DISCUSSION OF FINDINGS

Introduction

In chapters 3 to 6, I analysed six cases of contemporary bargaining in oil industries of four different countries – Russia, Venezuela, the United States, and Iran. In doing so, I highlighted the importance of political factors, but also economic factors, in determining bargaining outcomes, and this supports my decision to characterise the oil market as politicised. Moreover, I emphasised the importance of nesting, or issue linkage, between oil industry bargaining and domestic, international, and/or strategic security bargaining in all six cases. In Chapter 3, I looked at two cases of contemporary bargaining in Russia – firstly, domestic oil industry bargaining between Putin, the oligarchs, and IOCs involved in the country, and secondly, oil pipeline bargaining between Russia, China and Japan. In the first case, I argued that Putin’s consolidation of Russia’s oil industry, by limiting the power of the oligarchs and changing investment legislation against the wishes of IOCs present in Russia, are measures aimed at increasing government’s domestic and international power. Russia has lost much of its image of a great power after the end of the Cold War, and the break up of Soviet Union. Consolidation and control of the oil industry may assist Putin in returning Russia some lost power. The oligarchs and IOCs are on the losing end of this particular bargain, as they are unable to stop Putin in his intentions.

In the second case of contemporary oil industry bargaining in Russia, in which I studied pipeline bargaining between Russia, Japan and China, I found that China is more likely to be prioritised in the construction of Russian Far Eastern pipeline. This is so because of Russia’s attempt to maintain friendly relations with Beijing, what stems from its perceived strategic security threat from China. Further, reasons also come from China’s strategic security concerns, as China attempts to achieve oil import diversification, mainly away from dependence on the Middle East and American power, in order to satisfy its
increasing thirst for imported oil. Additionally, Chinese domestic factors influence this particular bargaining case, as it is crucial for China to ensure sufficient energy supplies in order to maintain rapid economic growth, which in turn, is the basic foundation of domestic regime stability. It is important to note that the unsolved issue of Kuril Islands, Japanese decreasing oil demand, and uncertainly about Russia’s ability to produce sufficient amount of oil for the ‘Japan’ route, also point to China being prioritised in future.

In Chapter 4, I studied contemporary oil industry bargaining in Venezuela, arguing that Venezuela’s domestic factors carry the most influence on the outcome of this bargaining case. It is crucial for Venezuelan President Hugo Chávez to ensure sufficient oil revenues in order to “buy” the political stability at home. Thus, his control of the oil industry is simply a tool utilised to achieve this fundamental objective. The entry of NOCs plays an important role in Venezuela’s oil industry bargaining, as they offer Chávez a crucial alternative to IOC investment. Therefore, IOCs’ bargaining power is diminished and they have no option but to acquiesce with increased taxes and royalties, or they will be forced out of Venezuela. Unlike in Russia, which is not a typical petro-state, as it depends on natural gas export revenues just as much as on oil export revenues, high oil prices help Chávez to achieve regime stability and succeed in his bargaining with the United States and IOCs. Among many other countries, China and its NOCs provide Venezuela with an alternative to IOCs for investment in its oil industry. China, and many other developing countries, benefit from Venezuela’s political antagonism with the United States, by being able to invest in Venezuela’s oil industry, and import Venezuelan oil. As in Russia, IOCs are also on the loosing end of the bargain in Venezuela.

In Chapter 5, I studied two contemporary oil industry bargaining cases in the United States - firstly, bargaining for UNOCAL, a mid-sized American independent oil company, and secondly, bargaining for the rights to drill and explore for oil in Alaska’s ANWR. In the first case, I found that the U.S. domestic and strategic security factors carried the highest influence on the bargaining outcome. Domestic lobbying by Chevron, which eventually acquired UNOCAL, and government’s opposition to a Chinese purchase of an American oil company, were important factors in influencing CNOOC to pull out. Further, U.S.
government’s commitment to prevent hegemonic challenger (China) from acquiring strategically important assets (oil) was also highly relevant factor in influencing the bargaining outcome. It is important to mention that in this particular case, IOCs (Chevron) benefited, and NOCs (CNOOC) were on the losing end of the bargain.

In the second case of contemporary oil industry bargaining in the United States, I argued that the Bush administration’s false energy security perception that America can be less dependent on imported oil and can achieve oil independence, which stems from America’s strategic security concerns, is the driver behind Bush administration’s pursuit of drilling rights in Alaska’s ANWR. The fact that the Bush administration, backed up by the oil lobby and Alaskan government, has been unsuccessful in past and continues to be unsuccessful in present, is the result of strong domestic opposition from environmentalist circles, which successfully lobby Democrat congressional representatives. The environmentalist success would have been very limited and the ANWR would have most likely been open for drilling in the near future had the Democrats not won the November 2006 mid-term elections, which put them in control of both Congress and the Senate. If the ANWR were opened for drilling and exploration, IOCs would have been strengthened by acquiring additional oil reserves and would therefore increase their production. However, after November 2006, this is highly unlikely, and IOCs, the Bush administration and the State of Alaska are, for the time being, on the losing end of the bargain.

In Chapter 6, in which I studied contemporary oil industry bargaining in Iran, I found that main issue linkage factors influencing Iranian oil industry bargaining come from Iranian domestic and strategic security factors, and from China’s international posture. Iran’s regime stability, from outside and inside threats, crucially influences oil industry bargaining. Iran seeks to find supporters in the international arena in order to balance the U.S. attempt to isolate it, and force regime change. Hence, Iran offers oil for international support, which it primarily receives from China. Iran also receives support from Russia, to which it is a lucrative weapons and nuclear technology market, and to a lesser extent from the E.U. and India, countries that import substantial amounts of oil from Iran. It is important to note that China and most likely Russia would veto any comprehensive U.N. Security Council sanctions against Iran. Foreign investment in the Iranian oil industry, although not
from any American IOCs as they are barred by their government, helps Iranian leaders to maintain/increase Iran's oil production and oil export volumes, revenues from which enable them to sustain political stability. Besides the Iranian leaders, NOCs and European oil companies are on the winning end of oil industry bargaining in Iran, something that cannot be said for their American counterparts.

In this chapter, I critically discuss the above findings by revisiting the hypotheses set in Chapter 2. The hypotheses are revisited and discussed in this chapter, as it is more systematic to discuss their validity here than in chapters 3 to 6 while engaged in the case studies. The discussion of findings serves as the basis for analysing their implications in Chapter 8.

**Hypotheses Revisited**

**Hypothesis 1:**

If due to their weak relative bargaining power, IOCs have been on the losing side in their bargaining with oil exporting countries and/or their NOCs in the current decade when compared to the late 1990s, then we are witnessing the return of the obsolescing bargain.

In order to test this hypothesis, I use two frameworks - exit, voice, and loyalty, inspired by Albert Hirschman, and set in Chapter 2; and my own IOCs-host state bargaining power model, established in Chapter 2 and Appendix 1. Both frameworks are useful in establishing IOCs’ relative bargaining power vis-à-vis host states. While exit, voice, and loyalty framework determines the IOCs’ power based on their actions in Venezuela, Iran, and Russia, the second framework utilises 19 variables in order to compare relative bargaining power between the IOCs and Venezuela, Iran, and Russia, in 1998/99 and 2005/06.

Since bargaining power is “the major determinant of [government] intervention,”¹ bargaining outcome directly depends on the relative bargaining capabilities of the host country and the multinational.² In other words, the actual distribution of benefits, or the outcome of a given bargaining situation, “depends on the terms of the agreement which

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are, in turn, a function of the relative bargaining power of the host country and multinational corporation.\textsuperscript{3} In the oil industry, a host government's intervention policy imposes severe constraints on an IOC's strategy and operations within the host country, and its relative bargaining power vis-à-vis the IOCs is the major determinant of government intervention.\textsuperscript{4} Hence, overall, bargaining outcome is a direct function of relative bargaining power between IOCs and host states. IOCs' bargaining power is indicated by the nature and size of bargaining outcomes they achieve through interactions with host governments.

As evident from studying bargaining in both Venezuela and Russia's oil industries, most IOCs present in these two countries did not opt to voice their concerns when Russia and Venezuela altered their investment legislation. Indeed, due to their low voice and exit potential, many wished to remain loyal (Royal Dutch/Shell, Chevron, BP and Repsol in Venezuela for example), and did not voice their concerns despite the fact that terms of their contracts were becoming increasingly unfavourable (see Figure 7.1). There were two cases in Venezuela in which IOCs voiced their concerns. Italy's ENI and French Total failed to acquiesce to Venezuelan government's new terms, and were afterwards forced to handover their operations to PDVSA, and thus to exit. ENI and Total's low exit and voice potential resulted in unfavourable bargaining outcome for these two companies. Exxon Mobil sold its small stake in one of the fields to Spain's Repsol in order to avoid direct confrontation and obvious defeat in Venezuela. Exxon Mobil was therefore, the only company that opted to exit, but it is important to note that the size of the field at stake was small (16,000 bpd) and that Exxon Mobil acquiesced to government's demands concerning a much larger field in the Orinoco Tar Belt. This shows that even the 'mighty' Exxon Mobil avoided confrontation with Venezuela.

In Russia, when terms of Sakhalin-3 project were changed, Exxon Mobil and Chevron did not voice their concerns, what illustrated their low voice and exit potential. The same applied for BP, which demonstrated loyalty after being presented with a large and arbitrary tax bill, for Royal Dutch/Shell, when in December 2006 Russia suspended its vital permit

\textsuperscript{3} Kobrin, "Testing the Bargaining Hypothesis," p. 609. For theoretical analysis of the relation between bargaining power and bargaining outcome, see Dahl, \textit{The Concept of Power}.

\textsuperscript{4} For more detail, see Poynter, \textit{Multinational Enterprises & Government Intervention}.
for Sakhalin-2 venture, and for all IOCs present in Russia when in February 2005, Russian
government decided to ban majority foreign participation in new natural resource
concessions. Overall, IOCs in both Venezuela and Russia have fallen in line with the
government, with almost no protest each time investment regulations were altered. This
says much about the balance of power between governments and their NOCs, and
international investors. In Iran, ‘buyback’ contracts have been a mainstay in the oil industry
since they came into practice in 1995, despite unfavourable terms for IOCs, and when they
were introduced in the mid-1990s, they reflected Iran’s need for additional foreign
investment. Buybacks are arrangements in which the contractor funds all investments,
receives remuneration from NIOC in the form of an allocated production share, then
transfers operation of the field to NIOC after the contract is completed. Under ‘buyback’
contracts, companies have no guarantee that they will be permitted to develop their
discoveries, let alone operate them, and many companies do not like their short terms.
Although the IOCs present in the country find ‘buyback’ agreements extremely
unfavourable, they did not opt to voice their concerns or exit. While the persistence of
buybacks points to inevitably weak IOC bargaining power vis-à-vis the Iranian
government and NIOC, the buyback system is reflective of many other Middle Eastern
countries, whose oil industries remain closed to private investment. Comparably, Iran is
attractive to IOCs in contrast to Saudi Arabia, as its upstream oil sector is at least
theoretically open to foreigners under the 1987 law. All this shows that IOCs in Iran
(Royal Dutch/Shell, Total, and ENI) have low voice and exit potential (see Figure 7.1).

Figure 7.1: IOCs’ Exit and Voice Potential Matrix in Iran, Russia, and Venezuela
Generally, the view held by many of today’s globalisation scholars is that some form of fundamental technological shift is taking place that enhances the power of MNCs against the state.\(^5\) It is particularly apparent in the argument that technological change has increased the power of mobile capital (MNCs) vis-à-vis immobile actors (states) in general.\(^6\) The core of this argument is that enhanced mobility constitutes a form of ‘exit’ power for capital agents, providing them with a form of bargaining power. In the present context, it is commonly claimed that mobile MNCs can ‘arbitrage’ different political and economic jurisdictions, producing a ‘race to the bottom’ in terms of regulatory policy and the costs of doing business. Although this implicit threat of exit by itself may tend to bias economic policy in favour of business preferences, it is also sometimes held to increase the political ‘voice’ of international business.\(^7\) In this view, we ought to see an increase over time in the influence of business over policy. However, I found that exit and voice potential of MNCs in the oil industry is low in this decade, as IOCs have lost their influence over the host states.

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The second framework utilized to assess bargaining power of the IOCs relative to host states (oil exporting countries) was set up in Chapter 2 (see Figure 2.3), and Appendix 1. From a review of the relevant literature, numerous host country/industry context variables and IOC-specific variables have been identified. As illustrated in Figure 2.3 and elaborated in Appendix 1, IOCs’ bargaining power in a particular host state is determined by industry and country context, by taking into account: the level of competition in the country of interest; local technological and managerial know-how; capital possession; strategic importance of industry for the host country; cultural/political context; barriers to entry; reserve size and longevity; the level of economic development; potential profitability of IOC’s operations in this country; political and economic risk ratings; market access of that particular country’s NOCs; perception of world oil abundance/scarcity; and world oil market prices. It is also determined by analysing IOCs’ resources: technological know-how; capital possession; management skills; reputation; reserve replacement; availability of local allies; access to markets; and availability of alternative investment options. In Appendix 1, I elaborate on each of these variables and offer supportive scholarly evidence, which underlines their selection, and also briefly outline reasons for not including some other variables. In Appendix 8, I explain methodology behind variable measurement and assign values to each particular variable. Based on empirical data from previous chapters, in order to assess relative bargaining power of IOCs vis-à-vis host countries, values (between 0 and 5) have been awarded for each of the industry and country context variables in Russia, Venezuela and Iran; IOC specific variables; and relative variables for each of these countries for both 1998/99 and 2005/06. In Appendix 8, I also discuss the reasons for awarding a certain value to each of the variables. With regards to the values, while “0.00” indicates that IOCs possess highest possible bargaining power relative to the host state, “5.00” signifies that the host state has highest possible bargaining power vis-à-vis the IOCs, and “2.50” indicates bargaining power equilibrium (for more on methodology and value measurement, please refer to Appendix 8). The main findings are presented in Figure 7.2.

Figure 7.2: Relative Bargaining Power between Iran, Venezuela and Russia, and IOCs (1998/99 and 2005/06)
As evident from Figure 7.2, Iran, Venezuela, and Russia improved their bargaining power vis-à-vis IOCs between 1998/99 and 2005/06. While Russia and Venezuela possessed low (Russia 1.89, Venezuela 2.00) and Iran medium (2.54) bargaining power against the IOCs in 1998/99, all three countries possessed high (Iran 3.59, Russia 3.45 and Venezuela 3.46) bargaining power vis-à-vis IOCs in 2005/06. While bargaining power improvements vis-à-vis IOCs between 1998/99 and 2005/06 are more prominent for Venezuela (+1.46) and Russia (+1.56), they are less prominent for Iran (+1.05). This stems from the fact that Iran already in 1998/99 possessed relatively high bargaining power vis-à-vis IOCs, and thus their change is not as pronounced as in Venezuela and Russia (see Figure 7.2).

Due to this bargaining power improvement, in the current decade, host governments can dictate the size of their cut in bargaining with IOCs. As evident from the case studies, they have adjusted their tax regimes, existing contracts and entry terms. Iran, Russia and Venezuela are wary of allowing the major IOCs in at all, and the doors are certainly closing to any major new IOC investment in any of these countries. In addition, besides tax and royalty hikes, we are witnessing increased state participation in oil projects in Russia and Venezuela, and continuation of high state participation in Iran.
Latin American and Middle Eastern governments, such as Venezuela and Iran, are ‘old hosts’ to FDI, and therefore have much experience with multinationals. La apertura in Venezuela’s oil industry, which was just a segment in rapid privatisation of key politically sensitive sectors in Latin America in the 1990s, caused a backlash from governments and general public as the number of foreign takeovers reached significant levels. The openness to FDI in Latin America in the 1990s generated enough resentment, which was required to swing the pendulum in the other direction. Whereas MNCs in general were offered subsidies and tax cuts to invest in Latin American economies in the 1990s, and here note 1 percent royalties paid by IOCs producing in Venezuela’s Orinoco Tar Sands, these generous terms are now being eliminated, and governments are increasingly regulating their politically sensitive industries. In the current decade, Chàvez has marginalised the private sector by changing Venezuela’s hydrocarbon legislation. The heavy-oil projects, which have so far remained under private control, are likely to fall under state control soon. Besides oil industry in Venezuela, increased regulation and/or nationalisation followed in Bolivia and Ecuador, and it would not be surprising if it continues elsewhere. In May 2006, President Evo Morales’ sensational decision to nationalise Bolivia’s oil and gas assets sent the already volatile oil markets into a panic. Recently, Ecuador joined its Latin American neighbours when it seized an oil field controlled by Occidental, a United States-based IOC.

Iran never reopened its oil industry for substantial FDI in the 1990s. Buyback contracts, which were introduced in 1987, are short-term risk service contracts, which make foreign investor simply a contractor that never gains equity rights. In Iran, the bargain for some IOCs, mainly American, did not obsolesce as they were blocked by U.S. imposed sanctions, which blocked them from entering Iran in the first place. The bargain the European IOCs reached with Iran is obsolescing, and thus is similar to the situation in which the Japanese oil company Inpex found itself in. The European governments, similar to Japan, increasingly pressured by the Bush administration⁸ and increasingly intolerant of Iranian clandestine nuclear activities, are exerting tacit pressure against their own IOCs not to engage too heavily in the Iranian oil industry. The bottom line is that they are not

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needed. Iran can find substitutes, Chinese NOCs, which are more than willing to invest in Iran.

Russia, a transition economy, has like other transition economies, very little experience with inward FDI. In the 1990s, following the collapse of Communism, Russia’s economy was open for investment, which has been an important component of the economic reform program. Its initial openness, evident in pro-FDI policies and privatisation, was ‘the calm before the storm’, which started with Putin’s crackdown on Yukos in mid-2003. What followed was ‘re-nationalisation’ of much of Russia’s oil industry, increased regulation and higher taxes, or in other words, increasingly anti-FDI climate, as Russia retreated from liberalisation and returned to high levels of state control. By understanding how important it is for a developing, transition economy to control its oil industry as relying on global market forces alone did not serve Russia’s interests, it has quickly learnt how to deal with the presence of MNCs, and IOCs in particular. Putin understands that goals and interests of these MNCs mainly do not coincide with Russia’s, and thus the door is now closed for major IOC participation in its oil industry. Thus far, Putin has largely accomplished his goal of re-nationalising hydrocarbons resources, and as shown, legislation introduced in 2005 makes foreign investment in the country’s most geologically attractive areas much more difficult. Although not studied in detail in this dissertation, in January 2004 similar development has taken place in Kazakhstan, another former Soviet transition economy, which toughened its contract terms, limited foreign ownership in ventures, removed tax stability clauses and introduced a new escalator tax.\(^9\)

This resurgence in resource nationalism is not confined to Latin America, former Soviet Union or the Middle East. In Angola, Nigeria, Chad, Sudan and elsewhere, local protests for a greater share in the nation’s mineral wealth have disrupted production frequently. Nigeria and Angola have linked access to upstream assets to investments in other parts of the economy and continued to demand large signature bonuses.\(^10\) In virtually every oil-exporting country, NOCs, which had reluctantly ceded ground to IOCs in the wake of


globalisation, seem to be reclaiming lost ground. Currently, IOCs are taking a beating from national governments in many parts of the globe.

There is a seesaw of power balance between governments and firms, determined by the particular circumstances of the times. In Chapter 1, I examined the changing balance of power in past and current decades. In the current decade, when considering exclusively empirical evidence from the oil industry, the nation state appears robust as a regulator of IOCs. The world is witnessing a resurgence of resource nationalism. I found no evidence to demonstrate that in the first decade of the new millennium governments are fading away in the face of the power of IOCs. On the contrary, I found evidence that IOCs’ bargaining power is fading away vis-à-vis that of host states, and that IOCs possess low bargaining power vis-à-vis host states, and low exit and voice potential. At the same time, resource nationalism is back at the forefront of relations between host governments and IOCs. The IOCs’ bargain is obsolescing once again (see Figure 7.3).

Figure 7.3: Bargaining Outcome in Iran, Russia, and Venezuela as a Function of IOCs’ Relative Bargaining Power (1990s and 2000s)

What are some of the main drivers behind host states’ rising bargaining power vis-à-vis IOCs between 1998/99 and 2005/06? In other words, why has IOCs’ bargain re-obsoled? In Table 7.1, I summarise the main factors, which contributed to higher
bargaining power of host states as opposed to IOCs in 2005/06 as opposed to 1998/99. This table indicates the average difference in Iran, Russia, and Venezuela’s bargaining power vis-à-vis IOCs for both 1998/99 and 2005/06. There are six crucial reasons (with ‘high’ and ‘very high’ influence) which explain why IOCs’ bargaining power obsolesced. First, global perception that oil is becoming increasingly scarce and that world oil production may peak in the not too distant future, endows states that possess much of remaining oil with a lot of bargaining power vis-à-vis those who need this oil.\(^{11}\) Oil spare production capacity is a good indicator of general abundance or scarcity of oil. While in 1998 global oil spare production capacity stood at 8 percent of total oil demand, by 2005 it dropped to only 2 percent of world oil demand.\(^{12}\) Thus, it is not surprising that there are widespread perceptions of future oil scarcity and oil production peak, which in 2005 negatively affected IOCs’ bargaining power vis-à-vis Iran, Russia, and Venezuela.

**Table 7.1: Influence of Various Variables on Host States’ Increase in Bargaining Power vis-à-vis IOCs between 1998/99 and 2005/06**

<table>
<thead>
<tr>
<th>Influence</th>
<th>Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very High</td>
<td>Oil Scarcity Perception</td>
</tr>
<tr>
<td></td>
<td>The Lack of Alternative Options for IOCs</td>
</tr>
<tr>
<td>High</td>
<td>Host State’s Cultural/Political Context</td>
</tr>
<tr>
<td></td>
<td>Oil Prices</td>
</tr>
<tr>
<td></td>
<td>Competition in Host State</td>
</tr>
<tr>
<td></td>
<td>Low IOC Reserve Replacement</td>
</tr>
<tr>
<td>Medium</td>
<td>Host State’s Production Profitability</td>
</tr>
<tr>
<td></td>
<td>Host State’s Barriers to Entry</td>
</tr>
<tr>
<td></td>
<td>Host State’s Strategic Importance of Oil</td>
</tr>
<tr>
<td></td>
<td>Low IOC Reputation</td>
</tr>
<tr>
<td></td>
<td>Lack of Local Allies for IOCs</td>
</tr>
<tr>
<td></td>
<td>Relative Capital Possession</td>
</tr>
<tr>
<td>Low</td>
<td>Host State’s Reserve Size</td>
</tr>
<tr>
<td></td>
<td>Host State’s Reserve Longevity</td>
</tr>
<tr>
<td></td>
<td>Host State’s Economic Development</td>
</tr>
<tr>
<td></td>
<td>Relative Technological Know-how</td>
</tr>
<tr>
<td></td>
<td>Relative Managerial Skills</td>
</tr>
<tr>
<td></td>
<td>Relative Market Access</td>
</tr>
<tr>
<td>None</td>
<td>Host State’s Political/Economic Risk</td>
</tr>
</tbody>
</table>

Difference: none = 0.00; low = 0.01 – 0.99; medium = 1.00 – 1.99; high = 2.00 – 2.99; very high = 3.00 and over.

\(^{11}\) Whether this perception is correct, something no one can answer is not of any importance.

Second, nowadays, IOCs do not have alternative, equally or more, attractive options to pursue when bargaining with governments of Iran, Russia and Venezuela. Countries and ‘safe zones’ that are open to IOC investment are those in which oil production has already peaked and production is costly (lower U.S. states, North Slope of Alaska, the Gulf of Mexico, North Sea); where IOCs’ presence is already established (U.S., U.K., Canada, Australia); where new production is possible only if oil prices remain at very high levels (Alberta); in areas where there are huge technical challenges and production is expensive (Siberia, Alberta, offshore West Africa); or in alternative energy sources (oil shale, natural gas). Many of these options are very risky, as they may become unprofitable if oil prices drop in future. In addition, IOCs are not welcome in the major oil-producing region of the world, the Middle East, and also in North Africa, and much of Latin America. If they are present in some countries in these regions, it is usually, as in Iran, under unfavourable terms. Similar to what is taking place in Russia and Venezuela, IOCs are also struggling to maintain their presence in Kazakhstan, Ecuador, Bolivia, Chad and Nigeria. In addition, similar to Russia and Venezuela, Libya and the U.K. have made changes aimed at getting a bigger take of their oil resources. Analysts suggest that Angola, Africa’s fourth largest oil producer, will soon renegotiate some of its contracts with IOCs. Africa, former Soviet Union, the Middle East and Latin America, regions in which IOCs most want to do business, are becoming increasingly difficult operating environments. All these factors reduce IOCs’ bargaining power vis-à-vis Iran, Russia and Venezuela.

Third, the loss of IOCs’ bargaining power vis-à-vis host states is further exacerbated by the hostile political and cultural context in Iran, Russia, and Venezuela. While the 1990s in Venezuela and Russia witnessed opening of these countries’ oil industries to foreign investment due to favourable political context, in this decade both countries have become increasingly hostile and opposed to the IOC involvement, due to the changed political context. As evident from chapters 3 and 4, both countries need government control of oil to further their goals in other bargaining arenas (such as domestic and international politics). Likewise, anti-British and anti-American sentiment in Iran and Iranian pursuit of nuclear technology is resulting in slow IOC removal from the country. American IOCs

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have not been present there since mid-1990s and European IOCs have recently been
discouraged from investing there. Where strong nationalist feeling exists, as nowadays in
Russia, Iran and Venezuela, it is “particularly likely to be directed at foreign oil
companies,” since oil is a non-renewable resource and it carries a lot of strategic
significance. Additionally, when dealings between the government and companies are
widely publicised in the press and other media, as they are in Iran, Russia, and Venezuela,
the government tends to have a bargaining advantage. Since IOCs are often portrayed as
foreign interlopers, the government can utilise public opinion to sway negotiations toward
more favourable outcomes. Therefore, due to these developments, bargaining power of
Western IOCs vis-à-vis the host governments of Iran, Russia and Venezuela is weakened.

Fourth, when oil prices are low, and when IOCs have little cash available, as in the latter
parts of the 1980s and for most of the 1990s, oil executives are courted by commodity-rich
countries to develop their national resources. However, when prices rise, as they did in
early years of the new millennium, host governments have a tendency to rethink their
contracts and seek higher taxes and royalties. Leonardo Maugeri, a senior executive for
strategy at ENI, argues, “It’s quite natural that during a period of high prices, the
phenomenon of resource nationalism returns.” Such moves are “a by-product of high
prices.” This state of affairs corresponds well to Ernest Wilson’s model of the politics of
the world oil market – the petro-political cycle (PPC). The PPC model posits that the
likelihood and the direction of market politicisation are a direct function of the boom-and-
bust phase of that market; thus, petro-politics at the peak of the market will differ
substantially from politics at the trough. In rising markets, sellers, such as oil exporting
governments, gain leverage; in falling markets, buyers, such as IOCs or oil importing
governments, gain leverage. In addition, in times of rising prices, developing governments,
which occupy a subordinate position in the international system, have real incentive to

16 See Grosse, Multinationals in Latin America, p. 83.
17 Quoted in Mouawad, “Western Firms Feel a Pinch from Oil Nationalism.”
18 See Ernest J. Wilson III, “The Petro-Political Cycle in World Oil Markets,” in Richard L. Enders and John Kim (Eds.),
alter the basic rules of the game and reverse this status quo. While their chances of doing so improve greatly in rising markets, they decline in falling ones.¹⁹

Fifth, high level of competition in the oil industry is one of the main reasons behind the decrease in IOCs’ bargaining power vis-à-vis host governments. Various other actors, such as NOCs from both oil exporting and primarily from oil importing countries, service companies, and consultancy firms, compete with IOCs as they often offer same or similar services, and therefore provide host governments with more options. IOCs face higher level of competition in Iran, Russia and Venezuela in the current decade than they did in the 1990s, and this carries a negative effect on their bargaining power against governments of these countries. While competition in Iran might be lower than in Russia and Venezuela due to the absence of American IOCs and service companies, it is still high due to the presence of developing countries’ NOCs. Many of these countries, particularly China, maintain close relationship with the Iranian regime. Local service companies also offer important services to the NIOC.²⁰ An NIOC manager explained their perspective:

Service companies can provide services often at a better cost than IOCs. This is also true with Iranian service companies. They can do exploration services, seismic, drilling, tankers…. There are many, many alternatives to IOCs.²¹

In Venezuela, there are a wide variety of IOCs, developing countries’ NOCs (again, favoured by the government) and service companies, and therefore, industry concentration is very low. In Russia, although the industry concentration is not as low as in Venezuela, this is primarily due to the government consolidation. Russian private, and at the same time Kremlin-friendly oil companies (Lukoil, Surgutneftegaz), government-owned companies (Gazprom, Rosneft), both of which “consider international majors as competitors,”²² together with many service and consultancy firms, offer staunch competition to the IOCs. Therefore, whereas in the mid and late 1990s IOCs did not face much competition, in 2005/06, competition negatively affected their bargaining power in Iran, Russia and Venezuela.

²¹ Quoted in Marcel, Oil Titans, p. 213.
²² Bahgat, “Russia’s Oil Potential: prospects and Implications,” p. 139.
Finally, in the oil industry, “reserve replacement is the best guide to whether a company will be able to maintain – or grow – production in the future.” In 1998, five major IOCs replaced more oil reserves than they produced in the year, and their reserves grew by 3.7 percent when compared to 1998. However, they did not manage to replace all of the oil produced in 2005, and thus, between 2004 and 2005 their reserves dropped by 9.5 percent. Thus, as a consequence, while IOCs’ bargaining power vis-à-vis host states increased in 1998, it decreased considerably in 2005.

While these six factors are not exclusive, and many other variables, such as those outlined under ‘medium’ and ‘low’ in Table 7.1, affect higher host states’ bargaining power vis-à-vis IOCs in 2005/06 as compared to 1998/99, they are crucially important in explaining the return of the re-obsolescing bargain in the current decade.

**Hypothesis 2:**

If the interests of American IOCs and the U.S. government are aligned, then the U.S. government supports American IOCs in bargaining with other actors. Related: If American IOCs receive support from the U.S. government from time to time, then this support results in bargaining success against other actors.

The interests of American IOCs and the U.S. government were aligned in many bargaining cases studied in this dissertation. The U.S. government and major American IOCs were both in favour of IOC entry into Russia and Venezuela in the 1990s, and of U.S. government’s attempt to remove Chávez from power in Venezuela in 2002. Moreover, their interests were also aligned concerning the future of UNOCAL, and concerning increasingly unfavourable investment environment in Russia and Venezuela in 2006, as both sides would prefer these two countries to be more welcoming to foreign investment. However, their interests diverged concerning the U.S. government’s policy towards Iran, and were partially in line and partially in opposition concerning the future status of the ANWR. While the Bush administration and the IOC were supportive of opening ANWR for oil exploration, the Congress was opposed to this. Thus, although at most times, their interests were aligned, the U.S. government did not actively support American IOCs in all such situations. For example, although the U.S. government actively supported U.S. IOCs

23 Schwartz, “A Shell of Itself.”
in Russia in the 1990s, Venezuela in 2002, in the case of UNOCAL, and regarding ANWR (at least the Bush administration), this did not take place with regards to Venezuela and Russia in 2006. Not surprisingly, the U.S. government did not support American IOCs when their interests diverged, as in the case of Iran, and the lack of support in the Congress regarding ANWR drilling (see Figure 7.4).

**Figure 7.4: U.S. Government’s Support for American IOCs as a Function of Their Interests**

When the U.S. government supported American IOCs in their bargaining with other actors, on only two occasions did the IOCs emerge victorious. Firstly, Chevron benefited after receiving support from the U.S. government, and due to this support, which stemmed from political opposition to Chinese takeover of an American oil company, CNOOC withdrew from bidding. Secondly, Russia and Venezuela opened up their oil industries to foreign investment in the 1990s, after the U.S. pressured them to adopt an investment regime that eventually offered more protection, and bargaining power, to multinationals. American IOCs were certainly helped by the fact that in the mid and late 1990s, Russia and Venezuela suffered economically and were highly indebted. Since the U.S. has been the main creditor of their debt, one could assume that American IOCs
received a degree of indirect help due to this development. On all other occasions, either when there was no U.S. government’s support for American IOCs (Iran; Russia and Venezuela in 2006; and no Congress’ support for ANWR drilling), or when there was support (Venezuela 2002; Bush administration’s support for ANWR drilling), the U.S. IOCs were unsuccessful in bargaining with other actors (see Figure 7.5). In Venezuela and Russia in recent years, American IOCs would not have gained bargaining power even if they were supported by the U.S. government. Any such support would have further deteriorated their bargaining power vis-à-vis Putin and Chávez, as Russia and Venezuela possess much more bargaining power vis-à-vis IOCs in the mid 2000s than they did in the 1990s (see Hypothesis 1). If the U.S. government applied pressure against them in the current decade, this would backfire, as it would clearly clash with their own interests and agendas. Similar scenario to that when the U.S. government supported a coup against Chávez in 2002 as support for American IOCs, would have occurred. This help backfired, and the U.S. government and American IOCs ended up facing much worse conditions in Venezuela than it was the case prior to the incident.

Figure 7.5: American IOCs’ Bargaining Success as a Function of the U.S. Government Support

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24 Derived from Poynter’s assumption, that home nations can provide host nations with aid, money, military and economic support, or act as a supporter in multilateral organisations such as the World Bank, the United Nations, etc. Poynter, Multinational Enterprises & Government Intervention, p. 62.
Therefore, overall, we have a mixed result concerning both propositions, and one wonders what a possible explanation for this is? Whether the U.S. government’s and American IOCs’ interest are aligned; if so, does the U.S. government support U.S. IOCs; and if so, whether this support translates into bargaining victories for American IOCs, depends on the political context of each particular bargaining scenario. Political context in host states where American IOCs are present, domestic political context in the U.S., and American strategic security concerns affect the alignment of government and corporate interests, governmental support for these interests, and the outcome of that support (if any). However, one thing is certain - the major American IOCs do not hijack the U.S. government in order to further their own interests, and my findings deny the widespread conspiracy theories.

**Hypothesis 3:**

If the NOCs from China are gaining bargaining power, then this is at the expense of the IOCs.

The independent oil companies played a key role in weakening the bargaining position of major IOCs and in strengthening the bargaining power of the oil-exporting countries in the 1970s. Similarly, in the current decade, NOCs from oil importing countries, and in particular from China, weaken the bargaining position of major IOCs vis-à-vis host states and their NOCs. Although Chinese NOCs may not be gaining bargaining power vis-à-vis NOCs from the oil exporting countries, they are certainly competing with the IOCs, often triumph over them, and thus allow oil exporting countries and their NOCs to have a wider range of potential investors. Thus, today, as in the 1970s, host governments are finding that they have an increasing number of options for securing the capital, technology, or access to markets they require, and individual IOCs have nothing like the bargaining position they held in the 1990s.

While IOCs primary objective is profit maximisation, oil-importing states’ NOCs are not ‘constrained’ by having to earn profits,\(^{25}\) and are backed by their respective governments, both financially and politically, in order to advance national policies. When a state-owned

company steps out on the world stage, it does so with many critical and often quiet advantages, from diplomatic support to soft government loans, which it pays for by advancing the state’s agenda. In their quest for oil, supportive parent government policies are crucial in winning or losing in bargaining. Additionally, many oil-exporting states, which have NOCs of their own, such as Russia, Venezuela and Iran, often for ideological or practical reasons prefer dealing directly with oil importing governments through their NOCs, rather than with IOCs.

Chinese NOCs are spending billions of dollars on a global scramble for oil to feed China’s booming economy. They have the ability to obtain government loans at little or no interest (see Chapter 5, case study 4). Driven by government’s energy security policy, which is aimed at developing multiple import sources and routes (diversification primarily away from the Middle East) and building up reserves to avoid unexpected interruption, China’s NOCs have acquired growing equity oil stakes and long-term crude oil contracts, and have signed ‘strategic’ alliances in many regions of the world. By March 2007, China, through its three companies, had signed oil and gas deals, or had oil and gas assets or interests in (or with) not less than 63 countries. In doing so, they have emerged victorious vis-à-vis major IOCs in various oil bargaining situations and have provided IOCs with unwanted competition in many oil-producing countries.

For example, CNPC outbid Amoco (now owned by BP), Chevron and Exxon Mobil for interest in the second-largest oil field in Kazakhstan in 1997. Further, Sinopec has won the right to explore for hydrocarbons in Saudi Arabia’s al-Khali Basin outbidding Chevron,

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29 Key countries in **bold**, strategic alliances with **underlined** countries: Algeria, Angola, Argentina, Australia, Azerbaijan, Bangladesh, Bolivia, Brazil, Brunei, Cameroon, Canada, Chad, Colombia, Congo (Republic of), Cote D’Ivoire, Cuba, Ecuador, Egypt, Equatorial Guinea, Ethiopia, Gabon, India, Indonesia, Iran, Iraq, Italy, Kazakhstan, Kenya, Kuwait, Kyrgyzstan, Libya, Madagascar, Malaysia, Mauritania, Mexico, Mongolia, Morocco, Mozambique, Myanmar, Niger, Nigeria, Oman, Pakistan, Papua New Guinea, Peru, the Philippines, Russia, Saudi Arabia, Somalia, Sudan, Syria, Taiwan, Thailand, Tunisia, Turkmenistan, the United Arab Emirates, the United States, Uzbekistan, Venezuela, Vietnam, Yemen, and Zimbabwe.
in what, according to some American analysts, was a proof that China has been building a special relationship with Saudi Arabia, a traditional U.S. ally in the Middle East, in order to compete with the U.S. for influence in the region. Moreover, Chinese officials locked up long-term contracts for Alberta’s oil sands in Canada, while outbidding IOCs. Sinopac has been successful in outbidding many IOCs in Angola in May 2006 by winning a 40 percent stake in an area off the coast of Angola, Block 18, after proposing a record-breaking $1.1 billion government signature bonus. Additionally, China also acquired oil assets in Ecuador where operations of Occidental, an American IOC have recently been nationalised, and as evident from Chapter 4, Chinese oil officials signed various agreements with Venezuela, which include ambitious plans to sell large amounts of oil to China, possibly at the expense of U.S. oil imports from Venezuela. In 2004, China and Iran signed a $100 billion oil and natural gas deal, which could total $200 billion over 25 years, and which undermined a decades-long U.S. economic embargo of Iran (see Chapter 5). It also reduced Iran’s need for IOC investment in the country. In August 2005 we witnessed China’s (through CNPC) largest ever cross-border takeover, of PetroKazakhstan, a Canadian-based firm with a market value of $3.5 billion, with energy assets in the Central Asian country. CNPC acquired PetroKazakhstan for $4.2 billion, thus overbidding by $700 million. Unsurprisingly, IOCs came nowhere close to winning the bid. Similarly, in January 2006, CNOOC acquired oil and gas assets in Nigeria for $2.27 billion, increasing competition in a country where most of major IOCs are present. Finally, in Russia, where IOCs are increasingly unwelcome, Chinese NOCs have recently

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become more active. For example, in November 2006, Rosneft and Sinopec signed a deal to buy Udmurtneft, a Russian oil company, and also in late 2006, a partnership between Rosneft and Sinopec has resulted in a first exploration well on the Sakhalin-3 block, offshore Sakhalin Island. This was the first time the two countries have cooperated in an upstream oil project on Russian territory (see Chapter 3).

Chinese NOCs’ success is further exacerbated by the fact that in general, oil importing countries’ NOCs are often favoured by host governments since, according to John Mitchell and Glada Lahn, they “carry less ‘imperialist’ baggage than Western governments or companies”.\(^{39}\) Thus, according to Marcel, investment from foreign NOCs, rather than IOCs, is politically more palatable for the host government. In relation, she argues that due to “cultural proximity between NOCs and host countries,” NOCs can better understand how to work through a bureaucratic system of a host country than IOCs.\(^{40}\) Moreover, many host governments, such as Sudan, Myanmar, Iran, and others, are attracted by the fact that China’s government agencies and financial institutions do not apply conditions, such as the UN Global Compact, regarding transparency and external monitoring of operations affecting human rights and ethical issues to loans and aid packages associated with oil deals.\(^{41}\) Therefore, oil importing countries’ NOCs are clearly advantaged vis-à-vis major IOCs in their dealings with host governments and this is clearly evident in Venezuela and Iran’s favouring of Chinese and other NOCs.

Results of Chinese NOCs’ success against the IOCs are evident in Table 7.2 and 7.3. While in 2005, five major IOCs did not manage to replace their reserves, and their overall reserves dropped by 9.6 percent, when compared to 2004, Chinese NOCs’ reserves increased by 1.4 percent (Table 7.2). Moreover, while major IOCs’ Reserves/Production (R/P) ratio dropped by 1.3 years between 2004 and 2005, Chinese NOCs’ R/P ratio dropped by only 0.2 years in the same period (Table 7.3). I already established that major IOCs’ reserve replacement is an important indicator of their bargaining power, as in the oil industry, “reserve replacement is the best guide to whether a company will be able to

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\(^{40}\) Marcel, “Investment in Middle East Oil,” pp. 11-3; and Marcel, Oil Titans, p. 71.

maintain - or grow - production in the future." A sharp decrease in IOCs’ R/P ratio also portrays their diminishing bargaining power. Thus, since major IOCs did not manage to replace all of their production in 2005, and Chinese NOCs replaced more than they produced, and their R/P ratio dropped marginally when compared to that of major IOCs, this indicates that IOCs are losing their bargaining power at the expense of Chinese NOCs. This is also evident from examples presented above, as Chinese NOCs are clearly establishing their presence in many oil-exporting countries at the expense of Western IOCs. In recent years, CNPC, Sinopec, and CNOOC achieved impressive gains in their foreign ventures despite re-nationalisation steps being taken in the energy sectors of several oil-exporting nations, including Russia and Venezuela.

Table 7.2: Major IOCs’ and Chinese NOCs’ Oil Reserves (2004 and 2005)

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Exxon Mobil</td>
<td>11.651</td>
<td>11.229</td>
<td>-0.422</td>
</tr>
<tr>
<td>BP</td>
<td>7.550</td>
<td>7.161</td>
<td>-0.389</td>
</tr>
<tr>
<td>Total</td>
<td>7.003</td>
<td>6.592</td>
<td>-0.411</td>
</tr>
<tr>
<td>Chevron</td>
<td>5.511</td>
<td>3.626</td>
<td>-1.885</td>
</tr>
<tr>
<td>Royal Dutch/ Shell</td>
<td>3.745</td>
<td>3.466</td>
<td>-0.279</td>
</tr>
<tr>
<td><strong>Total Majors</strong></td>
<td><strong>35.460</strong></td>
<td><strong>32.074</strong></td>
<td><strong>-3.386 (-9.6%)</strong></td>
</tr>
<tr>
<td>CNPC</td>
<td>11.704</td>
<td>11.745</td>
<td>0.041</td>
</tr>
<tr>
<td>Sinopec</td>
<td>3.267</td>
<td>3.294</td>
<td>0.027</td>
</tr>
<tr>
<td>CNOOC</td>
<td>2.200</td>
<td>2.373</td>
<td>0.173</td>
</tr>
<tr>
<td><strong>Total Chinese NOCs</strong></td>
<td><strong>17.171</strong></td>
<td><strong>17.412</strong></td>
<td><strong>0.241 (1.4%)</strong></td>
</tr>
</tbody>
</table>


Table 7.3: Major IOCs’ and Chinese NOCs’ R/P Ratios (2004 and 2005)

<table>
<thead>
<tr>
<th></th>
<th>R/P Ratio (2004; years)</th>
<th>R/P Ratio (2005; years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exxon Mobil</td>
<td>12.4</td>
<td>12.2</td>
</tr>
<tr>
<td>BP</td>
<td>8.2</td>
<td>7.7</td>
</tr>
<tr>
<td>Total</td>
<td>11.3</td>
<td>7.3</td>
</tr>
<tr>
<td>Chevron</td>
<td>8.8</td>
<td>6.0</td>
</tr>
<tr>
<td>Royal Dutch/ Shell</td>
<td>4.7</td>
<td>4.8</td>
</tr>
<tr>
<td><strong>Total Majors</strong></td>
<td><strong>9.1</strong></td>
<td><strong>7.8</strong></td>
</tr>
<tr>
<td>CNPC</td>
<td>15.3</td>
<td>15.2</td>
</tr>
<tr>
<td>Sinopec</td>
<td>11.6</td>
<td>11.5</td>
</tr>
<tr>
<td>CNOOC</td>
<td>12.4</td>
<td>11.8</td>
</tr>
</tbody>
</table>

42 Schwartz, “A Shell of Itself.”
Total Chinese NOCs | 14.0 | 13.8

Only once in recent years were the Chinese NOCs defeated by major IOCs. To repeat what was outlined in Chapter 5, in June 2005, by offering $18.5 billion for UNOCAL, one of the biggest independents in the United States,\(^43\) CNOOC outbid Chevron by $2 billion. Price, therefore, did not matter for CNOOC. Chevron raised the stakes in July 2005, by upping its bid to $17 billion, and despite the statement that “if the People’s Republic of China wishes to acquire UNOCAL, it will,”\(^44\) the largest foreign takeover yet attempted by a Chinese firm did not finalise due to political opposition in the United States. Many critics in the U.S. suggested that CNOOC would be paying too high a price for UNOCAL and that the money was coming directly from China’s government.\(^45\) Stephen Lewis argued that the outcome of CNOOC-UNOCAL case “is not indicative of the general ability of Chinese national oil companies overall to compete with most multinational oil and gas companies.”\(^46\) Thus, due to political interference from the U.S. government, the UNOCAL case was an exception to the recent Chinese bargaining superiority vis-à-vis IOCs.

Thus, most findings are supportive of the hypothesis. Evidence from Iran, Russia, and Venezuela, and many other countries, not directly examined in this dissertation, illustrates that Chinese NOCs are gaining bargaining power at the expense of major IOCs. Bargaining for UNOCAL is the only case that goes against this evidence, as Chevron gained bargaining power vis-à-vis CNOOC after much domestic opposition against Chinese takeover of an American oil company (see Figure 7.6).

**Figure 7.6: IOCs’ Bargaining Power Relative to Bargaining Power of China’s NOCs**

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\(^{43}\) In 2005, UNOCAL was the 12\(^{th}\) largest oil company with the headquarters in the United States. “The Forbes Global 2000.”

\(^{44}\) David Hurd of Deutsche Bank in Hong Kong, in “China’s Gas Guzzler,” The Economist, June 23, 2005.


In summary, with a rapidly growing economy and as oil imports continue to increase, China spends billions to acquire oil assets abroad, and by applying neo-mercantilist methods (for example, by buying ‘equity’ oil), it is trying to limit its reliance on oil markets. In a bid to offset growing energy demand, China, through its NOCs, has secured deals on Canadian oil sands, Latin America, Central Asia and the Middle East and Africa. Chinese NOCs are known to overbid to acquire contracts to feed China’s rapidly energy-hungry economy. Most of the time, with the exception of UNOCAL case, overbidding has helped Chinese NOCs secure deals at the expense of other companies. Since they are powerful new players, other players must make room for China and its NOCs in the international energy markets. Due to their cultural proximity and since they do not carry imperialist baggage, host governments prefer Chinese NOCs to IOCs. Western majors, who are already finding it hard to replace their oil reserves (Table 7.2), see the emergence of new Chinese rivals as a sign of difficulties ahead. As a sign of things to come, it is interesting to note that in 2006, PetroChina reported a net income larger than that made by IOCs such as Chevron or Total, and market value higher than all major IOCs but Exxon Mobil. In its global pursuit of oil to fuel its economic growth, China has strengthened bonds with countries distinctly inimical to American interests, including

47 Mihailescu, “U.S. Watches China’s Oil Demand, Deals.”
Venezuela, Sudan, Syria, Zimbabwe and most crucially Iran. Besides expanding their drilling in countries where armed conflicts, corruption and instability have kept Westerners at bay, Chinese NOCs are expanding their drilling across areas where Chevron, Royal Dutch/Shell, Exxon Mobil, BP, Conoco Phillips and Total have long been dominant, thus reducing their bargaining power vis-à-vis host states. They are able to achieve this since they possess the ability to overspend to secure contracts, and are not driven exclusively by profit maximisation.

Hypothesis 4:

If a major oil-importing government's oil supply security is perceived as threatened when bargaining with other actors, then this government will not emerge victorious from bargaining.

In cases examined in this dissertation, governments of major oil-importing countries, the U.S., Japan, and China, when engaged in bargaining with other actors, at most times perceived their oil supply security as threatened. The U.S. government perceived American oil supply security as threatened in bargaining for UNOCAL, as China got close to acquiring an American company in control of oil reserves in the Gulf of Mexico and Canada, among other places. The U.S. government's support for Chevron, and resistance to the Chinese takeover of UNOCAL, showed that in bargaining with the Chinese, the government was more interested in oil supply security rather than in the free functioning of the market. Oil supply security was the main rationale for the Bush administration in bargaining for future of the ANWR, since by opening up the ANWR for exploration and production, the U.S. government aimed to increase domestic oil production and therefore reduce dependence on foreign oil. Likewise, in Venezuela, which was, and still is, one of the most important oil suppliers to the Unites States, the U.S. government is primarily interested in friendly regime being in power, as this would ensure secure oil supplies in the future. The Japanese government perceived Japan’s oil supply security as threatened when bargaining over Azadegan oilfield in Iran, since in past, Iran had been a major source of Japanese oil imports. Likewise, due to its surging demand for imported oil, China's government perceived Chinese oil supply security as threatened in all bargaining cases - UNOCAL, Venezuela, Iran, and the Russian Far Eastern pipeline. China's concerns over its oil supply security are of very high importance, as its continued high economic growth rates depend on oil supply growth. If oil supply growth were slowed down, China's
economy would also slow down, and since the CCP’s domestic legitimacy depends on steady economic growth, it must secure additional oil supplies.

In the above cases, three major oil-importing governments have had mixed bargaining success. The U.S. government was successful in the case of UNOCAL, and Bush administration failed so far regarding ANWR. The Japanese government failed in Iran, and the Chinese government succeeded in Iran, Venezuela, and most likely in the case of bargaining for the priority route of the Russian Far Eastern pipeline; while it failed in the case of UNOCAL (see Figure 7.7). There were three cases in which governments of major oil-importing countries did not perceive oil supply security as threatened. Firstly, the U.S. government was more concerned with Iranian nuclear issue than with Iranian oil. Secondly, the U.S. Congress was more concerned with environmental factors (preserving a pristine wildlife area) rather than drilling for oil in ANWR. Finally, the Japanese government kept the issue of Kuril Islands in its relationship with Russia above anything else, and until this issue is resolved, there will be no drastic improvement in Russo-Japanese relationship. In these three cases, we have had a mixed bargaining success for these actors. While the Alaska Coalition, helped by the U.S. Congress, so far successfully defeated the Arctic Power, the U.S. government as a whole did not manage to slow down or stop the Iranian nuclear programme, and Japan has so far been on the losing end of bargaining for Russian Far Eastern pipeline’s priority route (Figure 7.7).

**Figure 7.7: Oil-importing Government’s Bargaining Success as a Function of Oil Supply Security Threat Perception**
Thus, despite of the fact that at times when oil supply security is perceived as threatened, major oil-importing governments invest considerable resources in order to achieve a positive bargaining outcome, they often fail to do so. In such situations, they often face equally determined opponents, to whom, at most times, oil supply security is also a crucial concern. In Venezuela, the U.S. government has had to deal with highly determined president Chávez, and oil-starved China. Domestically, in the case of ANWR bargaining, the Bush administration had not been able to defeat the resolute Alaska Coalition, which has had crucial support in the Congress. China, through CNOOC, has been unable to purchase a mid-sized American oil company (UNOCAL), due to firm opposition by the U.S. government. Finally, Japan has not been able to secure the Azadegan deal, due to heavy American pressure to pull out.

**Hypothesis 5:**

If oil-exporting states use oil, explicitly or tacitly, in their bargaining with other actors, then they do not gain concessions in other bargaining arenas.

In my discussion of validity of the previous hypothesis, one of the findings was that thus far, the U.S. government has not been successful in its nuclear bargaining with Iran. Has this been the case because Iran used its oil to gain concessions from other states in order
to reduce the American pressure against its nuclear programme? Have any other oil-exporting states studied in this dissertation, such as Russia and Venezuela, used oil in order to gain concessions from other states? Iran has repeatedly threatened to cut off oil exports if comprehensive economic sanctions are imposed due to its nuclear activities. Russia has used the prospect of substantial energy exports from eastern Siberia and the Russian Far East to markets in East Asia to make itself a major factor in the foreign policies of both China and Japan, playing on their interests in order to receive concessions. Similarly, Chávez has repeatedly threatened an oil-export embargo against the United States, and has used oil to lure China, and to build an alliance of friendly regimes throughout Latin America.

Both Iran and Venezuela are cultivating oil relationships with nations that are in a position to block economic sanctions or provide other political assistance. According to an Independent Task Force of U.S. Council on Foreign Relations (CFR), the United States has a reduced freedom of action and influence in the conduct of its foreign affairs. This is so since “the revenues and dependencies in the world oil market empower oil-rich countries - such as Iran and Venezuela - to carry out foreign policies that are hostile to that of the United States.”

Iran’s key role in the global oil market protects it from draconian economic measures being taken against its energy sector. The control over enormous oil reserves gives Iran the flexibility to adopt policies that oppose U.S. interests and values, and allows it to proceed with its nuclear program, which is aimed at securing regime stability from outside threats. Since Iran’s outright and explicit use of the oil weapon would put its longer-term interests at risk (in terms of lost revenue and market share), and would compromise the regime stability, since its economy is too fragile for its leaders to risk an oil freeze, Iran tacitly uses the oil weapon to further its interests. It is oil that helps Iran in gaining crucial support from China in the international arena. China’s UN Security Council veto power protects Iran from any comprehensive sanctions. Further, Chinese investment in Iranian oil industry allows Iran to maintain or increase its oil export revenues, high levels of which are essential for Iranian leaders to ‘buy’ domestic stability. Moreover, Iran has successfully

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used Europe’s reliance on its oil in order to break up the transatlantic alliance. Thus, Europe’s Iran policy largely differs from the American Iran policy. Finally, Iran successfully uses threats of taking oil off the market to increase its oil export revenues and to warn other states not to take any economic or military action against Iran. For example, Ayatollah Khamenei’s comments in June 2006 that Iran could counter economic sanctions by stopping their and other Persian Gulf countries’ oil exports, lifted crude prices by nearly 80 cents a barrel, and ensured that no comprehensive economic sanctions were imposed against the regime.

Venezuela has so far been successful in ensuring regime stability from both domestic and international threats, and spreading the ‘Bolivarian Revolution’ to the rest of Latin America by engaging in oil diplomacy. Chávez has so far managed to avoid a U.S. instigated regime change as, in order to deter any U.S. attempts at regime change, he threatened to reduce Venezuela’s oil exports to the United States, and CITGO’s downstream presence there. By selling oil to China, Venezuela can demonstrate its seriousness about reducing oil exports to the United States. At times of high prices and tight oil markets, the U.S. can do nothing in retaliation. Chávez also uses oil export revenues for maintaining domestic regime stability, and offers cheap oil for international political support. By using oil export revenues, Venezuela has been inviting realignment in Latin American political relationships, by for example, funding Argentina’s exit from its IMF standby agreement and Bolivia’s oil and gas nationalisation. In addition, since the U.S. government is unable to offer any support to the American IOCs present in Venezuela, Chávez often demands, and generally gains concessions from weak American IOCs present in the country, which due to the lack of alternative investment opportunities, have no choice but to acquiesce to his demand and remain loyal.

Finally, Russia has gained concessions from China in bargaining over the priority route of its Far Eastern pipeline. In December 2005, China transferred $6 billion for future oil deliveries that were used to help Rosneft, a state-owned oil company, buy

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49 In my previous research, I found that Iran uses threats to enhance regime stability. See Vlado Vivoda, “Threats, Bargaining and Regime Stability: A Study of Strategic Bargaining between Oil Producers and Consumers,” M.A. thesis, Department of International Relations, Research School of Pacific and Asian Studies, Australian National University, October 2004.
Yuganskneftegaz. Moreover, Russia has successfully ignored Western attitudes in opposing its oil industry re-nationalisation and the overall movement to authoritarianism, in large part because of confidence provided by large oil export revenues and tight oil markets, which make Western all out confrontation with Russia unlikely. Thus far, Japan is the only country from which Russia failed to gain any concessions by using oil, tacitly or explicitly. Japan refuses to put the issue of Kuril Islands aside, and this significantly reduces its chances of Russia prioritising the ‘Japan’ route in the construction of Far Eastern pipeline.

In summary, in all but one of the cases examined above, oil-exporting states that use oil, explicitly or tacitly, in bargaining with other actors, gain concessions in other bargaining arenas (see Figure 7.8). This illustrates that the oil weapon, albeit in a tacit form, is a potent bargaining tool for oil-exporting states to gain concessions from actors dependent on that oil.

**Figure 7.8: Concessions as a Function of Oil-exporting States’ Use of Oil as a Bargaining Tool**

**Conclusion**

In this chapter, after briefly summarising the findings, I revisited all of the hypotheses established in Chapter 2, and discussed their validity. Out of five hypotheses, the validity
of the first one is certainly the most important finding. In discussing the first hypothesis, I found that due to their weak bargaining power, the IOCs have been on the losing side in their bargaining with oil exporting countries and/or their NOCs in the current decade when compared to the 1990s, and thus, we are witnessing the return of the obsolescing bargain and resource nationalism. Due to the nature and importance of this finding, this hypothesis received disproportionate attention when compared to all others. The second finding is that China’s NOCs weaken the bargaining position of major IOCs vis-à-vis host states and their NOCs. Third, I found that American IOCs’ and the U.S. government’s interests are not exclusively aligned, and that the U.S. government only occasionally supports American IOCs in bargaining with other actors. In relation, I found that if American IOCs receive support from the U.S. government from time to time, then this support does not necessarily result in bargaining success against other actors. Fourth, if a major oil-importing government’s oil supply security is perceived as threatened when bargaining with other actors, I found that this government would not necessarily emerge victorious from bargaining. Finally, if oil-exporting states use oil, explicitly or tacitly, in their bargaining with other actors, at most times they gain concessions in other bargaining arenas.