many dedicated and talented individuals who made oil and gas come out of the ground under extremely difficult circumstances and the many who made an unworkable situation work. The sections on the battles for wealth, for power and for survival made for an entertaining read with blockbuster potential.

REFERENCES

- Gustafson, Thane (1989). *Crisis Amid Plenty: The Politics of Soviet Energy under Brezhnev and Gorbachev*. Princeton, NJ: Princeton University Press.

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