

EXTANT LITERATURE AND HYPOTHESES

Introduction

The central task of this thesis is to examine whether due to their weak relative 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 late 1990s. If this indeed has been the case then we are witnessing the return of the obsolescing bargain, and one of the tasks will be to outline the major factors contributing to such dismal state of affairs for the IOCs, and assess whether they can rebound and resume some of their past glory in the international oil industry. Moreover, besides possibly gaining bargaining power vis-à-vis IOCs, I will also test whether the oil exporters, by using oil as a bargaining chip, are able to gain concessions and achieve their goals in other bargaining arenas, and whether the governments of major oil importing countries, such as the U.S., Japan, and China, achieve bargaining success vis-à-vis other actors even if their oil supply security is perceived as threatened. In addition to oil exporting countries and their NOCs, who may be the main beneficiaries of the IOC demise, China's NOCs may also be gaining bargaining power at the expense of the IOCs, and this will also be tested. If this were the case, it would certainly not be surprising given China's insatiable thirst for imported oil, and its competitiveness and adoption of non-market measures in obtaining secure access to it. The U.S., the world's largest oil consumer and importer, has historically been faithful to the markets and this, in turn, may not be helping 'its' IOCs. I will test whether the common perception that American IOCs are backed up by the U.S. government is indeed the case. I will also test whether American IOCs' interests are exclusively aligned with the U.S. government's interests, and whether American IOCs receive help from the U.S. government in bargaining with other actors. Finally, if they do receive support, I will test whether this support results in successful bargaining outcomes for American IOCs.

Answering these questions will advance both our empirical and theoretical understanding of the oil industry and bargaining literature in a number of ways. First, it will enable us to assess whether we are going to witness further decline, if not the end, of 'Big Oil', and if there is a way in which the major IOCs may rebound from their current lows. Second, we will be able to analyse which exact factors, if any, are to be blamed for IOC decline. Third, the bargaining model I establish in order to assess temporal variation in IOCs' bargaining power vis-à-vis host states will upgrade the obsolescing bargain model, and may be useful in testing temporal variation in bargaining power among MNCs and host states in various extractive industry scenarios. Fourth, answering these questions will assist us in furthering our understanding whether, by using oil as a bargaining chip, oil exporters are able to gain concessions from actors in other bargaining arenas. If this indeed is the case, then we may be able to make an informed guess on whether, under current market conditions, Iran may be able to continue its pursuit of nuclear technology, and whether Hugo Chávez may be able to successfully spread his Bolivarian Revolution to the rest of Latin America. Fifth, by assessing the relationship between the U.S. government and American IOCs, and how this relationship translates in bargaining outcomes for American IOCs, it will enable us to either verify or disprove the 'urban myth' which assumes close connection between the U.S. government and Big Oil, and will also further our theoretical understanding of home government-corporate relationship. It may also lead us to assess whether the U.S. government can, and should bail out American IOCs if they are in decline. Sixth, examining whether governments of major oil importing countries are successful in bargaining with other actors when their oil supply security is perceived as threatened will help us understand their actual bargaining power vis-à-vis oil exporters and other actors in both domestic and international politics. Finally, if we find that China's NOCs are indeed gaining bargaining power vis-à-vis the IOCs, it may lead us to suggest that nationalisation, or at least closer home government-corporate alliance may be the best way forward to salvage IOCs.

In this chapter I propose a number of hypotheses to be tested in this dissertation. Some of these hypotheses are based on previous theoretical assumptions, and if this is the case, the relevant literature is reviewed. However, since the literature on bargaining in the oil

industry is very limited, some of the hypotheses are exploratory and thus based on common logic, rather than on previous theoretical assumptions and/or empirical findings. I begin the chapter by surveying the host state-MNC bargaining literature. Surveying this literature is paramount in order to examine whether due to their weak relative 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 late 1990s, and thus, whether the IOCs are facing the return of the obsolescing bargain. This is followed by review of the literature on the relationship between home states and 'their' MNCs, which is essential in analysing the relationship between American IOCs and the U.S. government. Then, I discuss the rise of China and the new age of energy security, which sets the appropriate background for assessing whether China's NOCs may be gaining bargaining power at the expense of the IOCs, and also whether the governments of major oil importing countries, such as the U.S., Japan, and China, achieve bargaining success vis-à-vis other actors when their oil supply security is perceived as threatened. Finally, I elaborate on the concept of 'issue linkage' which is paramount in helping us to understand how bargaining in the oil industry is not isolated, but is 'nested' within other bargains, and thus, testing whether the oil exporters, by using oil as a bargaining chip, are able to gain concessions and achieve their goals in other bargaining arenas.

2.1 Host State–MNC Bargaining

In order to gain a good understanding of bargaining between host states and the MNCs, one has to engage in theories presented by various international business scholars, since their studies, unlike those of political scientists, political economists and business scholars, focus on both actors. The main concepts from host state-MNC bargaining literature, such as Raymond Vernon's 'obsolescing bargain', and Albert Hirschman's 'exit, voice and loyalty' are of much utility for this study, particularly in addressing the central research question: If major IOCs appear to be on the losing end in bargaining with other actors in the contemporary oil industry, is this indicative of their ultimate demise and thus are we witnessing a case of 're-obsolescing bargain'? Besides elaborating on these frameworks, I introduce my own quantitative bargaining model with IOCs-specific resources variables and industry and country context variables as determinants of IOCs' bargaining power vis-à-vis

host governments. This is later used to test the first hypothesis, and thus compare IOCs' bargaining power vis-à-vis host states in 1998/99 and in 2005/06.

The Obsolescing Bargain

Conflicts between host governments and MNCs usually centre on the issues of division of benefits and extraterritoriality.¹ How are these conflicts explained by scholars? Historically, over half a century since host state-MNC relations have been on the research and policymaking agendas of countries around the world, this relationship has alternated between cooperation and confrontation. Since the publication of Vernon's *Sovereignty at Bay*, critics and promoters of FDI have converged on an explanation for these shifts in state-MNC relations. During the 1960s, with the exception of countries that were members of the socialist bloc, FDI was widely welcomed. Towards the end of that decade, governments in a number of industrialised countries began to exhibit concern with regard to the impact of FDI on the national economy. Among industrialised countries, increased foreign penetration in 'strategic' industries triggered a reaction.² In developing countries, growing interest in regulating FDI was attributed to new social and political forces at the centre of economic and political decision-making that were favourable to a nationalistic approach to industrialisation,³ and to a host state's learning process and the increase in domestic skills and confidence to which it had given rise.⁴ Hence, driven by nationalist goals and a changed perception of the contribution of foreign firms to the national economy, countries both in the developed (Australia and Canada) and the developing world introduced more restrictive policies towards FDI, and the number of nationalisations, particularly in the natural resource industries, increased dramatically over

¹ Mikdashi, *The International Politics of Natural Resources*, p. 147. Related sources of conflict may arise from the MNCs patronising suppliers and contractors outside the host country, dominating the domestic credit market to the detriment of the smaller, less resourceful local firms, refraining from ploughing back earnings into nationally desirable new activities, and refusing the joint participation of national capital and management.

² Lynn K. Mytelka, "'We the People': The Transformation of State-TNC Relations at the Turn of the Millennium," *Journal of International Management*, vol. 6, 2000, p. 315.

³ See Constantine Vaitsos, "Foreign Investment Policies and Economic Development in Latin America," *Journal of World Trade Law*, vol. 7, November-December 1973, pp. 619-665.

⁴ See Moran, *Multinational Corporations*.

the 1970s.⁵ The adoption of a more nationalistic stance vis-à-vis foreign investors stimulated a wealth of analytical work on MNCs and their relationship to nation-states.

The policy of host governments towards MNCs – particularly those operating in the field of natural resources – has initially been analysed in terms of a “bargaining model,” and originally developed by Charles Kindleberger in 1965.⁶ In what has become the classic formulation, Kindleberger conceptualised the relationships between MNCs and the host governments with regard to foreign direct investment (FDI) as one of “bilateral monopoly”, one buyer and one seller of a foreign investment project:

In a typical situation, a company earns more abroad than the minimum it would accept and a country's net social benefits from the company's presence are greater than the minimum it would accept ... with a wide gap between the maximum and minimum demands by the two parties.⁷

Thus viewed, the outside limits of acceptability could be located by means of economic theory but the precise terms of the investment would be a function of the relative bargaining strengths of the two parties. The “bilateral monopoly” model ignored the role of domestic politics.⁸ A more dynamic explanation for lopsided power gain by host governments in the 1970s was an argument developed specifically for FDI in the natural resources sector is referred to as the obsolescing bargain. It grew out of early efforts by Edith Penrose and Charles Kindleberger. However, the term was popularised by Raymond Vernon.

⁵ Mytelka, “We the People”, p. 314. While Vernon applies the obsolescing bargain in its original form explicitly to developing countries, subsequent writers have expanded the theory to apply to developed countries (Canada and Australia) as well. For example, see C. Fred Bergsten, “Coming Investment Wars,” *Foreign Affairs*, no. 53, October 1974, p. 139; C. Fred Bergsten, Thomas Horst, and Theodore H. Moran, *American Multinationals and American Interests* (Washington, D.C.: Brookings Institution, 1978), p. 143; and John Richards and Larry Pratt, *Prairie Capitalism: Power and Influence in the New West* (Toronto: McClelland and Stewart, 1979), p. 9.

⁶ In the early years, this approach has been advocated most explicitly by Charles P. Kindleberger, *Economic Development* (New York: McGraw-Hill, 1965).

⁷ Charles P. Kindleberger and Bruce Herrick, *Economic Development* (New York: McGraw-Hill, 1977), p. 320.

⁸ Besides Kindleberger, *Economic Development*; also, see Kindleberger, *American Business Abroad: Six Lectures on Direct Investment* (New Haven: Yale University Press, 1969); Edith T. Penrose, *The Theory of the Growth of the Firm* (Oxford: Blackwell, 1959); Penrose, *The Large International Firm in Developing Countries: The International Petroleum Industry* (London: Allen and Unwin, 1968); Raymond F. Mikesell (ed.), *Foreign Investment in the Petroleum and Mineral Industries: Case Studies of Investor-Host Country Relations* (Baltimore: Johns Hopkins Press, 1971).

Vernon's obsolescing bargain model (OBM) has occupied central stage in explaining host state-MNC bargaining dynamics in the late 1970s, 1980s and early 1990s.⁹ OBM explains the changing nature of bargaining relations between an MNC and host country government as a function of goals, resources and constraints on both parties, and numerous authors from a wide ideological spectrum have endorsed this argument.¹⁰ In OBM, which is seen as a positive-sum game in which the goals of the MNC and host state are assumed conflicting, the initial bargain favours the MNC, but as MNC assets are transformed into hostages, their relative bargaining power shifts to the host state over time. Once bargaining power shifts to the host state, its government imposes more conditions on the MNCs, and they range from higher taxes to asset expropriation. Thus, the original bargain obsolesces, giving OBM its name. The OBM was originally applied as an explanation for widespread expropriation and nationalisation in the 1970s of MNC natural resource subsidiaries located in developing countries.¹¹

However, according to John Dunning, relations between MNCs and host governments in developing countries changed from the 1970s, when they were "predominantly adversarial

⁹ OBM was first developed by Raymond Vernon in *Sovereignty at Bay*, see particularly pp. 47-53.

¹⁰ Besides *Sovereignty at Bay*, also see Vernon, *Storm over the Multinationals: The Real Issues* (Cambridge: Harvard University Press, 1977); Vernon, "Sovereignty at Bay Ten Years After," *International Organization*, vol. 35, Summer 1981, pp. 517-530; Vernon, "Sovereignty at Bay: Twenty Years After," *Millennium*, vol. 20, no. 2, 1991; Theodore H. Moran (ed.), *Multinational Corporations: The Political Economy of Foreign Direct Investment* (Lexington: Lexington Books, 1985); Moran, "Multinational Corporations and Dependency: A Dialogue for Dependentalists and Non-Dependentalists," *International Organization*, vol. 32, Winter 1978, pp. 79-100; Moran, *Multinational Corporations and the Politics of Dependence: Copper in Chile* (Princeton: Princeton University Press, 1974); Bergsten, Horst, and Moran, *American Multinationals and American Interests*; Bergsten, "Coming Investment Wars"; Joseph M. Grieco, *Between Dependency and Autonomy: India's Experience with the International Computer Industry* (Berkeley: University of California Press, 1984); N. Fagre and Louis T. Wells, Jr., "Bargaining Power of Multinationals and Host Governments," *Journal of International Business Studies*, Fall 1982, pp. 9-24; M. Shafer, "Capturing the Mineral Multinationals: Advantage or Disadvantage?" *International Organization*, vol. 37, no. 1, 1983; Gilpin, *U.S. Power and the Multinational Corporation*; Penrose, *The Large International Firm in Developing Countries*; Stephen Kobrin, "Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries," *International Organization*, Vol. 41, 1987, pp. 609-38; Thomas Brewer, "An Issue Area Approach to the Analysis of MNE-Government Relations," *Journal of International Business Studies*, Vol. 23, 1992, pp. 295-309; Robert Grosse and Jack N. Behrman, "Theory in International Business," *Transnational Corporations*, Vol. 1, 1992, pp. 93-126; Sushil Vachani, "Enhancing the Obsolescing Bargain Theory: A Longitudinal Study of Foreign Ownership of US and European Multinationals," *Journal of International Business Studies*, Vol. 26, 1995, pp. 159-80; Alfred Stepan, *The State and Society: Peru in Comparative Perspective* (Princeton: Princeton University Press, 1978); Isaiah Frank, *Foreign Enterprise in Developing Countries* (Baltimore: Johns Hopkins University Press, 1980); Richards and Pratt, *Prairie Capitalism*; Bill Warren, *Imperialism: Pioneer of Capitalism* (London: Verso, 1980); Raymond F. Mikesell, *Foreign Investment in Copper Mining Case Studies of Mines in Peru and Papua New Guinea* (Baltimore: Johns Hopkins University Press, 1975); and Grosse, "The Bargaining Relationship between Foreign MNEs and Host Governments in Latin America," *The International Trade Journal*, Vol. 10, 1996, pp. 467-99.

¹¹ Vernon, *Storm over the Multinationals*.

and confrontational, to being non-adversarial and cooperative” in the 1980s and 1990s.¹² With greater overall acceptance of FDI in the developing countries and economies in transition, and privatisation replacing public-sector ownership at a rapid pace around the globe, it has been suggested that foreign investors in natural resources could come to be treated just like FDI in any other sector.¹³ This has been exacerbated by the fact that in the 1980s, liberalism became the dominant discourse under the Reagan and Bush administration in the United States, the long-lived Thatcher government in the U.K. and surprisingly, with respect to FDI, under the socialist government of Francois Mitterrand in France.¹⁴ This change in government attitudes was accompanied by economic liberalisation, deregulation, privatisation, less expropriation, and the loosening of rules governing FDI – all of which created unprecedented opportunities for Western MNCs.¹⁵ Changes in investment legislation from the mid-1980s onward, became overwhelmingly favourable to the MNC. For example, one study identified only 11 cases of expropriation in the developing world from 1981 to 1992, compared to 83 cases in 1974 alone.¹⁶ The United Nations classified policy changes in developing countries as being either favourable or unfavourable to foreign Investors: between 1991 and 2001, fully 94 percent of the changes were classified as favourable to foreign investors.¹⁷ In addition, developed country governments were particularly active in the use of fiscal incentives for foreign investors. Data covering 26 OECD member countries over the period from the mid-1980s to the early 1990s showed that more of these countries were using a reduction of standard income tax rates, tax-holidays, accelerated depreciation, investment/reinvestment

¹² In the last decade, relations between MNCs and host governments in developing countries have changed from being “predominantly adversarial and confrontational to being non-adversarial and cooperative.” John H. Dunning, “An Overview of Relations with National Governments,” *New Political Economy*, Vol. 3, No. 2, 1998, p. 280. Also, see Raymond Vernon, *In the Hurricane's Eye* (Cambridge: Harvard University Press, 1998); Dale R. Weigel, Neil F. Gregory and Dileep M. Wagle, *Foreign Direct Investment* (Washington, D.C.: International Finance Corporation, 1997); United Nations, *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development* (New York and Geneva: UNCTAD, 1999); Luo, “Toward a Cooperative View of MNC-Host Government Relations;” and Rami Ramamurti, “The Obsolescing ‘Bargaining Model’? MNC-Host Developing Country Relations Revisited,” *Journal of International Business Studies*, Vol. 32, Spring 2001.

¹³ Moran, *Foreign Direct Investment and Development*, chapter 9.

¹⁴ C.-A. Michalet, “France,” in John H. Dunning (ed.), *Governments, Globalization, and International Business* (Oxford: Oxford University Press, 1996), pp. 313-333.

¹⁵ Ravi Ramamurti and Jonathan P. Doh, “Rethinking Foreign Infrastructure Investment in Developing Countries,” *Journal of World Business*, vol. 39, 2004, p. 151.

¹⁶ M. Minor, “The Demise of Expropriation as an Instrument of LDC Policy, 1980-1992,” *Journal of International Business Studies*, vol. 25, no. 1, 1994, pp. 177-88.

¹⁷ Of the 1,393 changes in FDI policy made from 1991 and 2001 in developing countries, only 78, or 5.59 percent were unfavorable to investors. See United Nations, *World Investment Report 2002: Transnational Corporations and Export Competitiveness* (New York: UNCTAD, 2002), p. 4.

allowances, and deductions from social security contributions than in the past, and many of them had increased the range and importance of such incentives.¹⁸ In summary, the openness to FDI that characterised the 1980s and 1990s replaced nationalistic behaviour of the 1970s.

Consequently, there were times when OBM did not apply and when it produced weak results, and evidence emerged that MNCs have been able to protect their bargains.¹⁹ For example, Theodore Moran's 1973 study of the Chilean copper industry found that the U.S. multinational Kennecott developed domestic and transnational alliances, which when the firm was nationalised by the Chilean government in 1971, were successful in getting Kennecott nearly full compensation for its investments.²⁰ Anaconda, another U.S. MNC that had not developed any domestic alliances, was nationalised without any compensation. Moran concluded that resource-intensive industries could reduce the probability of an obsolescing bargain by reducing their own risk exposure and raising the costs to the host state of opportunistic behaviour.²¹ Also, Jenkins' 1986 study of the National Energy Policy in Canada found that the IOCs were able to defeat Canada's National Energy Program by enlisting the U.S. government on their behalf, shifting their oilrigs outside of Canada and cancelling new investments.²² In *Multinational Corporations: The Political Economy of Foreign Direct Investment*, Moran also provides several rich case studies.²³ So do Kobrin and Grosse & Behrman in manufacturing industries, Vachani in studying nationalisations of foreign MNC investments by Indian government of US, British and European subsidiaries, and Bennet and Sharpe in their study of bargaining between the Mexican government and foreign automotive MNCs.²⁴

¹⁸ UNCTAD, *World Investment Report 1995* (New York: United Nations, 1995), p. 292.

¹⁹ Kobrin, "Testing the Bargaining Hypothesis."

²⁰ Moran, *Multinational Corporations*.

²¹ *Ibid.* p. 259.

²² Barbara Jenkins, "Re-Examining the 'Obsolescing Bargain': A Study of Canada's National Energy Program," *International Organization*, Vol. 40, 1986, pp. 139-65.

²³ Moran, *Multinational Corporations*.

²⁴ Please refer to footnote 94 for the full list of references, except for Douglas C. Bennett and Kenneth E. Sharpe, "Agenda Setting and Bargaining Power: The Mexican State versus Transnational Automobile Corporations," *World Politics*, Vol. 32, 1979, pp. 57-89.

Thus, the now widely held view among international business scholars is that the OBM has outlived its usefulness and requires revision.²⁵ The many case studies testing the model in the late 1980s and 1990s suggested that MNCs were able to retain relative bargaining power and prevent opportunistic behaviour by host states so the bargains seldom obsolesced. In addition, Eden and Lenway suggested that governments moved from regulating to encouraging entry, from taxing to subsidising, from opposition to FDI to partnership with multinationals.²⁶ By opening and liberalising their economies in order to attract inward FDI, it is claimed that host states' policies have shifted from 'red tape' to 'red carpet' treatment of foreign MNCs, and MNC-host state relations are now cooperative, not conflictual: "During the 1980s and 1990s, the pendulum swung in the opposite direction as MNE-state relations shifted from confrontation to cooperation."²⁷ Thus, "the 1990s have been characterised by a remarkable lack of state-MNC bargaining and overall stability and further liberalisation of foreign investment regimes at the national and international level."²⁸ Since the rules and regulations that govern FDI have become increasingly liberal and fixed, this has liberalised the investment climate to the extent that, arguably, there are now very few restrictions on FDI and even less opportunity for host state-MNC bargaining as governments are increasingly tied into a web of international commitments.²⁹ Moreover, it is argued that MNCs now possess more bargaining power vis-à-vis the former than they did three decades ago.³⁰ Since little formal bargaining occurs

²⁵ For example, see John H. Dunning, "Governments and Multinational Enterprises: From Confrontation to Cooperation?" in Lorraine Eden and Evan Potter (eds.), *Multinationals in the Global Political Economy* (London: Macmillan, 1993); John M. Stopford, "The Growing Interdependence between Transnational Corporations and Governments," *Transnational Corporations*, Vol. 3, 1994, pp. 53-76; Yadong Luo, "Toward a Cooperative View of MNC-Host Government Relations: Building Blocks and Performance Implications," *Journal of International Business Studies*, Vol. 32, 2001, pp. 401-19; David L. Levy and Aseem Prakash, "Bargains Old and New: Multinational Corporations in Global Governance," *Business and Politics*, vol. 5, no. 2 (August 2003), pp. 131-50; and Lorraine Eden and Maureen Appel Molot, "Insiders, Outsiders and Host Country Bargains," *Journal of International Management*, vol. 8, 2002, p. 362.

²⁶ Lorraine Eden and Stefanie Lenway, "Introduction to the Symposium Multinationals: The Janus Face of Globalization," *Journal of International Business Studies*, vol. 32, no. 3, 2001, p. 389.

²⁷ *Ibid.*, p. 385.

²⁸ Paul Alexander Haslam, "The Bargaining Gap: Explaining the Stability of Domestic Foreign Investment Regimes and the Limitations on State-MNE Bargaining in a Globalized Economy," Paper presented at the 8th International Business Conference, Guadalajara, Mexico, January 9, 2004.

²⁹ *Ibid.*, p. 1.

³⁰ Rami Ramamurti, "The Obsolescing 'Bargaining Model'? MNC-Host Developing Country Relations Revisited," *Journal of International Business Studies*, Vol. 32, Spring 2001, p. 1.

between MNCs and host governments, many argue that there are few areas where OBM applies.³¹

With the advent of globalisation, many theorists assert that bargaining no longer defines the MNC-host state relationship, and that the relative irrelevance of bargaining is reflected in a shift from a conflictual relationship to a more cooperative one. Host states and MNCs are viewed as increasingly interdependent in realising wealth and competitiveness in the global marketplace.³² “The key to the new [liberal] approach to TNCs [MNCs] is that policy on FDI and policy on endogenous growth have converged. TNCs are regarded as central to the creation and diffusion of knowledge, within and between firms, and in cooperation with Governments.”³³ In addition, the MNCs have been “the primary economic agent facilitating and benefiting from globalisation.”³⁴

I disagree with numerous claims that bargaining no longer defines the MNC-host state relationship, and that their relationship is currently cooperative. Even in a global liberalised world, bargaining still features prominently in host state-MNC relationship. In studying bargaining between Intel and the state of Israel in 2000, in which the latter, a small country, bargained successfully with one of the world’s largest and strongest MNCs, Tamir Agmon argues that despite globalisation, “national states are trying to generate as much welfare for their residents as they can, while MNEs try to maximise their value. This creates a bargaining situation,” since “the set of national states is the constraint in the maximising behaviour of the MNE.”³⁵ In addition, Agmon argues, “In the world of international business, negotiation rather than the perfect market equilibrium solution is

³¹ New models of cooperative MNC-host state relations began to evolve. See Dunning, “Governments and Multinational Enterprises: From Confrontation to Cooperation?”; Dunning, “Re-evaluating the Benefits of Foreign Direct Investment,” *Transnational Corporations*, vol. 3, no. 1, 1994, pp. 23-51; Dunning (ed.), *Governments, Globalization, and International Business* (Oxford: Oxford University Press, 1997); Stopford, “The Growing Interdependence between Transnational Corporations and Governments;” Ramamurti, “The Obsolescing ‘Bargaining Model’?; and Haslam, “The Bargaining Gap.”

³² Grosse, *Multinationals in Latin America*.

³³ Charles R. Kennedy, Jr., “Relations between Transnational Corporations and Government of Host Countries: A Look to the Future,” *Transnational Corporations*, Vol. 1, No. 1, 1992, pp. 67-91.

³⁴ Eden and Lenway, “Introduction to the Symposium Multinationals,” p. 385.

³⁵ Tamir Agmon, “Who Gets What: the MNE, the National State and the Distributional Effects of Globalization,” *Journal of International Business Studies*, vol. 34, 2003, pp. 416-7. Agmon points that added value that stays in Israel does not benefit the shareholders of Intel, while benefits to the shareholders of Intel do not contribute to the welfare of Israel.

the rule.”³⁶ Agmon’s suggestion is accurate as bargaining remains a primary way in which host states deal with MNCs, as long as there is potential for the MNC to reap extraordinary profits at the expense of a host state. Interests of MNCs and host states are remarkably different and often lead to conflict. As outlined in Chapter 1, this is clearly the case in the contemporary oil industry. The MNC is a profit maximising (rent-seeking) firm that measures success in terms of short-term return on investment in a complex marketplace comprised of many national states, each of which can exert a certain degree of monopolistic power within a certain location in order to create value for their residents.³⁷ Politicians measure success in terms of popular support and re-election. The general problem of income distribution is caused by essentially conflictual interests between MNCs and host states even though some of their goals may be compatible.

Given the inherent differences between MNC and host state interests, bargaining has not disappeared from the MNC-host state relationship,³⁸ and therefore, the OBM may be revitalised to shed light on MNC-host state relations in the oil industry. Vernon himself perceived the openness of the 1990s (pro-FDI policies, liberalisation, deregulation, and privatisation) as “the calm before the storm”.³⁹ Taking the anti-globalisation movement into consideration further supports this suggestion. Stephen Kobrin argues that MNCs are under attack by the anti-globalisation movement, to which some nation-states subscribe, which is evolving into a global organisation that could potentially threaten the continued liberalisation of the global economy.⁴⁰

Exit, Voice, and Loyalty

Since bargaining has not disappeared from host state-MNC relationship, and the relationship has been conflictual in the current decade, two frameworks will be used to determine whether MNCs’ (in my case, IOCs’) bargaining power has obsolesced. Firstly, I

³⁶ Ibid, p. 426.

³⁷ See P. J. Buckley and M. Casson, *The Future of the Multinational Enterprise* (London: Macmillan Press, 1976).

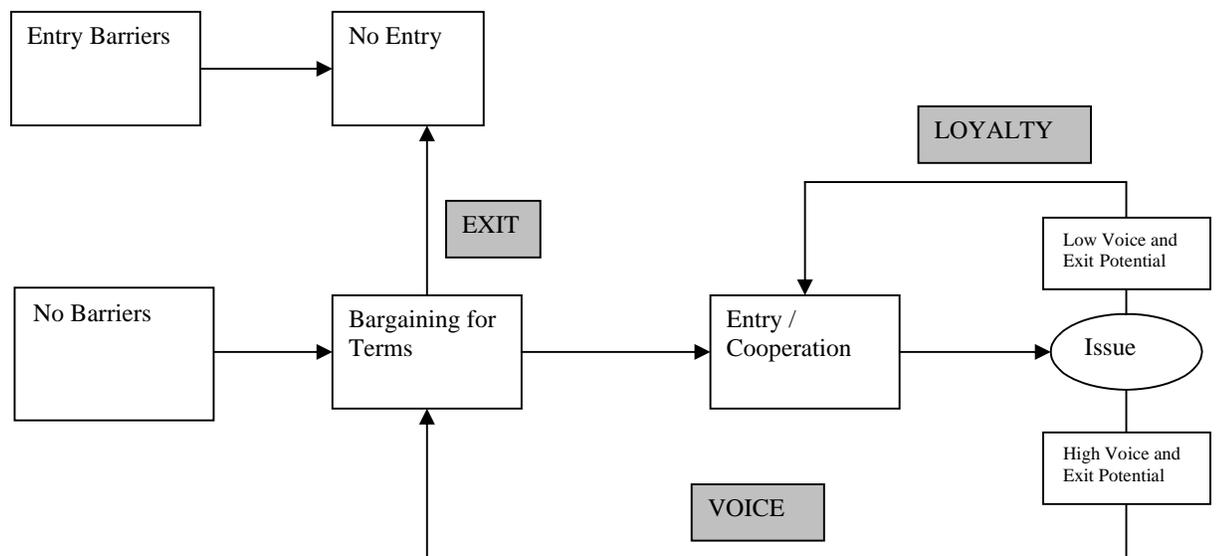
³⁸ Vernon foresaw this in 1998. See Vernon, *In the Hurricane’s Eye*.

³⁹ Ibid.

⁴⁰ Stephen J. Kobrin, “Sovereignty@Bay: Globalization, Multinational Enterprise and the International Political System,” in Thomas Brewer and Alan Rugman (eds.), *The Oxford Handbook of International Business* (Oxford: Oxford University Press, 2001). Also, see Alan Rugman, *The End of Globalization* (London: Random House, 2000).

argue that if an issue over terms of agreement arises between host states and MNCs, in their bargaining with host states, by borrowing Albert Hirschman's terms and analysis to a bargaining relationship, MNCs have three viable options – exit, voice, and loyalty (see Figure 2.1).⁴¹ Issues over terms of cooperative contract between host states and MNCs (and IOCs in particular) arise quite often due to “the inherent instability of any negotiated settlement.”⁴² For example, according to Matthew Bell, large-scale infrastructure concessions-contracts that are typically designed to last 15-30 years are renegotiated on average after only 2.1 years.⁴³ In such situations, IOCs have an option to remain loyal and not engage in bargaining, or voice their concern regarding the issue in order to renegotiate the terms. After bargaining, the IOCs can either conclude a new cooperative agreement with the host state and maintain their operations in that country, or if the agreement was not reached exit the country altogether. Bargaining can include explicit negotiations, but can also occur tacitly, when parties attempt to influence each other informally without necessarily being conscious that they are in a bargaining relationship.

Figure 2.1: Exit, Voice and Loyalty in IOC-Host State Bargaining



⁴¹ See Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, Harvard University Press, 1970).

⁴² George Philip, “The Limitations of Bargaining Theory: A Case Study of the International Petroleum Company in Peru,” *World Development*, vol. 4, no. 3, March 1976, p. 235.

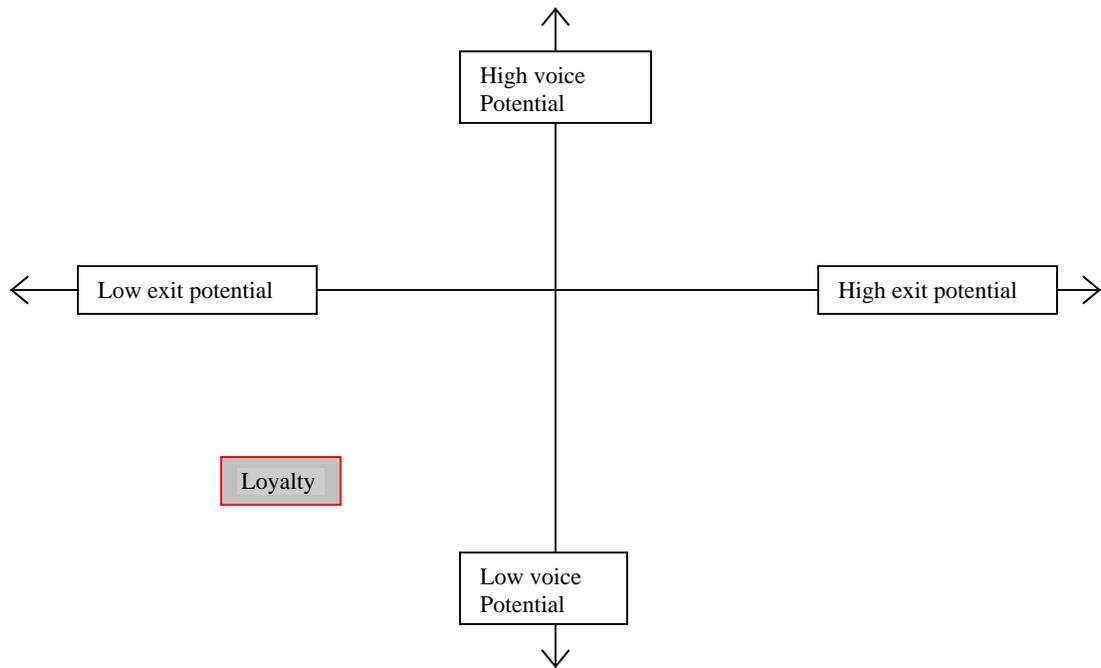
⁴³ Matthew Bell, “Regulation in Developing Countries is Different: Avoiding Negotiation, Renegotiation and Frustration,” *Energy Policy*, vol. 31, 2003, p. 299.

Options taken by IOCs tell us much about their bargaining power. If they wish to remain loyal and not to bargain, this indicates that their bargaining power is weak and they have no alternative options to pursue if they exit this particular host state. In other words, if they have low voice potential they also have low exit potential and vice-versa (see Figure 2.2). If they voice their concerns, it often shows that they do possess bargaining power vis-à-vis the host state and they can opt out in theory. This usually entails that they are able to pursue alternative options in other countries and under better terms than in this particular country; or that their operations are just not profitable anymore and there is no other option but to bargain. Hence, in this scenario, the IOCs, similar to Kennecott in Chile, often possess high voice and exit potential. Overall, the expected utility of voice option is grounded in their relative power capabilities. If they have higher bargaining power than the host state, the IOCs are more likely to succeed in voicing their concerns by renegotiating a better deal. However, it is important to note at this point that IOCs, just like mining MNCs suffer from a major structural vulnerability, what Theodore Moran refers to as the “hostage effect,” which is associated with large sunk capital.⁴⁴ Thus, after investing heavily in a particular host country’s oil industry, IOCs, unlike manufacturing investors, cannot easily threaten to exit due to capital-intensive nature of oil extraction, which imposes high barriers to exit, even if the host state revises the bargain.⁴⁵ Hence, this option will usually be the one of last resort.

⁴⁴ Theodore H. Moran, *Foreign Direct Investment and Development: The New Policy Agenda for Developing Countries and Economies in Transition* (Washington, D.C.: Institute for International Economics, December 1998), chapter 9.

⁴⁵ Lorraine Eden, Stefanie Lenway and Douglas A. Schuler, “From the Obsolescing Bargain to the Political Bargaining Model,” Bush School Working Paper, no. 403, The Bush School of Government & Public Service, Texas A&M University, January 2004, p. 6; and John F. Imle, Jr., “Multinationals and the New World of Energy Development: A Corporate Perspective,” *Journal of International Affairs*, vol. 53, no. 1, Fall 1999, p. 267.

Figure 2.2: IOCs' Exit and Voice Potential Matrix



Bargaining Model

The second framework that I use to measure bargaining power of the IOCs vis-à-vis host states (oil exporting countries) and their NOCs is presented below (see Figure 2.3), and is essentially an extension of the OBM. The *raison d'être* of the firm is the ongoing search for and sustainability of economic rents.⁴⁶ In order for an IOC's bargaining power to generate rents that are sustainable, the bargaining power must be based on idiosyncratic firm resources and capabilities that are valuable, rare, imperfectly imitable, and lack strategically equivalent substitutes.⁴⁷ Additionally, the relationship between firm-specific resources and capabilities and bargaining power is moderated by industry factors and country-specific factors.⁴⁸ Bargaining power is a mediator variable, as it facilitates the linkage between IOC-specific resources and the bargaining outcome. IOCs' bargaining power is indicated by the nature and size of the 'bargaining outcomes' that the IOCs achieve through their

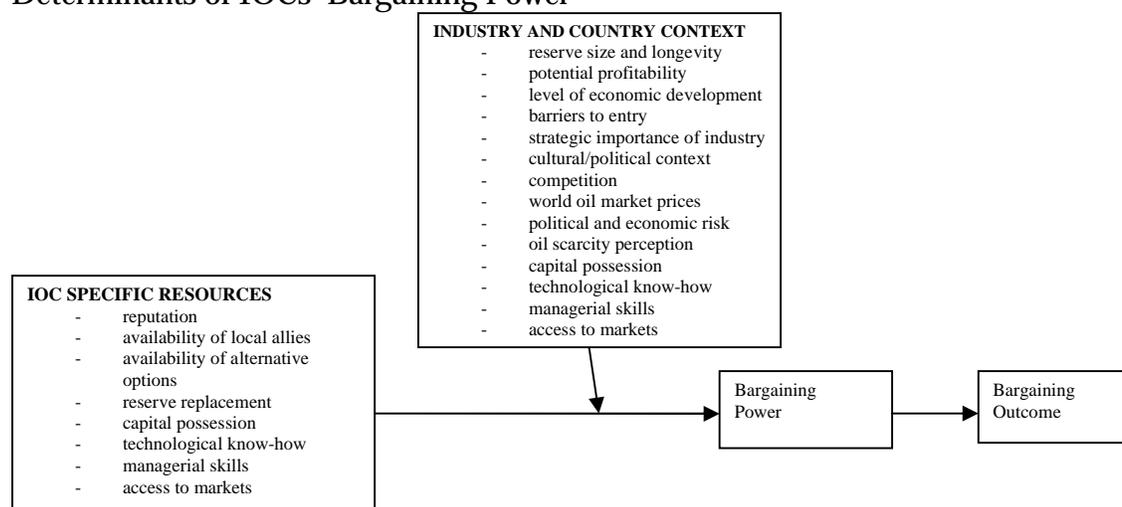
⁴⁶ E. H. Bowman, "Epistemology, Corporate Strategy and Academe," *Sloan Management Review*, vol. 15, 1974, pp. 35-50; and J. T. Mahoney, "The Management of Resources and the Resource of Management," *Journal of Business Research*, vol. 33, 1995, pp. 91-101.

⁴⁷ J. Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management*, vol. 17, 1991, pp. 99-120.

⁴⁸ Chul W. Moon and Augustine A. Lado, "MNC-Host Government Bargaining Power Relationship: A Critique and Extension Within the Resource-Based View," *Journal of Management*, vol. 26, no. 1, 2000, p. 102.

interactions with host governments.⁴⁹ These bargaining outcomes include the IOC's ownership level,⁵⁰ the likelihood of expropriation of its operations by the host government,⁵¹ and the ability of the IOC to obtain favourable concessions from the host government.⁵²

Figure 2.3: IOC-Specific Resources, and Industry and Country Context as Determinants of IOCs' Bargaining Power



Inspired by Chul W. Moon and Augustine A. Lado, "MNC-Host Government Bargaining Power Relationship: A Critique and Extension Within the Resource-Based View," *Journal of Management*, vol. 26, no. 1, 2000, pp. 85-117.

⁴⁹ The concept of power as an outcome is essentially a tautological one that is most closely related with the early work of Robert Dahl. From this standpoint, power is the equivalent of successful influence, and power that is not successful is not power at all. One evaluates power by examining the outcome or result of some sequence of events or interaction. Thus, in bargaining relationship, power is indexed by the bargaining outcome or the nature of agreement, and, therefore, power can be determined only after the fact. The only way one can posit an a priori distribution of power in a bargaining relationship is to assure that the relationship reflected in the outcome of previous encounters applies to current bargaining. According to this approach, to which I subscribe, the only empirical manifestation of bargaining power lies in the bargaining outcome, and the prime value of power is that it provides retrospective interpretations for the distribution of payoff embedded in a settlement. For theoretical analysis of the relation between bargaining power and bargaining outcome, see Robert A. Dahl, "The Concept of Power," *Behavioral Science*, vol. 2, 1957; Dahl, *Modern Political Analysis*; and Kobrin, "Testing the Bargaining Hypothesis," p. 609.

⁵⁰ Fagre and Wells, Jr., "Bargaining Power of Multinationals and Host Governments"; Benjamin Gomes-Casseres, "Ownership Structure of Foreign Subsidiaries: Theory and Evidence," *Journal of Economic Behavior and Organizations*, vol. 11, 1989, pp. 1-25; and D. J. Lecraw, "Bargaining Power, Ownership and Profitability of Subsidiaries of Transnational Corporations in Developing Countries," *Journal of International Business Studies*, Spring-Summer 1984, pp. 27-43.

⁵¹ Donald G. Bradley, "Managing against Expropriation," *Harvard Business Review*, July-August 1977, pp. 75-83; R. G. Hawkins, N. Mintz, and M. Provisiero, "Government Takeovers of U.S. Foreign Affiliates," *Journal of International Business Studies*, Spring 1976, pp. 3-16.

⁵² W. C. Kim, "The Effects of Competition and Corporate Political Responsiveness on Multinational Bargaining Power," *Strategic Management Journal*, vol. 9, 1988, pp. 289-95; Thomas A. Poynter, "Government Intervention in Less Developed Countries: The Experiences of Multinational Companies," *Journal of International Business Studies*, Spring-Summer 1982; and E. F. Cracco, *The Nature and Perception of Political Risk for the International Corporation: An Exploratory Analysis with Special Reference to Brazil*, unpublished Ph.D. Dissertation, Michigan State University, 1972.

In introducing industry and country-specific context, it is not an adequate approach to conceive of IOCs' bargaining power in terms of the possession of certain resources. After all, since a host government's intervention policy imposes severe constraints on IOCs' strategies and operations within the host country, their relative bargaining power vis-à-vis the IOCs is the major determinant of government intervention.⁵³ Thus, what is needed as well is an understanding of how an actor's power is shaped by the complex web of relationships – with actors not directly party to the bargaining in which each actor is enmeshed. This myopia arises partly from the strictly dyadic character of the standard pluralist conception of power (“A has power over B”). Such an approach abstracts the actors from all other significant relationships in which they are engaged, and thus seeks to locate bargaining power apart from these other significant relationships. In this dissertation, utilisation of the concept of ‘issue-linkage’ is helpful in tackling this problem, and this concept is explored in more detail in section 2.4.

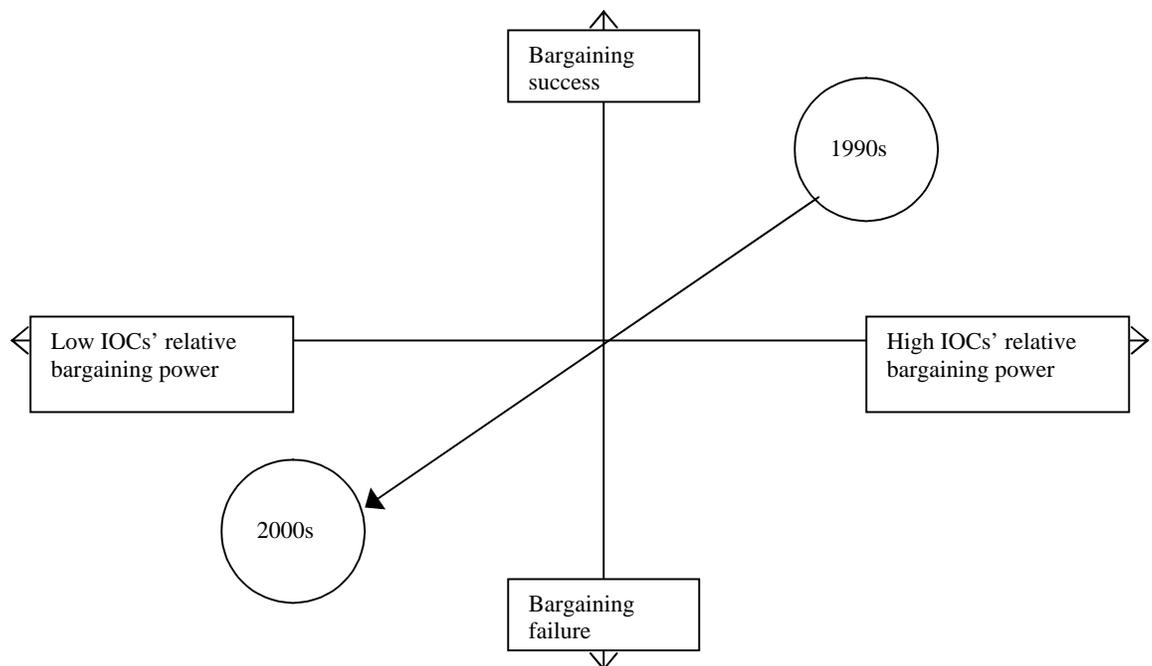
As illustrated in Figure 2.3, IOCs' bargaining power in a particular host state is, first of all, determined by industry and country context, by taking into account the level of competition in the country of interest; local technological and managerial know-how; capital possession; strategic importance 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 by world oil market prices. Secondly, it is determined by analysing IOCs' resources, such as technological know-how; capital possession; management skills; reputation; reserve replacement; availability of local allies; access to markets; and by the availability of alternative investment options. In Appendix 1 I elaborate on each of these variables (19) and offer supportive scholarly evidence, which provides basis for their selection, and also briefly outline reasons for not choosing some other variables (IOCs' home state support; host state's international institution membership). This simple quantitative model is essential in testing the central hypothesis: If due to their weak relative bargaining power, IOCs have been on the losing side in their bargaining with oil exporting countries

⁵³ For more detail, see Poynter, *Multinational Enterprises & Government Intervention*.

and/or their NOCs in the current decade when compared to the late 1990s, then we are witnessing the return of the obsolescing bargain (Hypothesis 1).

Based on preliminary survey of the contemporary oil industry (see Chapter 1), I predict that IOCs find themselves on the losing side of the bargain in many regions of the world, often in places where in past they have been by far the most powerful actors. Besides not being able to outbid their competitors for concessions, by applying Albert Hirschman’s framework (see above), it may be possible to suggest that the IOCs’ weaknesses are illuminated by the fact that in many bargaining situations with host states and their NOCs, they stay loyal and acquiesce to their demands, rather than raise their voice, or exit altogether. Moreover, the IOC-host state bargaining power framework (see above, and Appendix 1) is utilised to study whether IOCs’ bargaining power vis-à-vis host states (Russia, Venezuela, and Iran – for the rationale behind case study selection, please refer to introductory notes to Part 2) and their NOCs obsolesced between 1998/99 and 2005/06, and I predict that this has been the case. If my prediction is correct, then we may be witnessing the demise of the Big Oil.

Figure 2.4: Bargaining Outcome as a Function of IOCs’ Relative Bargaining Power (Prediction)



2.2 Home State-MNC Relations

MNCs do not only bargain with host states but are engaged in complex relationships with their home states. MNCs play a large role in the national economies of most developed countries. As long as those countries maintain representative governments, the interests of those companies will – and, on any theory of representative government, should – carry considerable weight, and the structural power of business would most likely influence the political process even in the absence of an organised effort. This section is instrumental in understanding how scholars answer the following questions: In what situations do home state's interests resemble those of locally based IOCs so that the two can act in concert? When are their interests in opposition? Do home states usually support their IOCs in their overseas ventures, and if so, does this result in a bargaining success? These questions are central to this thesis.

Vested Interests

It has been suggested that while private oil companies operate independently from their national governments, they rarely act in opposition to it. Since technology is often exported from the home state to the host state, and profits are often repatriated back to the home state, Bennet suggested that the policies of the firm often conform “to the economic and foreign policies of the home government.”⁵⁴ According to Ataman, MNCs sometimes expand the home state's marketing base; ensure lower priced products from the foreign subsidiaries are sent back to home country; pay taxes in their home country; and their stockholders in home country gain more profit from investments made abroad.⁵⁵

In fact, some have suggested that not only MNCs in general, but also most IOCs have amicable relationship with their government,⁵⁶ and that unusually close relations between companies and their home governments have marked the history of the oil industry,

⁵⁴ A. L. Bennet, *International Organizations: Principles and Issues* (Englewood Cliffs, N.J.: Prentice Hall, 1991), p. 264.

⁵⁵ Muhittin Ataman, “The Impact of Non-State Actors on World Politics: A Challenge to Nation-States,” *Alternatives: Turkish Journal of International Relations*, Vol. 2, No. 1, Spring 2003, p. 51.

⁵⁶ Falola and Genova, *The Politics of the Global Oil Industry*, p. 38; Goel, “A Bargain Born of a Paradox,” pp. 482-8.

particularly in the United States.⁵⁷ Thus, according to this view, the investment decisions and interests of private IOCs tend to reflect the interests and priorities of their home governments and economies. This would imply that in some ways, MNCs, and IOCs in particular, serve national interests of home states as instruments of global economic development, a mechanism that spreads ideology and a tool of diplomacy, and in case of IOCs, they provide their home states with secure supplies of oil. While the governments seek secure and adequate supplies of oil to feed their economies, the corporations need control over reserves to ensure their future profitability in order to deliver returns to their shareholders. For governments, “secure” oil supplies often mean that these supplies are in fact part-controlled by major oil companies based in their own countries. It is argued that since in the U.S., unstable supplies and prices can upset the general functioning of the economy and strain the political system, it is thus prudent for American central decision-makers to protect American oil companies, even by the use of force.⁵⁸ Stephen Krasner suggested, “the state should try to maximise its control over foreign sources of raw materials by promoting [and protecting] the investment activities of its own corporations.”⁵⁹

Moreover, American IOCs arguably receive government backing since they have significant lobbying power within their home governments (USA, UK, etc.), which are, or are becoming dependent on oil imports. For example, the U.S. oil industry has spent more than \$440 million between 1998 and 2004 on politicians, political parties and lobbyists in order to protect its interests in Washington.⁶⁰ Another source puts the figure at \$231.7 million spent on lobbying between 1997 and 2000.⁶¹ Moreover, 4.5 million oil production royalty owners, thanks to the US private resource ownership structure, have a vested interest in supporting the oil industry and can form a very influential interest group with a

⁵⁷ Noreng, *Crude Power*, p. 44.

⁵⁸ Stephen D. Krasner, *Defending the National Interest: Raw Materials and US Foreign Policy* (Princeton: Princeton University Press, 1978), pp. 39 and 336-7. For the case for intervention, also see Tucker, “Oil: The Issue of American Intervention.”

⁵⁹ Krasner, *Defending the National Interest*, p. 39.

⁶⁰ 80 percent of which went to the Republican candidates. Aron Pilhofer and Bob Williams, “Big Oil Protects its Interests,” *The Center for Public Integrity*, Washington, D.C., July 15, 2004.

⁶¹ And over three quarters to the Republican Party. See Marie Hojnacki and David Kimball, “Organized Interests and the Decision of Whom to Lobby in Congress,” *American Political Science Review*, vol. 92, no. 4, 1998, pp. 775-90; and Ran Goel, “A Bargain Born of a Paradox: The Oil Industry’s Role in American Domestic and Foreign Policy,” *New Political Economy*, vol. 9, no. 4, December 2004, pp. 467-92.

broad support base, which can translate into a significant political resource, both domestically and internationally.⁶²

Thus, it is suggested that major IOCs with diplomatic support from their home governments could resist being strong-armed out of existing contracts. This was shown to be true in Jenkins' 1986 study.⁶³ Canadian NEP, helped with increased stringency of Foreign Investment Review Agency (FIRA), which monitors the entry of FDI in all sectors of Canadian economy, has widely been recognised as a surprisingly harsh and highly nationalistic policy and its implementation sparked an enormous round of protests on the part of IOCs and the US. As they were not pleased with the NEP and FIRA, American IOCs and executives turned quickly to the Reagan administration for support, which they received, as the U.S. government was ideologically opposed to the interventionist nature of the NEP.⁶⁴ U.S. government's support helped American IOCs not to be on the losing side of the bargain in Canada. In what is supportive of Jenkins' study, Mary-Ann Tétreault has shown that when in 1987/88 KIO, a part of the Kuwait Investment Authority, bought a 23 percent stake in BP, BP's board members appealed to the British government to intervene, arguing that what was ostensibly a portfolio transaction by KIO was in fact a veiled attempt by KPC to take over BP. BP's appeal to the British government to intervene was successful.⁶⁵ Moreover, by studying U.S. government-oil industry collaboration in pursuing their interests in the development of Caspian region's energy resources in the 1990s, Ran Goel suggested that there exists an implicit executive-industry bargain, in which the executive (the U.S. President) furnishes the political, military and, to a lesser extent, economic elements necessary for the industry's international oil exploration, production and transportation functions. In turn, the oil industry acts as a foreign policy stalwart due to its technology, capital and longstanding submission to foreign policy objectives.⁶⁶ What one could assume from Goel's argument is that the U.S. President, and the U.S. Congress, which is heavily supportive of the oil industry due to the

⁶² In addition, other interested parties include the royalty owners' dependents, individuals benefiting from industry trickle-down effects, industry employees and individual/institutional oil company shareholders. Ian Rutledge, "Profitability and Supply Price in the US Domestic Oil Industry: Implications for the Political Economy of Oil in the Twenty-first Century," *Cambridge Journal of Economics*, vol. 27, no. 1, 2003, pp. 1-23.

⁶³ Jenkins, "Re-Examining the 'Obsolescing Bargain:' A Study of Canada's National Energy Program."

⁶⁴ *Ibid.*, p. 161.

⁶⁵ Tétreault, *The Kuwait Petroleum Corporation*, pp. 200-2.

⁶⁶ Goel, "A Bargain Born of a Paradox," p. 482.

industry's lobbying power, share similar if not the same interests and are closely aligned with the oil industry.

Conflicting Interests

However, despite Jenkins', Tétreault's, and Goel's findings, Joe Barnes suggested, "history provides countless examples of Washington sacrificing the interests of U.S. oil companies to broader goals."⁶⁷ The IOCs are very large and politically powerful private actors,⁶⁸ whose primary objective is profit maximisation.⁶⁹ This objective often differs from primary objectives of the IOCs' home states. Generally, when we observe activities of MNCs, we see that their operations create a variety of problems for home countries, or states in which a foreign MNC has its headquarters.⁷⁰ Conflict between MNCs and their home states often arises over various issues, such as taxation, trade policies, security issues, and economic sanctions, where MNCs often disagree with and/or do not want to follow policies pursued by their home governments.⁷¹ Moreover, Western governments do not necessarily benefit from the foreign activities of their MNCs, and this is primarily due to differing interests between the government and the MNC. Lack of national identity within MNCs plays a role too, since MNCs in general appear to be losing their national identities and loyalties as they increasingly view markets from a global and not local perspective.⁷² Vernon has shown that even in the early 1970s, although U.S.-based MNCs were 90 percent or more American by equity ownership, they were just 25 percent American by sources of funds, less than 1 percent American by the identity of employees, and practically 100 percent foreign by the identity of the governments that receive their taxes.⁷³ Thus, foreign sources

⁶⁷ Joe Barnes, "NOCs and U.S. Foreign Policy," paper prepared in conjunction with an energy study sponsored by Japan Petroleum Energy Center and the James A. Baker III Institute for Public Policy, Rice University, March 2007, p. 10.

⁶⁸ Krasner, *Defending the National Interest*, p. 7.

⁶⁹ M. Miyoshi, "A Borderless World? From Colonialism to Transnationalism and the Decline of the Nation State," *Critical Theory*, Vol. 19, No. 4, 1993, p. 746

⁷⁰ See M. Carnoy, "Multinationals in a Changing World Economy: Whither the Nation-State," in M. Carnoy et al. (eds.), *The New Global Economy in the Information Age* (University Park: Pennsylvania State University Press, 1993), pp. 61-66; and C. Clark and S. Chan, "MNCs and Developmentalism: Domestic Structure as an Explanation for East Asian Dynamism," in Thomas Risse Kappan (ed.), *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions* (Cambridge: Cambridge University Press, 1995), p. 144.

⁷¹ *Ibid.* Raymond Vernon studies conflicts between MNCs and their home governments in *Storm over the Multinationals*. See particularly Chapter 6, pp. 103-138.

⁷² See Vernon, *In the Hurricane's Eye*.

⁷³ Vernon, *Sovereignty at Bay*, p. 264.

of funds, foreign employees, taxes paid in foreign countries, and the very fact that these companies function in many different countries result in differing interests to those of their home governments. In fact, Vernon suggested that the liaison between the British, Japanese, French, German or Italian government and their enterprises regarding their interests outside their respective home countries appear much more intimate and continuous than is the case for the United States.⁷⁴ Some European nations have developed reputations of being strong supporters of their MNCs (and IOCs in particular) who, in turn, have strong voices in their own government.⁷⁵

When considering such background, some have suggested that although it depends on private companies to develop reserves and supply the nation with oil at a profit, the U.S. government does little to support its private oil companies both home and abroad, and the only edge the U.S. IOCs have over NOCs is their superior technology.⁷⁶ Historical examples of problems arising between American IOCs and the U.S. government are plentiful. For example, according to Stephen Krasner, in the early 1970s, U.S. oil companies wanted support from the state against the pressure that was being placed on them by Saudi Arabia and Iran. However, American IOCs received no serious support from the U.S. government. Without state support, the oil companies could not resist pressures from even weak states and thus they failed to prevent price increases and nationalisation. Thus, by the mid-1970s the oil industry had to move to accommodate itself to OPEC.⁷⁷ U.S. policy-makers were in this instance more concerned with keeping a lid on the political situation, and maintaining the authority of conservative governments, such as that of Shah in Iran and the Saudi monarch, than they were with the prerogatives of the oil companies, which were frequently ignored.⁷⁸ Similar development, as shown by Krasner, occurred when American central decision-makers turned a deaf ear to oil

⁷⁴ Ibid, pp. 218, 229 and 235.

⁷⁵ Poynter, *Multinational Enterprises & Government Intervention*, p. 62; also see Raymond Vernon (ed.), *Big Business and the State: Changing Relations in Western Europe* (Cambridge: Harvard University Press, 1974).

⁷⁶ James M. Day, "Can U.S. Petroleum Companies Compete With National Oil Companies?" *Business Law Brief*, Fall 2005, p. 57; Vernon, *Storm over the Multinationals*, p. 190.

⁷⁷ Krasner, *Defending the National Interest*, p. 254. The U.S. government did not want to resist nationalisations in many developing countries in the 1970s due to its fear that in such scenario they may have tilted towards the Soviet Union. See Barnes, "NOCs and U.S. Foreign Policy," p. 20.

⁷⁸ Krasner, *Defending the National Interest*, pp. 256, 259-60 and 262.

company entreaties for more vigorous official backing in Peru and Mexico before World War 2.⁷⁹

Moreover, American IOCs were the primary losers after voluntary and later mandatory oil import quotas were established in the U.S. in the 1950s, as they could import very limited quantities of internationally produced oil.⁸⁰ Further, historically, it was against American IOCs' interests to go to Iran after Mossadeq was overthrown in 1953. However, they agreed to do so, but only after the anti-trust suit against them was downgraded by an order from President Truman from a criminal to a civil action, and after heavy pressure from the U.S. government on national security concerns over Iran potentially falling to the Communist bloc if the oil production failed to be resumed.⁸¹ In an unrelated incident, the United States was impotent in using Gulf Oil, an American oil company, in the 1976 civil war in Angola, as after the briefest hesitation, Gulf Oil turned over several hundred million dollars to the winning side, even though the U.S. government had backed that side's enemies and had not yet recognised the victor.⁸²

In another example, American IOCs involved in a number of Middle Eastern states, clearly did not support the U.S. tilt towards Israel during the 1973 Yom Kippur War.⁸³ In yet another example, Vernon argued that the 1970s oil crisis provided evidence that governmental use of IOCs as arms of public power had its limits. In the oil crisis, these limits were swiftly reached, as none of the developed countries succeeded in obtaining greatly preferred treatment from the IOCs they thought of as their own, although a number of governments tried.⁸⁴ Some have even suggested that during the oil crisis of the

⁷⁹ Ibid, p. 332; and Barnes, "NOCs and U.S. Foreign Policy," p. 20. When U.S. oil companies' interests were nationalised by Mexico in 1937, while the nationalisation roiled relations between Mexico City and Washington, it never led to a break. The reason is clear: increasingly worried about the Nazi menace in Europe, the Roosevelt Administration wanted at all cost to avoid a restive neighbour to the South or, worse, one aligned with Hitler's Germany.

⁸⁰ Steve Isser, *The Economics and Politics of the United States Oil Industry, 1920-1990* (New York: Garland Publishing, 1996), p. 98.

⁸¹ For more on this fascinating topic see Yergin, *The Prize*, pp. 471-2; and Krasner, *Defending the National Interest*, pp. 119-128.

⁸² "Socialist Angola's Main Economic Prop: Gulf Oil," *The New York Times*, May 30, 1976.

⁸³ Barnes, "NOCs and U.S. Foreign Policy," pp. 10 and 21. It is unquestionable that U.S. support for Israel, and the price for which the U.S. paid for it in the Arab and, indeed, Muslim world, has not been based upon narrow U.S. energy interests.

⁸⁴ Raymond Vernon, "The Distribution of Power," in Raymond Vernon (ed.), *The Oil Crisis* (New York: W. W. Norton & Company, 1976), p. 254.

1970s, the U.S. government threatened to nationalise Exxon, along with other IOCs, based on a belief that they caused a severe increase in oil prices.⁸⁵ Thus, Vernon argued that the realisation that IOCs cannot be used simply as an extended arm of government was a lesson half-learned by the governments involved in the oil crisis of the 1970s.⁸⁶ Home governments should have learnt this lesson in the 1940s, when oil companies successfully used their advantage in the Congress to block government's efforts to use them to further security of Middle East oil supplies during the World War 2.⁸⁷

Vernon suggested that in future, MNCs could face obsolescing bargains in their home countries, as many of these states are demanding more from the MNCs, by asking, "What have you done for me lately?"⁸⁸ For example, one issue could be that MNCs might prefer more open markets than would many of their home states, particularly the European ones.⁸⁹ Another issue of contention could be over the fact that major American IOCs vehemently oppose official U.S. policy on Iran, Sudan, or Libya and Iraq (until recently), which prohibits them from investing in these oil rich countries.⁹⁰ The bottom line, according to Vernon, is that "whenever national governments use multinational enterprises as an executive arm carrying out national policies, they must recognise that the enterprises on which they rely have interests that extend beyond the borders of any single country."⁹¹ Therefore, on one hand, the interests of the IOCs and their home governments may converge regarding some issues, as for example during the early 1920s, when central U.S. decision-makers actively backed American oil companies in Central America, Colombia, Venezuela, Albania, and, most vigorously, the Middle East and the Dutch East Indies (today's Indonesia). Moreover, in the 1990s, aligned government-corporate interests resulted in the U.S. government's support for its IOCs in the Caspian, and this in turn ensured American IOCs' success. However, on the other hand, their interests may diverge in relation to other issues (Middle East, Peru and Mexico in the 1940s, Iran, Indonesia and

⁸⁵ Falola and Genova, *The Politics of the Global Oil Industry*, p. 38 and 78.

⁸⁶ Vernon, "The Distribution of Power," p. 254.

⁸⁷ See Krasner, *Defending the National Interest*, p. 213.

⁸⁸ See Vernon, *In the Hurricane's Eye*.

⁸⁹ *Ibid.*

⁹⁰ Barnes, "NOCs and U.S. Foreign Policy," p. 10.

⁹¹ Vernon, *Storm over the Multinationals*, p. 135.

Liberia in the early 1950s; Angola in 1976; Israel in the 1970s; the oil crises and nationalisations of the 1970s; etc.).⁹²

If home governments wish to change IOC behaviour in some of the situations in which their interests do not converge, they must understand that they do not have instruments of control that would allow them to force a change in private behaviour.⁹³ In such situations, according to David Vogel, public opinion may help them influence private behaviour, and even though oil interests may have successfully defended their agenda during a given period, continued success is not a deterministic affair. For example, major shifts in public opinion – be they in response to Standard Oil’s monopolistic practices or the Exxon Valdez oil spill – have eroded the influence of such entrenched interests.⁹⁴ At other times, only skilful bargaining can help home governments influence private behaviour.

Vernon argues that U.S. government’s involvement in American IOCs’ bargaining with foreign governments is ineffective and undesirable, without considering whether their interests converge in these situations. Although there are times when governmental help is wanted, or even demanded, as in the case of early 1980s oil industry bargaining in Canada, managers of large MNCs “have been aware that trying to pit government against government in an effort to solve their problems could have a price in terms of ill will and retaliation.”⁹⁵ Moreover, even when pressure on behalf of a multinational enterprise has been applied by so powerful an advocate as the U.S. government, one could not be sure if it would be effective. When U.S.-controlled enterprises have felt foreign governments breathing down their necks, the disposition has been to find some formula to relieve the pressure locally without inviting the U.S. government into the fray, and unsurprisingly, strategies that involve intergovernmental threat or collaboration have taken a very low place in the list of possible responses.⁹⁶ Vernon’s suggestions and numerous historical episodes in which the U.S. government’s and American IOCs foreign policy interests and actions were not in concert imply that situations in which U.S. government improved bargaining power of American IOCs are exceptions to the rule. In summarising the IOCs’

⁹² Krasner, *Defending the National Interest*, p. 107 and Vernon, *Sovereignty at Bay*, p. 209.

⁹³ Krasner, *Defending the National Interest*, p. 98.

⁹⁴ See David Vogel, *Fluctuating Fortunes: The Political Power of Business in America* (New York: Basic Books, 1989).

⁹⁵ Vernon, *Sovereignty at Bay*, p. 262.

⁹⁶ *Ibid.*

position between their home and host governments, the view held by Louis Turner, who does not see IOCs as automatic allies of consumer governments, or pure agents of producers, is worth considering. In turn, he perceives them as “actors with economic interests at both ends of the oil operation, and hence vulnerable to the displeasure of either set of governments” and “they are thus having to learn how to reconcile such conflicting pressures.”⁹⁷

Summary

While various studies surveyed above suggest that the U.S. government’s and American IOCs’ interests often diverge, and some even suggest that home states support is ineffective and unwanted by the IOCs (see section on home state-MNC bargaining), these studies mainly offer somewhat dated empirical evidence. In recent years, many have suggested that there exists a close relationship between the Bush Administration and the oil companies, by reminding us that many high profile politicians in this administration, in past worked for, and are still closely related to the energy industry.⁹⁸ Therefore, conspiracy theories that the Bush Administration has been closely aligned and acting in concert with the IOCs, are commonly heard. Some have even gone so far as to suggest that the major American IOCs hijacked the current administration, and have been using it to further their interests.⁹⁹ Thus, I will base my prediction on these popular beliefs, which nevertheless have some theoretical grounding in studies previously conducted by Jenkins, Tétreault, and Goel.¹⁰⁰ In order to find out whether the American IOCs’ and the U.S. government’s interests are aligned; if so, whether the IOCs receive necessary support; and if they do,

⁹⁷ Turner, “The Oil Majors in World Politics,” p. 380.

⁹⁸ The first and second Bush administrations have had many oil and energy industry connections: President Bush is a former director of Harken Energy Corporation; Vice President Cheney is the CEO of Halliburton; and Secretary of State Condoleezza Rice is a board member of Chevron, one supertanker of which was named after her. Moreover, financial disclosure forms reviewed by the Center for Public Integrity, a non-partisan watchdog group, reported that top 100 officials in the first Bush Administration have the majority of their personal investments, almost \$150 million, in the traditional energy and natural resource sectors. Michael Moran and Alex Johnson, “Oil After Saddam: All Bets Are In,” MSNBC News, November 7, 2002, <http://www.msnbc.com/news/823985.asp?0cb=-115114700>. [October 7, 2003].

⁹⁹ Bill Minutaglio, the Bush bibliographer, said, “Bush really does believe that what is best for Big Oil is best for America. His whole formative world view was formed by being hip-deep in the oil patch.” Cited in Michael R. Gordon, “Iraq Said to Plan Tangling U.S. in Street Fighting,” *New York Times*, August 20, 2002. For more, see Stern, *Who Won the Oil Wars?*, pp. 145 and 159-60; Briody, *The Halliburton Agenda*; and Gore Vidal, *Dreaming War: Blood for Oil and the Cheney-Bush Junta* (New York: Nation Books, 2002), p. 51.

¹⁰⁰ Jenkins, “Re-Examining the ‘Obsolescing Bargain’: A Study of Canada’s National Energy Program;” Tétreault, *The Kuwait Petroleum Corporation*; Goel, “A Bargain Born of a Paradox.”

whether this support results in their bargaining success, I will study bargaining for UNOCAL, a mid-sized American independent oil company, bargaining for drilling rights in the Arctic National Wildlife Refuge (ANWR), and oil industry bargaining in Russia, Venezuela and Iran, countries of much interest for American IOCs. Although the above survey of home state-MNC literature shows conflicting evidence, I hypothesise that 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, and 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 (Hypothesis 2).

Figure 2.5: U.S. Government's Support for American IOCs as a Function of Their Interests (Prediction)

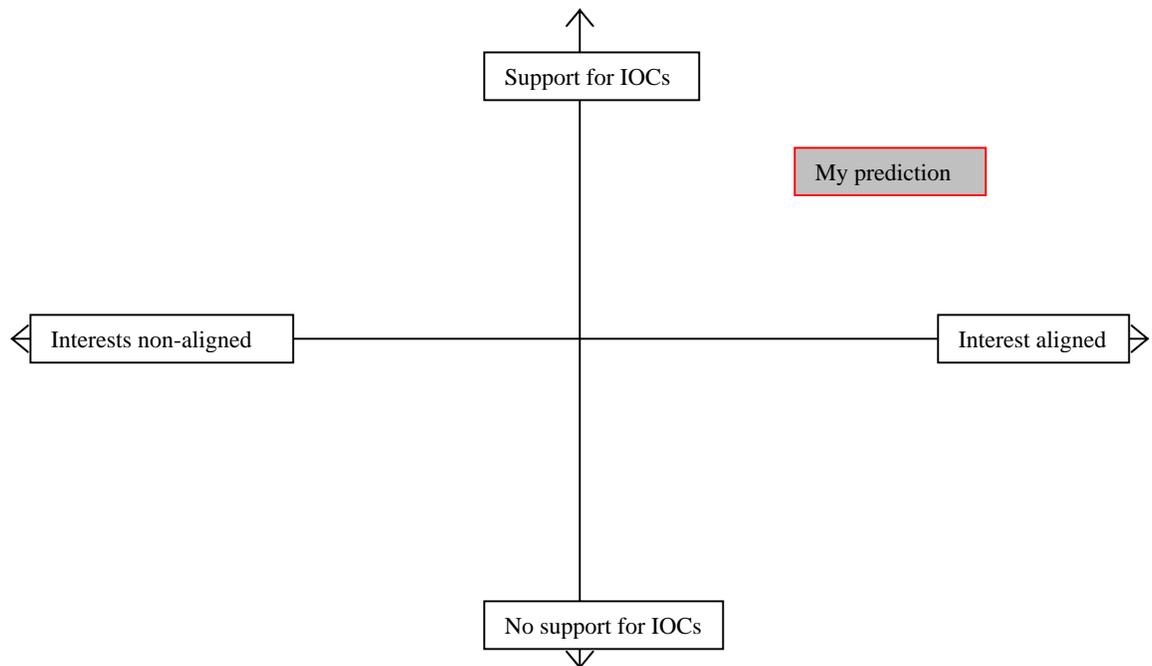
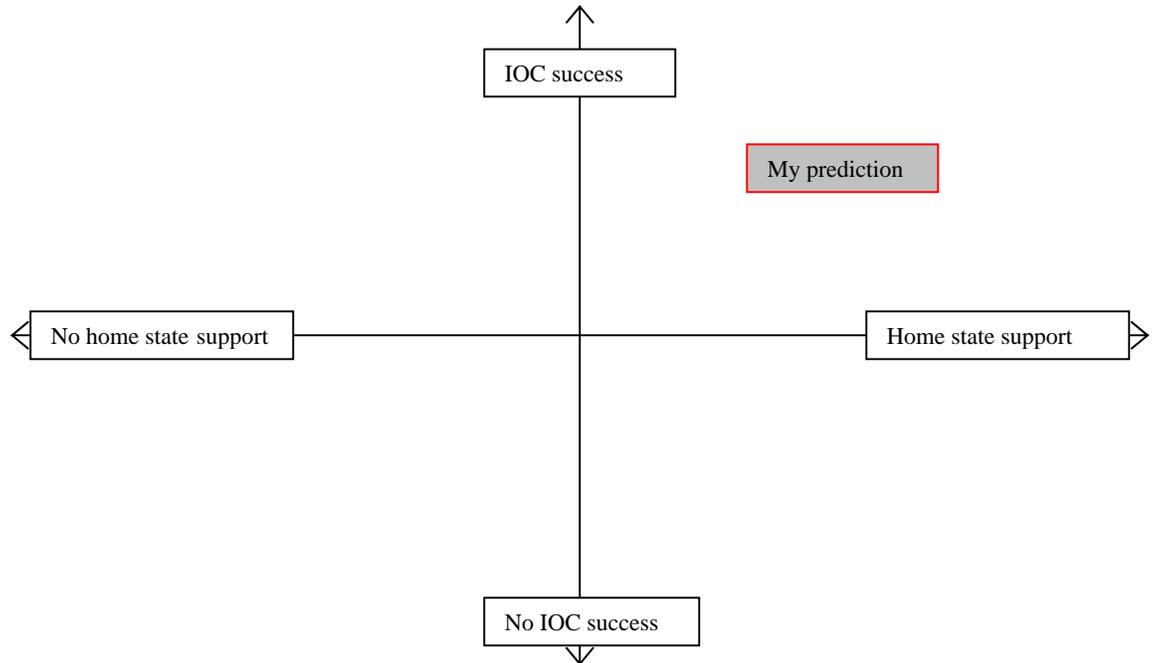


Figure 2.6: American IOCs' Bargaining Success as a Function of the U.S. Government Support (Prediction)



2.3 The Rise of China and the New Age of Energy Security

The U.S. and other Western IOCs may be on the losing side of their bargains with oil exporting states and their NOCs (see Hypothesis 1), and they may be struggling to attract their home state support (see Hypothesis 2). However, they also may be losing out to China's NOCs, who have been very aggressive in their pursuit of overseas oil interests. In the larger trend of more powerful NOCs globally, China's NOCs are an ideal case in the study of bargaining, because of assertiveness, aggression, and unconditional government support in their pursuit of oil. The rapid growth in China's oil imports, fastest in the world, is largely behind China's NOCs' behaviour. Energy consumption is proportionally linked to economic growth. In other words, for economic activity to increase there has to be a proportional increase in energy consumption.¹⁰¹ Currently, Chinese NOCs are spending

¹⁰¹ See Charles A.S. Hall, Cutler J. Cleveland, and Robert K. Kaufmann, *Energy and Resource Quality* (New York: Wiley-Interscience, 1986); James J. Zucchetto, and Robert T. Walker, "Time Series Analysis of Energy-Economic Relationships" in William J. Mitsch, Robert W. Bosserman, and Jeffrey M. Klopatek (eds.), *Energy and Ecological Modeling* (Elsevier Scientific Publishing Company, 1981); Wolf Häfele, *Energy in a Finite World: A Global Systems Analysis* (Toronto, Canada: Ballinger, 1981); Cutler J. Cleveland, Robert Costanza, Charles A.S. Hall, and Robert K. Kaufmann. "Energy and the U.S. Economy: A Biophysical Perspective," *Science*, no. 225, 1984, pp. 890-897; Robert Costanza, "Embodied Energy and Economic Valuation," *Science*, no. 210, 1980, pp. 1219-1224; and Xiannuan Lin, *China's Energy Strategy: Economic Structure, Technological Choices, and Energy Consumption* (Westport, CT: Praeger, 1996), pp. 6-7.

billions of dollars on a global scramble for oil and gas to secure sufficient energy needed to feed China's economic growth.¹⁰² Chinese NOCs have access to modern technologies, and they have been bidding for concessions overseas.¹⁰³ In overseas bidding, since they are directly supported by the Chinese government, they do not play by the same rules as private oil companies. In what has been identified as "China's global hunt for oil,"¹⁰⁴ under China's broader "going out" (zou chu qu) policy,¹⁰⁵ three major Chinese NOCs (the China National Petrochemical Corporation/Sinopec, the China National Petroleum Corporation/CNPC/PetroChina and the China National Offshore Oil Corporation/CNOOC) "have been working overtime to make themselves players in world oil, willing to pay top dollar to get into the game."¹⁰⁶ In the space of less than a decade, they have become significant new players on the global industry scene, with increasing investment stakes in the Middle East, Russia, Central Asia, Africa, Latin America and Canada. Although these NOCs might not be gaining bargaining power vis-à-vis NOCs from the oil exporting countries, they are certainly competing with the IOCs. Thus, China's and other oil-importing countries' NOCs allow oil-exporting countries and their NOCs to have a wider range of potential investors. Studying oil industry bargaining in Venezuela and Iran, and Russia to a lesser extent, and bargaining for UNOCAL, will help me determine whether China's NOCs are prevailing at the IOCs' expense in bargaining

¹⁰² "A Survey of Oil," *The Economist*, April 30, 2005, p. 11.

¹⁰³ *Ibid.*, pp. 10-1.

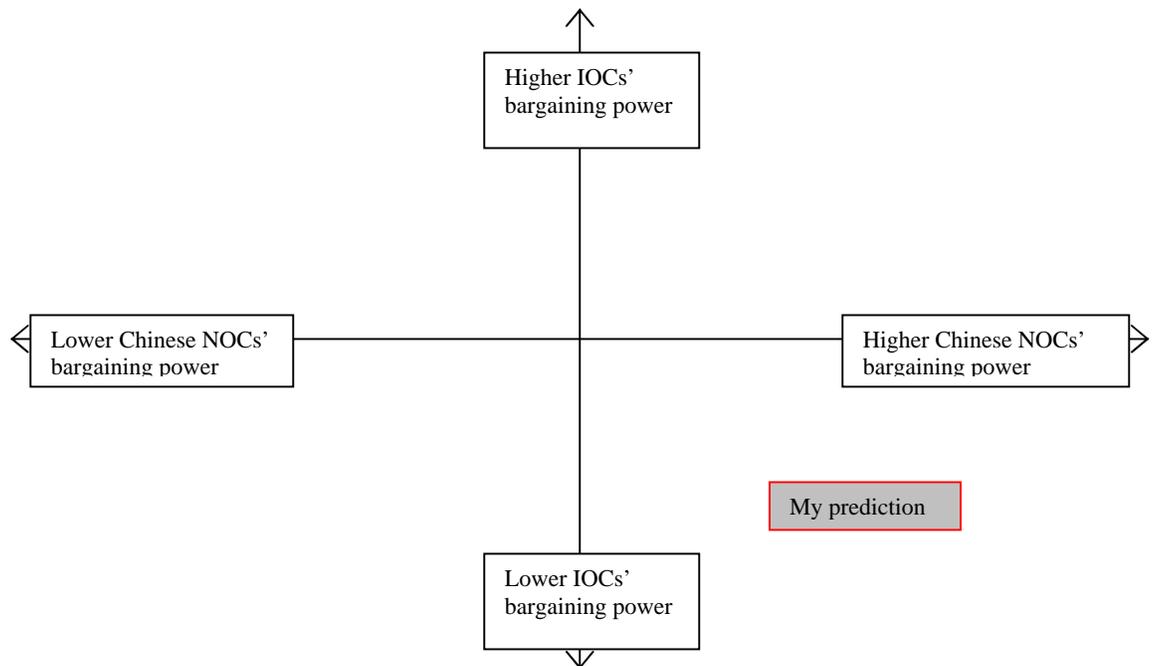
¹⁰⁴ Mary Hennock, "China's Global Hunt for Oil," *BBC News*, March 9, 2005, news.bbc.co.uk [June 22, 2005].

¹⁰⁵ This policy, based on November 2001, the State Economic and Trade Commission's (SETC) energy strategy, encouraged China's three NOCs to build up secure supplies abroad through purchasing equity shares in overseas markets, exploring and drilling abroad, constructing refineries, and building pipelines. Leverett and Bader, "Managing China-U.S. Energy Competition in the Middle East," p. 193; also, see Zheng Yu, "Being Diplomatic," *Beijing Review*, July 22, 2004; Xu, *Powering China* (Dartmouth: Ashgate, 2002), chapter 4; Xu, "China's Energy Security," pp. 276-9; Leverett and Noël, "The New Axis of Oil," pp. 66-7; Philip Andrews-Speed, "China's Energy Woes: Running on Empty," *Far Eastern Economic Review*, June 2005, pp. 13-7; Eurasia Group, "China's Overseas Investments in Oil and Gas Production," Report prepared for the US-China Economic and Security Review Commission, October 16, 2006; Friedberg, "Going Out"; Steven W. Lewis, "Chinese NOCs and World Energy Markets: CNPC, Sinopec and CNOOC," paper prepared in conjunction with an energy study sponsored by Japan Petroleum Energy Center and the James A. Baker III Institute for Public Policy, Rice University, March 2007, pp. 54-62; and Xiaojie Xu, "Chinese NOCs' Overseas Strategies: Background, Comparison and Remarks," paper prepared in conjunction with an energy study sponsored by Japan Petroleum Energy Center and the James A. Baker III Institute for Public Policy, Rice University, March 2007, pp. 2-5. SETC analysis available in Steven W. Lewis, "China's Oil Diplomacy and Relations with the Middle East," *The James Baker III Institute for Public Policy*, Rice University, September 2002, pp. 13-4.

¹⁰⁶ Daniel Yergin, "Over a Barrel," *Fortune*, May 16, 2005, p. 57. For more information about these companies and their overseas ventures, see "Major Chinese Oil Companies," *Beijing Review*, December 16, 2004, p. 25; Kang Fu and Shair Ling Han, "Chinese Companies Pursue Overseas Oil and Gas Assets," *Oil & Gas Journal*, April 18, 2005; Lewis, "Chinese NOCs and World Energy Markets"; and Xu, "Chinese NOCs' Overseas Strategies."

with oil exporters and their NOCs. Thus, I hypothesise that if the NOCs from China are gaining bargaining power, then this is at the expense of the IOCs (Hypothesis 3).

Figure 2.7: IOCs' Bargaining Power Relative to Bargaining Power of China's NOCs (Prediction)

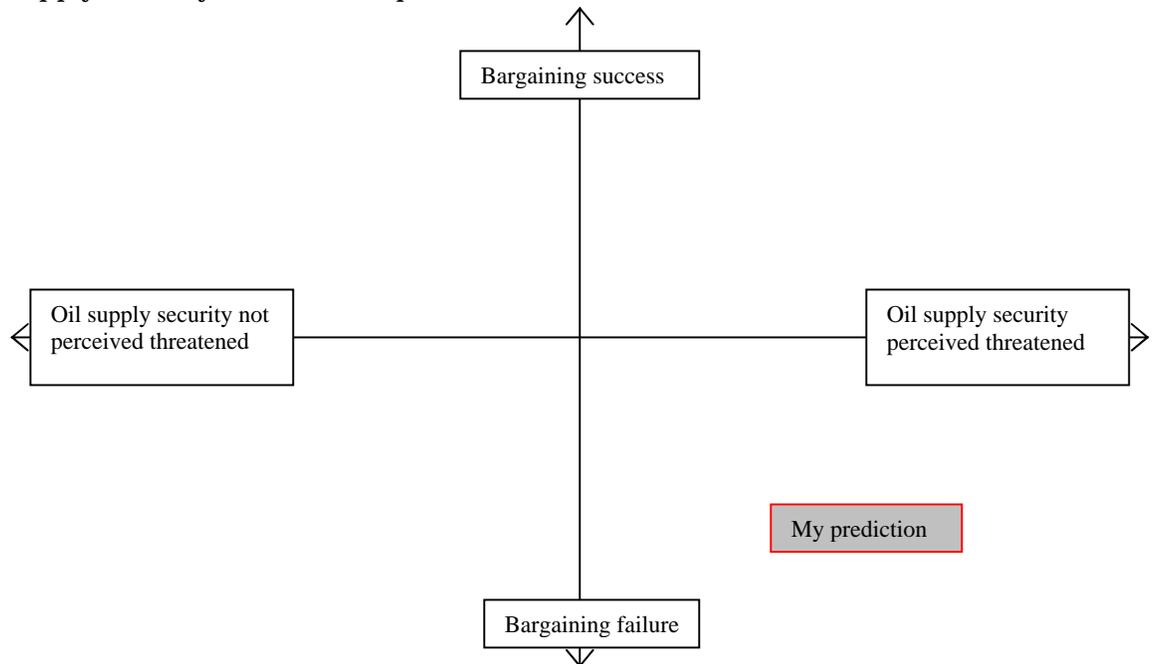


As discussed in Chapter 1 (in the section on oil importers), due to a wide variety of reasons, energy security is at the top of the agenda for governments of many oil-importing countries, and in particular for the United States, Japan and China, the world's three largest crude oil consumers and importers. It is evident from the previous paragraph that China certainly devotes enormous resources in order to secure sufficient oil supplies reach its shores, which is something that other oil importing governments may find threatening, and may mimic to ensure their energy security.¹⁰⁷ An interesting question logically arises from this renewed interest in energy security: when oil supply security is perceived as threatened when these governments bargain with other actors, do they succeed in that particular bargaining case? In the 1970s, despite sits strong need for oil, Japan has not been successful in bargaining with other actors in the face of the Arab oil embargo. When they

¹⁰⁷ For example, Sinopec has been successful in outbidding many Western 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. See Stanley Reed, "A Bidding Frenzy for Angola's Oil," *Business Week*, June 8, 2006; and Alex Lawler, "Oil Firms Open Wallets for Reserves Access," *Reuters News*, June 9, 2006.

perceive a threat to their oil supply security, it is reasonable to expect that major oil-importing governments invest considerable resources in order to achieve a positive bargaining outcome. However, based on Japan's past failure, it is expected that in such cases, they do not achieve a favourable bargaining outcome, and thus I hypothesise that 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 (Hypothesis 4). This hypothesis will be tested by analysing bargaining for ANWR, bargaining for UNOCAL, oil industry bargaining in Iran and Venezuela, and pipeline bargaining in the Russian Far East.

Figure 2.8: Oil-importing Government's Bargaining Success as a Function of Oil Supply Security Threat Perception (Prediction)



2.4 Issue Linkage

A study of bargaining necessarily raises questions about definition of an issue-area and linkages among issues, since bargaining is contextual, and to exercise influence on one issue often means making concessions on another.¹⁰⁸ Understanding the concept of issue

¹⁰⁸ For more on issue linkage, see Arthur A. Stein, "The Politics of Linkage," *World Politics*, vol. 33, October 1980; Kenneth A. Oye, Donald Rothchild, and Robert J. Lieber, *Eagle Entangled: U.S. Foreign Policy in a Complex World* (New York: Longman, 1979), pp. 13-17; Ernst B. Haas, "Why Collaborate? Issue-Linkage and International Regimes," *World Politics*, vol. 32, April 1980, pp. 357-402; Robert D. Tollison and Thomas Willett, "An Economic

linkage is instrumental in order to be able to assess whether oil exporters, besides the fact that they may be successful in bargaining vis-à-vis the IOCs (see Hypothesis 1), by using oil as a bargaining chip, are also able to gain concessions and achieve their goals in other bargaining arenas.

Keohane and Nye define a set of issues as an 'issue area' when those who are working to resolve that set of issues view the issues as closely interdependent and deal with them collectively.¹⁰⁹ The politics of the law of the sea differ from the politics of nuclear proliferation, the politics of tariffs from the politics of oil. Hence, scholars must distinguish carefully the actors and issues involved in any set of interactions under study. In choosing to examine bargaining in the oil industry, I treat the interactions of all actors involved as an issue area – a set of issues influenced by, and nested within, other issues, but sufficiently related that they form a package. A person, a group of people, an institution representing a group of people, or a corporation can be an actor in a given issue area only if it possesses a distinct set of preferences and sufficient capabilities for participating. The main actors involved in bargaining in the oil industry were introduced in Chapter 1.

Bargaining typically encompasses several, complex issues. Two diametrically opposite techniques to handle this complexity are identified in the literature. One is issue disaggregation, also referred to as issue decomposition and sequencing.¹¹⁰ This incremental approach, which involves negotiating each issue separately and sequentially, rests on the belief that half a loaf is better than none. It often entails organising working groups to deal with specific issues or sub-issues.¹¹¹ Issue aggregation or issue linkage represents another method of handling complexity. Issue linkage entails combining sub-issues that would be non-negotiable if treated separately into package deals and tradeoffs, and it allows for an

Theory of Mutually Advantageous Issue Linkage in International Negotiations," *International Organization*, vol. 33, Fall 1979, pp. 425-49; James K. Sebenius, *Negotiating the Law of the Sea* (Cambridge: Cambridge University Press, 1984), especially chap. 6; and James K. Sebenius, "Negotiation Arithmetic," *International Organization*, vol. 37, Spring 1983, pp. 281-316.

¹⁰⁹ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown and Company, 1977), p. 65.

¹¹⁰ See Hampson and Hart, *Multilateral Negotiations*, pp. 45-7; and Hopmann, *The Negotiation Process*, p. 81.

¹¹¹ Knut Midgaard and Arild Underdal, "Multiparty Conferences," in Daniel Druckman (ed.), *Negotiations: Social Psychological Perspectives* (London: Sage, 1977), pp. 336-7.

endless variety of contextual factors influence bargaining behaviour and processes. The oil industry is as an issue area not in isolation from the rest of society. My analyses recognise that the issue area of oil is intimately connected to broader political and international issues. The concept of “nesting”, originally developed by Vinod Aggarwal’s international systems theory,¹¹² will be used in the case study chapters (3 to 6) as an issue-linkage tool. “Nesting” will enable me to link bargaining in the oil industry with other bargaining arenas. In other words, “nesting” can help us contextualise a given bargaining case within a whole network of bargains, and not look at it in isolation.

In explaining the creation of regimes from the perspective of a hierarchy of systems, Aggarwal uses nesting, a systemic level factor.¹¹³ For Aggarwal, the textile system is nested within the overall trading system, and the trading system is nested within the overall international strategic system (concerning security matters), and actions countries take in other systems influence behaviour in the textile subsystem.¹¹⁴ Similar to textile bargaining, it is important to note that bargaining in the oil industry is not isolated from the rest of international and domestic bargaining. Bargaining between actors in the oil industry is influenced by, and linked to, the actors’ interests and behaviour outside the oil industry. States tend to have many interests outside a particular market; firms, few. Since states, their leaders and domestic constituencies have a complex set of interests, non-oil interests can affect their behaviour in the oil industry bargaining. In other words, the developments in oil bargaining arena can be a result of not only an individual actor’s non-oil interests and behaviour but also the actor’s position in a more general international political and economic structure. Similarly, developments in oil bargaining arena can influence bargaining in other arenas.

Empirically, oil has the power not only to catapult a country into international politics, but also to entice an oil-rich country to pursue more power.¹¹⁵ Various scholars suggest that oil

¹¹² “Nesting” was developed in Vinod K. Aggarwal, *Liberal Protectionism: The International Politics of Organized Textile Trade* (Berkeley: University of California Press, 1985). Also, see George Tsebelis, *Nested Games: Rational Choice in Comparative Politics* (Berkeley: University of California Press, 1990), who applied “nesting” to game theory. In essence, the “nesting” approach has a lot of similarities with the “segmentation” approach taken by Ernest Gellner in *Muslim Society* (Cambridge: Cambridge University Press, 1981).

¹¹³ Aggarwal, *Liberal Protectionism*, p. 27.

¹¹⁴ *Ibid.*

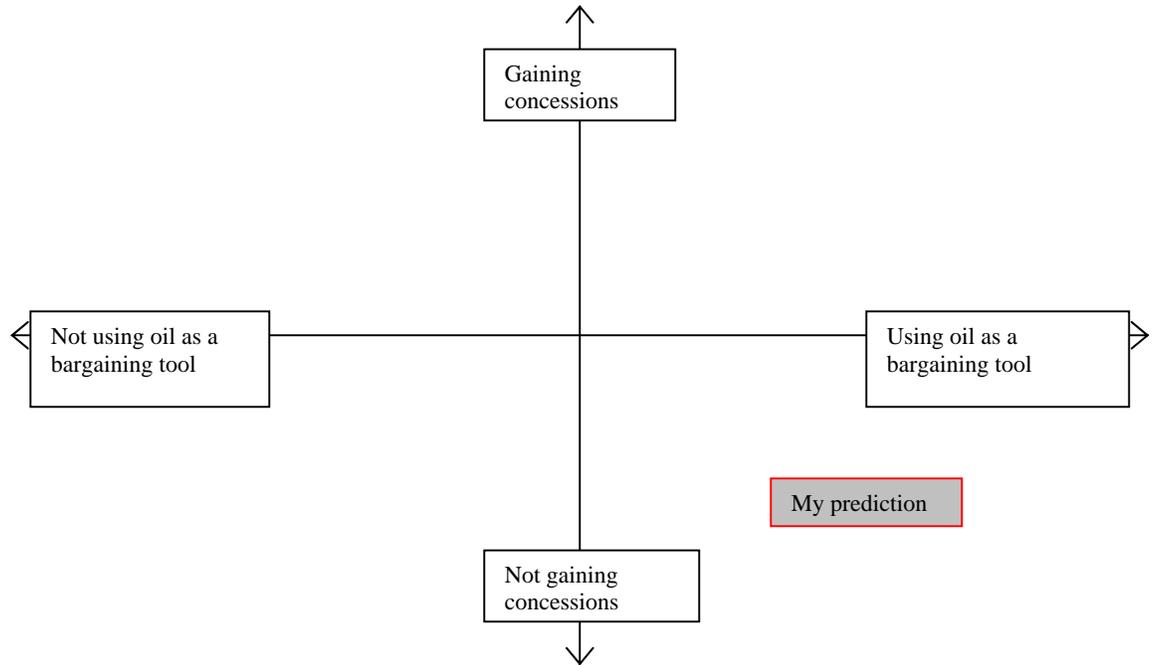
¹¹⁵ Falola and Genova, *The Politics of the Global Oil Industry*, p. 17.

exporters use oil to get concessions from other actors,¹¹⁶ and two major historical examples support this view – the Arab oil embargo of 1973, and the U.S. embargo on Imperial Japan’s oil imports in 1941.¹¹⁷ However, on both occasions, oil-exporting states did not manage to gain concessions from other actors, as the Arab oil embargo did not stop the U.S. in its support for Israel, and the U.S. embargo against Japan, resulted in Japan continuing, not halting its military quest in Asia. This proposition will be tested in the case of Iran and its pursuit of nuclear technology, Russian oil industry bargaining, Russia’s Far Eastern oil pipeline bargaining with China and Japan, and Venezuela’s attempt to spread “Bolivarian Revolution.” I hypothesise that if oil-exporting states use oil, explicitly or tacitly, in their bargaining with other actors, they do not gain concessions in other bargaining arenas (Hypothesis 5).

Figure 2.9: Concessions as a Function of Oil-exporting States’ Use of Oil as a Bargaining Tool (Prediction)

¹¹⁶ Richard G. Lugar, “The New Energy Realists,” *The National Interest*, no. 84, Summer 2006, pp. 31-2. This is also supported by James Schlesinger and John Deutch, “The Petroleum Deterrent,” *Newsweek*, Special Edition, December 2006-February 2007, p. 21; and John Deutch, James Schlesinger, and David G. Victor, “National Security Consequences of U.S. Oil Dependency,” Council on Foreign Relations (CFR), Independent Task Force Report, no. 58, 2006, pp. 21 and 26-30; who argue that oil allows various countries to carry out foreign policies that are hostile to the of the United States.

¹¹⁷ Note that the U.S. was a major oil exporter in 1941. Moreover, the U.S. continued using the “oil weapon” even as an importer. It used sanctions (The Iran-Libya Sanctions Act - ILSA), aimed at reducing revenue by denying investment to hostile regimes, as instruments of foreign policy against oil-exporting countries. For more on ILSA, see Chapter 6.



Conclusion

The first two chapters provide the empirical and theoretical framework for the rest of this thesis. In Chapter 1, I briefly outlined the importance of oil and characterised the international oil market as a politicised market. I also illustrated why studying bargaining relationships among various oil industry actors is the most effective way for studying oil. Following, I introduced the major actors in the oil industry and outlined the characteristics of the present, conflictual, stage in the oil industry. Finally, based on these characteristics and issues, I established various research questions which are the focus of this thesis. In Chapter 2, in light of various research questions outlined in Chapter 1, I analysed various previously established theoretical debates and frameworks in order to highlight the way in which scholars understand these issues and which are helpful in analysing them. This analysis doubled up as the basis for outlining the hypotheses and thus the main research questions.

It is important to bear in mind that none of the hypotheses established above will be tested in each particular case study chapter (3 to 6), and each case study does not necessarily test only one hypothesis. For the sake of brevity, the hypotheses are revisited in Chapter 7

rather than at the end of each case study. However, towards the end of each case study chapter, I elaborate on the relationship of that chapter with the hypotheses. When testing the hypotheses in Chapter 7, in most cases I employ qualitative methods, whereby I simply analyse the findings and discuss whether the hypothesis was supported. However, in testing the Hypothesis 1, which is based on the oil exporting state-IOC bargaining power framework, I chose use a simple quantitative method for the sake of clarity. The large number of variables (19) simply made it too difficult to engage in straightforward and comprehensive qualitative analysis (in Appendix 1 all of the variables are introduced and their selection justified).