

The extractive industries sector: essentials for economists, public finance professionals and policy makers by Håvard Halland, Martin Lökanc and Arvind Nair, with Sridar Padmanabhan Kannan

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This book is the first volume of a two-volume World Bank study of the extractive industries sector. Together, the two volumes are intended to introduce policy-makers and their advisers to the main issues concerning the sector, with guidance about further reading for those interested. The second volume is due to tackle questions of public finance; the first is more wide-ranging, stretching from the basic economics of the sector to monitoring and enforcing contracts.

The first main chapter (chapter 2) discusses the economics of exhaustible resources, how royalties and taxation affect which resources are profitable to exploit, the determinants of demand and the concept of rent. It emphasises the distinction between geological resources and reserves (the resources that are profitable to exploit given current technology, infrastructure, and tax rates). This is a useful introduction, but one thing that it does not discuss is whether technological advances in the future might mean that the resources last longer than is currently expected. This is an issue that has long been debated with respect to oil, in particular. Perhaps the authors do not wish to encourage the view that natural resources are inexhaustible, and certainly a prudent government should not make over-optimistic assumptions, but some perspective on this debate would have been useful.

Chapter 3 addresses the institutional framework, including the role of different ministries and the need for good coordi-

nation between them, and also the role of national resource companies, which are particularly important in the oil sector.

Chapter 4 briefly discusses investment and production cycles. It emphasises how different investment in this sector can be, because the initial expenditure on infrastructure and mine development can be very large, and represents sunk costs. Exploration is costly and the success rate is low, and the costs of eventual closure of a mine can also be substantial. All this means that there is a large gap between the price that makes it profitable to develop a mine and the much lower price at which it is profitable to keep on producing once the mine has been developed. Consequently, in the short run, supply is relatively inelastic, which makes prices volatile and increases the riskiness of investments.

The remaining chapters are more practically oriented. Chapter 5 discusses important issues of policy towards the extractive industries sector, and chapter 6 focuses on monitoring and enforcing contracts. Chapter 7 considers how to maximise the public benefit from infrastructure associated with extractive industries, and chapter 8 focuses on local economic development.

This book serves as an admirable introduction to policy issues in the extractive industries sector, with clear guidance on further reading on all the topics. An additional feature that will enhance the potential readership is that it is published in French, Spanish, and Chinese, as well as English.

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