The historians' view...

Why do global oil prices remain so stubbornly erratic?

Amid talk of a supply glut, the price of oil has tumbled in recent months, with huge economic ramifications not just for Britain's drivers but governments across the world. Two historians offer their verdicts on the fluctuations

Interviews by **Chris Bowlby**, a BBC journalist specialising in history

Pumping units in action at an oil plant at Uhrice in the Czech Republic, March 2015. "Every time someone says: 'This is it, we've reached peak oil production,' there's more," says Ellen Wald

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>
> **ALEXANDER KEMP**

The oil industry as we know it got under way with the drilling of the Drake well in Pennsylvania in 1859, and the oil price has shown fluctuations on a major scale for much of the time since then. In 1860 the price went up to $20 dollars a barrel (more than $120 in today's money). A few months later it went down to 20 cents! That showed the effect of even a modest discovery on the supply and the total market, which was quite small in those days.

For a long time afterwards, the main reason for price fluctuations was significant discoveries being made, which had an immediate effect on supply potential and therefore price. Examples are the discovery of the enormous Spindletop field in Texas in 1901, the opening up of oilfields in what is now Baku in Azerbaijan, and Russian oil coming onto the world market. So the supply side shocks have been there for a very long time, while the demand side shocks have been a more recent phenomenon.

Improvements in technology for oil extraction have also had a major impact. For many years extraction was all onshore. Offshore was not regarded as very feasible, physically or economically, until more recently. After the Second World War, Gulf of Mexico fields in more shallow waters were opened up. The technology developed there was adapted for use in the southern North Sea. Deeper waters in the North Sea's central and northern waters needed significant new technologies: these were achieved in the 1970s and in turn have fed into the new technologies for fracking today.

What of political involvement? In most countries the sovereign rights to extract oil belong to governments. That's one reason why the exploitation of oil is always entangled with politics. Governments can always award rights and concessions to oil companies. Political involvement, in general, is inevitable.

There have been plenty of international attempts to control oil prices by companies and governments. For example, in the late 1920s on the verge of the Great Depression, the price of oil fell dramatically. The chairmen of Shell, BP and Esso went to shoot grouse in Inverness-shire and to produce what became known as the Achnacarry agreement – an attempt to regulate the crude oil price outside North America (where there was anti-trust legislation) and, of course, outside communist areas. That agreement was on paper for a few years, but didn't work all that well, as the Great Depression in the 1930s led to a big decrease in demand and the price continued to fall for some time.

Opec, the Organisation of the Petroleum Exporting Countries, was founded in 1960. By 1973 its members had about 53 per cent of world production, but didn't have enormous market powers until the 1970s. Then, because of the Yom Kippur War between Israel and Egypt/Syria, Arab producers put a boycott on exports – in particular to the US and Netherlands [which had been supplying weapons to Israel] – and that led to the big oil shock of 1973–74, when prices rose more than 400 per cent. Governments for the first time unilaterally took control of oil pricing. That encouraged them to try to use their powers for years afterwards.

Professor Alexander Kemp of the University of Aberdeen is official historian of the North Sea oil and gas industry

> Members of Opec began to assert influence over oil prices in 1974. But they have never had complete control
>
> **ELLEN WALD**

I don't see the recent drop in oil prices as a fundamental shift – a permanent loss of control by oil producers. Members of Opec began to assert influence over oil prices in 1974, but they've never had complete control.

What's happening now is in line with the long-term policies of a key oil producer, Saudi Arabia. The Saudi example shows the complex mix of private and political interests in the oil industry. Aramco, the Saudi oil company, used to be a wholly American-owned entity. Over time, the Saudis began buying shares of the company and in the 1980s they finally purchased the entire company.

As the owners are the Saudi royal family, the nation's rulers, they're always thinking about what the oil price means for the long-term development of their country. Aramco has $800bn in cash reserves, and the cost of bringing a barrel of oil out of the ground in Saudi Arabia is much less than in the US. They don't mind if the price of oil is low for a while because they don't have great need of extra revenue right now. Other countries, such as Brazil and Russia, are suffering much more directly as a result of low prices. Iran and Nigeria also didn't want cheaper oil. But Saudi Arabia has the largest reserves and so the most clout within Opec.

The US has used control over oil production and supply for political ends in the past – for example putting pressure on Britain and France to withdraw troops from Egypt during the 1956 Suez crisis by threatening to withhold oil supplies from US sources when both countries had limited reserves.

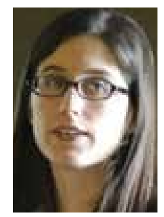
The US has new oil resources today thanks to fracking, but the amount it is producing is not going to affect the global picture that much. Having more of its own oil will probably not enable the US to disentangle itself from some political commitments even if it is less reliant on other countries' oil. The energy industry today is entirely globalised.

An American driver runs out of petrol in 1973 during a shortage of oil triggered by the Yom Kippur War in the Middle East

American companies own assets all over the world and foreign companies own and operate American assets.

Might the world become less dependent on oil? One thing we see from history is that every time someone says: "This is it, we've reached 'peak oil' production," there's more – something else is discovered. There's been much talk of the end of the age of oil, as oil runs out and/or 'cleaner' energy sources are preferred. I don't think we're ever going to find a perfect source of energy. But in the US, energy efficiency has reduced the amount of oil consumed, plus new technologies are making the use of oil cleaner.

What happens historically is that different kinds of energy use and production co-exist for long periods. The age of coal is not yet over either. Electric cars are an important innovation – people see them as being cleaner – but they do still use power and that power's generation may be more dirty than pollution caused by the car itself. Historically we have always had a mix of energy sources and that's going to continue, including oil. H



Professor Ellen Wald teaches at Jacksonville University and is a historian of the energy industry

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▶ **The Squeeze: Oil, Money & Greed in the 21st Century** by Tim Bower (Harper Press, 2010)