In the name of profit. Explaining the emergence of the global oil commodity regime

Andreas Goldthau, Royal Holloway, University of London1, andreas@goldthau.com
Llewelyn Hughes, ANU Crawford School of Public Policy, llewelyn.hughes@anu.edu.au

Overview

Switzerland is the Saudi on the Rhine. Swiss trading houses enjoy 35 percent of global market share in the trading of crude oil, by far the world’s largest, making the country the equivalent of a superpower in oil trade. How can we explain the importance of Swiss trading houses in global oil commodity market? This paper argues that the answer lies in the private regime governing international oil that emerged in response to the wave of nationalization sweeping across the world’s prime oil producers. As the global crude supply chains broke and deverticalized, companies created mechanisms to manage the problems of price-setting, and matching suppliers and consumers, which gave rise to trading houses, exchanges and inventories. This new oil market regime aligned with the state goals of ensuring the sustained and reliable oil global supply at adequate prices – energy security. Tracing state and private regimes before and after the 1970 nationalizations, the paper shows that the new model of oil market governance came as a result of private firms seeking to hedge supply and price risks, and to secure revenue. In short, a public good emerged in the name of profit.

Method and data

Data used in the paper is a mix of qualitative and summary statistics, and the method is process tracing. This approach reflects the key purpose of the paper, which is to trace the emergence of the private regime governing the oil sector, and identify its main components. An important issue with the private regime is that many of the actors are not publicly listed, and are thus not obligated to release information publicly. We thus make use of a number of public documents produced by governments in order to investigate the commodities trading sector, most notably the Berne Report produced by the Swiss government in response to public concern about the significant role of commodity trading houses in the Swiss economy. In addition, we obtain data from reports produced by the U.S. Congress investigating commodities trading following commodity price volatility in the early 2000s, and the Task Force on Commodity Futures Markets, convened by the Technical Committee of the International Organization of Securities Commissions in order to examine the relationship between speculation and price volatility in commodities markets. An additional source of primary data is drawn from annual reports in cases where companies are listed, government analyses of the oil sector.

1 Alphabetical order. Authors contributed equally.
Results
The paper contributes to the scholarly conversation on private regimes in governing public goods problems, and to an emerging literature on the political economy of commodities. It also challenges the dominant state-centered approaches in international political economy on the governance of the international oil markets.