Photo: Bart Willemsen.

Claude Mandil

'There is a tremendous lack of shared understanding of energy problems in Europe'

On September 1, after four and a half years in office, Claude Mandil retired as executive director of the International Energy Agency (IEA), the energy watchdog of the OECD. Under the leadership of the affable Frenchman, the stature of the IEA has grown tremendously. The IEA is now intimately involved in the G8 process and has become by far the most important source of independent information on world energy markets. Still, the future of the IEA is challenging as the importance of the OECD countries in the global energy market is set to decline. 'We will have to seek cooperation with non-member countries like China, India and Russia', says Mandil. In this interview, Mandil - highly popular among his staff - looks back on his time at the IEA and shares his feelings on the future of the energy industry. 'The major constraint on our actions', he concludes, 'will be the respect we need to show to our grandchildren.'

By Karel Beckman

Was it your own decision to step down from office?
Yes. I assume I could have got another four year mandate, but I am turning 66. I want to spend more time with my children and grandchildren. Also, another term would have gone against common practice at the IEA. It is an unwritten rule that staff stay for a maximum of five years. In fact, I considered changing this initially, because we lose a lot of expertise this way. But in the end I didn't. It has advantages. It adds flexibility to the organisation. And there is no jockeying for positions here. People come here to work hard and enjoy it. I loved working here. I consider myself extremely lucky to have been able to work with so many bright people of so many different nationalities.

What were the high points of your career at the IEA?
In general, I was very lucky of course that energy rocketed to the top of the political agenda during my time in office. Specifically, three events stand out: the invasion of Iraq in 2003, hurricane Katrina in the summer of 2005 and the IEA involvement in the G8 meeting at Gleneagles at the end of 2005, followed by subsequent G8-meetings. At all these moments, I think we demonstrated that the IEA still plays a pivotal role in the energy market in the modern world.

What role did you play when Iraq was invaded?
I started work at the IEA in February 2003, one month before

> *'There is a peak oil problem – for the international oil companies'*

Iraq was invaded. You can say I was thrown in at the deep end. When the war started, there was clearly a risk of supply disruption. On February 5, I travelled to Vienna to meet the Opec secretary-general, Álvaro Silva Calderón. The IEA has a difficult relationship with Opec of course, but we still get along well. We are antagonistic in the sense that we say the market should be free, whereas they want to control price. But we also share views. And we know each other well. I told them, if there is a supply disruption, we want additional capacity from Opec. We will only release emergency stocks if we don't get extra production from you. So they knew what to expect. Then when the war started, within one day, we saw capacity falling away – Iraqi capacity of course and some Kuwaiti and Iranian capacity. We estimated it was about 2 million barrels per day, which was less than Saudi spare capacity. The first thing I did was call the Opec Secretary-General and Saudi oil minister Ali Al-Naimi. I told them, by our calculations you should be able to cope. Can you confirm that you will do so? If you give out a communiqué to this effect, I will issue a statement that we don't need to release stocks. They said yes. We trusted each other and it worked out well.

How do you look on that war now?

The war in Iraq was a terrible mistake, that much is now clear. Still, I do not think it was for oil. If it was for oil, then it has been a terrible failure. But I think the main motivation was to bring democracy to Iraq.

When Katrina hit, you did release stocks.

Katrina was a terrible disaster, but for us an opportunity to test our strength. We demonstrated that the safety net of the IEA was still needed and was still working. After Katrina hit, the first people I called were again the Opec Secretary-General and Minister Al-Naimi. Again, we needed 2 million barrels per day, but this time we had concluded that there was no longer any spare capacity. So we told them we would release stocks. However, we did reassure them that our action was not meant to be hostile towards Opec. They shared our analysis and agreed. It was again a pleasure to work together with Opec.

Were you satisfied with the impact the release of the stocks had on the market?

Well, it turned out that the US had a problem. They had always kept their strategic stocks in the form of crude oil. In Europe, countries keep a mix of crude and refined products. But Katrina also hit a lot of refinery capacity in the US, so they had a shortage of refined products as well. They cried to Europe for help. So we were able to help them, and yes, it was a great success. I even got a lot of e-mails from ordinary Americans. I actually visited New Orleans this year and went to an exhibition; they let me in free of charge when they found out I worked for the IEA. Sadly, New Orleans is still a disaster area. The airport is a ghostlike place. Only the poor people are left.

Search and rescue swimmer of the helicopter sea combat-squadron HSC-28 assisting with the rescue of a hurricane Katrina survivor, August 31, 2005. Photo: Jeremy L. Grisham/Corbis.

How did IEA become involved with the G8?
Tony Blair's government wanted to make climate the central issue of the G8 at Gleneagles. But they did not really have any expertise in the matter. At that time, the chair of the governing board of the IEA happened to be the UK representative. She suggested we help them out. This was the start of an extraordinary cooperation with the G8. We now work for them permanently.

The IEA has often been criticised for being a tool of US policy. Do you feel you have been an American agent?
The IEA was set up in 1974 at the behest of Henry Kissinger, that much is true. But no, we are an OECD organisation. We work independently. Look at the facts. We often criticise US policies. For instance on global warming, we flatly went against the Bush administration. Besides, look at me. I am a Frenchman and I was accepted as executive director in early 2003. You will remember what relations between France and the US were like at the time!

Does the American government never put pressure on you then?
I never got a phone call from the US government to tell me what to do. They work through the governing board like all governments. I only got one phone call from a member government that tried to interfere in our policy. I won't say who, but not the US. In fact, the US recognise that it is useful to have an independent organisation like the IEA. They try not to put themselves in front too much. But they do take it seriously. They pay 25% of the IEA budget. They are very clever in their staff management. They send very good people to apply for jobs. Unlike some countries which try to use the IEA to provide jobs for people they no longer need. Those people don't get hired of course.

Oil prices have reached all-time highs partly because of worries about long-term supply. Is there something the IEA can do about that?
No. We are sometimes criticised because we have supposedly been unable to secure long-term supplies. But we have no tools for that. The only tool we have is to give messages to the governments, to set the picture. We do this with our publications.

Do you believe that oil production is about to peak?
No. I think the peak oil theorists are wrong, for two reasons. First, they assume that oil production takes the shape of a bell curve. But why would it be a bell curve? Why not a flat line at a certain level? My second point is that you never really know how much oil there is left in the ground, or how much you can extract. It is not like a wine cellar where you can see how much wine you have left. So you never know when you have reached the peak. I think there is a terrible underestimation among the oil peak proponents of what technical progress means. Take the North Sea. In the 1980s, we thought it was an extraordinary achievement that we could extract oil at a depth of 200 metres. Now we do it at 2,000 metres – at the same cost. That is eight times the Eiffel Tower. So why couldn't we go to 3,000 metres? There is a lot of oil and gas at that depth. We can go to the Arctic. We can extract oil from oil shales.

Still, there have been virtually no new discoveries of really big fields for a long time. The last one was Kashagan in Kazachstan around the turn of the century.
True. The remaining big reserves are in more difficult places. But don't forget that the reserves in the Middle East, Russia and Venezuela are also still quite large. I think generally what is lacking at this moment is reflection upon how NOCs *(national oil companies, ed.)* behave. Take Saudi Aramco. A really good company with very bright people. But they have a monopoly. They are doing fine as they are. They don't need to discover more oil. Two-thirds of Saudi Arabia has not been explored yet. Everyone knows now that the role of NOCs has increased greatly. They control more than 90% of proven reserves in the world. Less well-known is that the exploration rate has gone down because of this increased role. So there is a serious peak oil problem – not for the consumers, but for the IOCs *(private international oil companies, ed.)*.

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So we can go on using oil for a long time?
The major constraint on oil production and consumption, in my view, is global warming rather than availability. The result is the

Facts & figures

The IEA was founded in 1974 to protect the OECD countries against disruptions of energy supplies. To this end, it operates a system of emergency oil stocks that are held by all OECD-members. The Paris-based organisation is overseen by a governing board consisting of representatives of the OECD-countries. The new executive director of the IEA is Nobuo Tanaka from Japan. It is the first time that the IEA has been led by an Asian. Up until now, it was an unwritten rule that the executive director of the IEA was European and the deputy director American. The Japanese government, however, put very strong pressure to bear to get their candidate appointed. The IEA has a staff of about 150 of some 26 nationalities.

same, however: we must cut down on our use. The problem is how we are going to respect our grandchildren.

The EU seems to be one of the few trading blocs which has really taken the climate problem on board.
Absolutely. The Emission Trading Scheme was a very bold step to take. There are many good things in the climate and energy packages of the EU. They should be complimented for that. The only thing I disagree with is that they have set too many fixed targets at the same time. A target for

'I love Iran. It's a marvellous country, with great people'

CO_2 reduction, a target for renewables, a target for energy efficiency. They are all ambitious targets. If you do not achieve them, you undermine your own credibility. But if you want to achieve them all, you may have to take horribly costly measures. For instance, look at the huge amount of money that Germany puts into photovoltaics. It is doubtful whether these subsidies are justified. We only need one target, really: a CO_2 target. I am also worried about the bureaucracy that is being created to meet all these targets. You get green certificates, white certificates, CO_2 certificates.

But will the CO_2 target be met if you don't set subordinate targets as it were?
Well, you also have to take measures to reach the CO_2 target. Rather than setting an energy efficiency target, for example, I would like to see the EU set strong standards for energy efficiency that products and buildings need to comply with. That will have much more effect. Currently, too many people do not have an incentive to save energy. You know, during my time with the IEA, I often sat in taxis. Every time I played a little game. I tried to guess whether the taxi driver was the owner of his car or not, in other words, whether he paid for fuel himself or not. Every time I checked I was right. I could tell by the way they drove their car.

Can the IEA maintain the central role it now has given the declining importance of the OECD countries in the world energy market and the increasing importance of producing countries like Russia and new consuming countries like China and India?
This will certainly be a challenge. I think we increasingly have to seek cooperation with China, India and other countries. In fact, we are already doing so, particularly with China. In India it is difficult to find the right people to talk to. Russia, too, is eager to work with us. We have good day-to-day relations with Russia, even if we disagree on policy.

What is your disagreement with Russia?
Our main problem is that we don't have enough data. We say they are underinvesting, they say we are talking nonsense. We would be delighted to be proven wrong. Maybe my successor will be able to accomplish more than I have. Maybe I have been too critical of Russia. Incidentally, lack of data is a problem in many countries. For example, we don't know the size of the strategic stocks China maintains. We have seen their tanks, but we don't know how much is in them.


Photo: Bart Willemsen.

Are you worried about a possible war with Iran?
Yes, I am very worried about Iran. I am saying this in a personal capacity – well, of course I am not with the IEA anymore, so I can say it anyway: I love Iran. I travelled to that country many times when I was head of the Petroleum Institute (Institute Française du Pétrole). It is a marvellous country, great people. They are so intelligent. Ironically, they really like the American way of life, but the Americans don't seem to realise it. Ahmadinejad was elected because he was one of the few candidates who was not corrupt. Sadly, I cannot rule out that a war will come. It would be a tragedy, for Iran, but also for the US, for the West. The consequences for the energy situation would be tremendous.

What can be done to solve the problem?

The current policy of boycotting Iran does not work, that much is clear. Of course we don't want Iran to develop nuclear weapons, but there is no justification to deny them the peaceful use of nuclear power. Western policy is inconsistent. Iran is surrounded by countries that have nuclear weapons. They saw what happened to Saddam and they see that Pakistan, which has nuclear weapons, has not been destroyed.

What is your view of the liberalisation of the European energy market? The Commission's proposals in that direction meet with a lot of criticism.

I think liberalisation of the energy markets in Europe should be carried out till the end. I don't agree with those who think it is not going to work. True, we did raise false expectations. We thought prices would come down but they didn't. You have to realise that a lot of subsidies that went into the energy sector were abolished. At the same time prices of raw materials went up and CO_2 costs entered into the picture. This all contributed to higher prices. But the market is giving the right price signal now to the operators.

Is unbundling necessary?

I am also in favour of unbundling, yes. It is not a question of ideology. It is simply practical. A company is not going to give the same service to its competitors as to its own sister company. What would people say if Heathrow were managed by British Airways? Whether ownership unbundling is necessary, I don't know, but I think it will happen automatically. Unbundling does not prevent European companies from becoming big players. I think the merger between Suez and Gaz de France *(Mandil was managing director of Gaz de France, ed.)* is a good thing. We need European-wide competition between major European companies. Unfortunately, there is still a tremendous lack of common understanding of energy problems in Europe. What we have is 27 national markets and policies. Here in France we faithfully apply energy directives from Brussels but we don't look upon this as a European market. I hope that will change some day. ■

Career

Born in Lyon, France, in 1942, Claude Mandil graduated from France's Ecole Polytechnique and Ecole des Mines. From 1967 until 1974, he worked as a state engineer for the Lorraine and Brittany regions. He then served as a senior officer in the Delegation for Area Planning (DATAR) from 1974 until 1977 and from 1978 until 1981, as Interdepartmental and Regional Director of the National Agency for the Encouragement of Research (ANVAR) for the Pays-de-la-Loire region, in Nantes. In 1981, Mr. Mandil became Technical Advisor in the French Prime Minister's cabinet, where he was responsible for industry, energy and research until 1982. He was then named Chief Executive Officer of the Institute for Industrial Development (IDI), an investment bank, a post which he held from 1984 to 1988. He oversaw the privatisation of the bank in 1987, including the transfer of 40 percent of the capital to the bank's employees. He subsequently became Director General of the Bureau of Mines and Geology (BGRM) from 1988 to 1990. From 1990 to 1998 Mr. Mandil served as Director General for Energy and Raw Materials at the French Ministry of Industry, Post and Telecommunications. In this post, he was instrumental in the adhesion of France to the IEA in 1991. He became France's first representative on the IEA's Governing Board, and served as Chairman thereof from 1997 to 1998. From 1991 to 1998, he also represented France at the Nuclear Safety Working Group of the G7 and served as President of this group in 1996. He became Managing Director of Gaz de France in October 1998, and then Chairman and ceo of the Institut Français du Pétrole in April 2000. In February 2003, he became executive director of the IEA. He retired on September 1 2007.