

Oil Titans: National Oil Companies in the Middle East. By Valerie Marcel, with John V. Mitchell, contributor. Washington, D.C.: Chatham House/Brookings Institution Press, 2006. x + 321 pp. Figures, tables, bibliography, notes, index. Cloth, \$52.95; paper, \$29.99. ISBN: cloth, 0-815-75474-4; paper, 0-815-75473-6.

Reviewed by Relli Shechter

Oil Titans introduces a seldom discussed, yet important, topic, namely, the part played by national oil companies (NOCs) both in the global energy market and in their own national economies. The five NOCs discussed—those of Abu Dhabi, Algeria, Iran, Kuwait, and Saudi Arabia—own a large share of the world’s oil reserves, dominate upstream production, and account for a major share of their countries’ incomes and government earnings.

The book is in the form of a report, and it is based on approximately 120 interviews that were conducted by Valerie Marcel with persons in top positions at NOCs; officials at ministries of energy, planning, and international affairs in their respective countries; and executives at four regional banks. She supplemented these interviews with transcripts of meeting with managers of NOCs outside the Middle East and executives of international oil companies (IOCs). All the interviews provide insights into an opaque business environment that is characterized by complicated relations among NOCs, with the states that own and control them, and within the societies where they operate.

Chapter one outlines the history of oil in the region, a story that will be familiar to many readers. Nevertheless, this is a useful exercise, as it creates a typology of NOCs based on the level of struggle, or cooperation, they experienced in dealing with their respective governments during the transition from international to national management of oil. The smoothness of the transition was a deciding factor in the degree of “professionalism,” as opposed to “nationalism,” achieved by these companies: Saudi Arabia’s Aramco, for example, became the most professional, while the NOCs of Algeria and Iran represented the opposite end of the spectrum. Here, and throughout her account, Marcel emphasizes the differences that exist among NOCs and the diversity of their positions on the issues.

In chapter two, Marcel examines how history is viewed by current managers, and she looks at the extent to which their views influence contemporary local and international politics. To her surprise, she uncovers “little appetite for discussions about the political characteristic of oil, even among the young” (p. 39), a reaction that is, in fact, unsurprising. Managers have the delicate task of navigating through a complicated web of politics within and outside their companies, which they are unlikely to discuss with an outsider. In chapter three, which examines corporate culture and identity, a significant tension is exposed between NOCs’ involvement in national social welfare and their purely business goals. Chapter four studies the balance between state guidance (setting a policy) and state interference (imposing a strategy) in the NOCs’ affairs, a situation requiring a constant renegotiation between the parties. Chapters four and five, therefore, frame much of the discussion on national oil politics.

Chapter five takes a detour into the socioeconomic realities of the exporting countries, looking at how these factors affect public and state expectations from the NOCs. The chapter is supplemented by John Mitchell’s essay, written at a later date, on the economic background of oil producers. One recurring theme here is that the oil-exporting countries have experienced rapid demographic growth, which has led to increased unemployment and budgetary pressures. Although both subjects seem out of place in the narrative, they serve to familiarize readers with the worries about the economic future of their region that increasingly preoccupy leaders of the local political economies.

The title of chapter six, “Changing Mission of the National Oil Companies,” neatly summarizes the book’s central message. As Marcel indicated earlier, the extensive cooperation she received while conducting her interviews arose largely from the self-interest of NOCs, whose directors, to varying degrees, understand the need for change. All oil-exporting countries experience at least some measure of public-sector inefficiency, mismanagement, and corruption (issues that were barely discussed in the interviews). These concerns, added to growing economic needs, intensify the pressure for economic reform. The main problem for all these countries is how to gain more revenue while retaining national sovereignty over NOCs. Some companies, notably those in Algeria, are becoming more independent and are moving toward a more market-oriented

management. Nevertheless, as Marcel rightly emphasizes, even the staunchest supporters of commercially based operations maintain that their companies must continue to be committed to national interests by, for example, employing indigenous workers and supporting the public welfare, including education.

Chapters seven and eight, in examining the challenges before NOCs, both current and future, continue the theme of the NOCs' mission that was presented in chapter six. Chapter seven looks at internal industry challenges, such as keeping abreast of research and development, securing investment capital, and upgrading facilities; and it also surveys external goals, such as securing demand, dealing with competition, and conforming to OPEC's supply restrictions. Interviewees did not want to discuss the topic of environmental regulation. In chapter eight, Marcel recounts the strategies adopted by NOCs to confront the challenges in both oil and gas production. The unique setup of NOCs, with their multiple and at times contradictory commitments, complicates their ability to formulate and implement a coherent strategy.

Chapter nine explores NOCs' plans to become more involved in the international sphere. Most, apparently, would hesitate to become international, like the Chinese, Indian, or Malaysian companies that receive less support from their governments. But their reluctance to venture further onto the global scene makes sense, considering these NOCs' unique assets and their economic and political obligations. Marcel suggests that they should aspire instead for better integration of their current specialization, with the goal of gradually moving toward more international business cooperation. Chapter ten, which considers how such partnerships would work, illustrates the delicate balancing act that would be required to carry out such arrangements, as NOCs, on the one hand, seek financial resources and technology for future development and, on the other, are determined to guard their independence. Their reluctance to rely on others has led them to refuse to commit themselves to production-sharing agreements.

Marcel's analysis is largely based on the information gathered in her interviews, and she relies on few primary documents. Although the interviewees talk openly about the professional dilemmas facing their companies, they give only partial answers to more searching questions about the impact of politics on the relations between states and companies, on businesses internal affairs, and on relations with other countries. All surely

influence the operations of these enterprises. This is so despite the author's agreement to abide by Chatham House rules, which allow interviewees to remain unidentified while publishing the information they provide.

Nevertheless, the book's central message, that NOCs cannot be understood simply on the basis of free-market logic, is an important one, as is the point that these companies must be considered in terms of their respective "resource nationalisms" and political economies. From this perspective, recent demand-side calls to privatize NOCs in order to make them more efficient in supplying world markets (see, for example, an editorial in the *Economist* of August 12, 2006) strikes me as wishful thinking by oil-dependent nations, rather than a serious consideration of the issues.

The book is written in an accessible style, and information on the different perspectives and actions of NOCs is neatly summarized in tables throughout the text. *Oil Titans* will no doubt be of interest to experts on energy markets, students of international business, and, to some extent, scholars of the Middle East.

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