

PART 2: CASE STUDIES

In Part 1 of this dissertation, I established the empirical and theoretical framework, which provides the reader with the appropriate foundation for the rest of the thesis. I now turn to contemporary oil industry bargaining case studies, six of which will be analysed in the following four chapters. However, before I engage in my case studies, it is essential to outline the reasons behind case study selection, and sketch the methodology for studying these cases.

Case Selection and Methodology

The four states chosen as case studies in chapters 3 to 6 (Russia, Venezuela, the United States, and Iran) are the most crucial and most different cases that carry the most significance in testing the hypotheses. All four countries are in possession of large oil reserves and are major oil states, of which three are net exporters (Russia, Iran, and Venezuela) and one is the largest net importer and consumer of oil (the U.S.). In 2005, Iran (2nd largest oil reserves in the world), Venezuela (6th), Russia (7th) and the United States (11th) were cumulatively in possession of 320.9 billion barrels, or 26.7 percent of world's total proven oil reserves (see Table 1.1). Russia (2nd largest oil producer in the world), the United States (3rd), Iran (4th), and Venezuela (8th), were all among world's top 10 oil producers, in total supplying 23.4 million bpd, or 28.9 percent of the world's total (see Table 1.1). Further, Russia (2nd largest oil exporter in the world), Venezuela (4th), and Iran (5th) exported 11.6 million bpd, or 23.3 percent of world's total traded oil. In 2005, the United States was by far the largest oil consumer in the world, with 20.7 million bpd, or 25.0 percent of the world's total, and the largest oil importer, with 13.8 million bpd, or 27.7 percent of the world's total traded oil.¹ These figures make Russia, Venezuela, Iran and the United States very important actors in the IPE of oil. In addition, the choice of three major net oil exporters (Russia, Iran, and Venezuela) and by far the largest oil consumer and net importer (the United States) will provide insights into oil industry bargaining in both net oil exporting and importing countries.

¹ BP, BP Statistical Review of World Energy 2006.

Of the three oil exporters, two (Iran, Venezuela) are OPEC members, and Russia is not. Iran is the second largest OPEC crude oil producer and net exporter, behind Saudi Arabia, while Venezuela is the third largest OPEC, and the largest non-Middle Eastern OPEC, crude oil producer and net exporter. This will provide us with insights from both Middle Eastern and non-Middle Eastern OPEC oil producers and exporters. In addition, Russia is by far the largest non-OPEC oil producer and net exporter, and thus, studying oil industry bargaining in Russia is very important. On the consuming and importing side, the United States is overwhelmingly the world's largest oil consumer, with demand higher than that of China, Japan, Germany, Russia and India combined. It is therefore crucial to study oil industry bargaining in the U.S.

Of four countries chosen, the United States is a developed, Western country, and a democracy, with high standards of living, and de jure privatised oil industry. Russia is a transition economy and a former communist country, with medium standards of living, partly democratic, and with hybrid private-state controlled oil industry. Finally, Venezuela and Iran are developing countries, of which Iran is an authoritarian Islamic Republic, and Venezuela is an increasingly authoritarian republic. Both have low to medium standards of living, and in both countries oil industry is under full state control. Given the limited theoretical work that exists on oil, I decided to take an expansive approach designed to draw theoretical observations based on examination of a large range of empirical cases. This will ensure that my theoretical findings are generalisable and falsifiable as sound theories should be.

Six oil industry bargaining cases in four countries offer us most oil bargaining scenarios one could think of – those between governments (Russian oil pipeline bargaining, Iranian oil industry bargaining), between government and foreign IOCs (Venezuelan oil industry bargaining), and between government and domestic constituencies (Russian oil industry bargaining, bargaining for ANWR, and UNOCAL to an extent). Possible bargaining situations, which are not included, are those between governments and international organisations (OPEC or IEA), and between intergovernmental organisations (OPEC and non-OPEC and/or IEA). Studying a particular bargaining case, for example, within

OPEC, or between OPEC and the IEA would involve too many actors and could not be covered in sufficient detail in this dissertation. Additionally, bargaining over production quotas and over the actual production between various OPEC producers and between OPEC and non-OPEC producers has not been studied because of the lack of spare production capacity in the contemporary oil markets. Since the basis for bargaining over oil prices within OPEC is the relationship between withholding capacity and idle capacity, thus, if this study surveyed oil bargaining in the 1970s or 1980s, when most OPEC and non-OPEC oil producing countries possessed considerable spare production capacity, such a case study would have been essential.²

A question could be asked on why I did not choose to study oil bargaining in other countries, which are also very important in the IPE of oil. For example, on one hand, in 2005, Saudi Arabia was the country with largest crude oil reserves in the world, and the world's largest oil producer and net exporter, which one could argue are important reasons for being chosen as one of the case studies. On the other hand, Japan, China, and a number of E.U. countries (Germany, France, and Italy) were all important crude oil consumers and net importers, which could have been chosen as cases in studying oil industry bargaining. There are several important reasons why I did not choose these countries. Firstly, in deciding which Middle Eastern OPEC producer to study, I did not choose Saudi Arabia firstly due to its uniquely huge reserves, which give it much greater advantage in politics, and which do not make it representative of a typical oil exporting country. Secondly, Saudi Arabia is not studied because Iran is the most interesting case. As this study is concentrated on contemporary oil industry bargaining, I was puzzled by the magnitude of oil investment in Iran despite the unilateral U.S. sanctions, which oppose oil investment in Iran. Further, I thought that studying Iranian oil industry bargaining as “nested” within Iranian nuclear program would make an exciting case study. Nothing of this sort is occurring in Saudi Arabia. On the oil consumer/importer side of the bargain, while I do not dedicate special chapters to oil industry bargaining in China, Japan, or the E.U. countries, it is important to note that these countries feature prominently in most of

² Such a study would draw inspiration from Richard Chadbourn Weisberg, *The Politics of Crude Oil Pricing in the Middle East, 1970-1975: A Study in International Bargaining* (Berkeley: University of California, Institute of International Studies, 1977). Weisberg applies a political-economic model to explain international cooperation and conflict with regard to the pricing of oil in the early 1970s.

the case studies. China features in oil industry bargaining in all four chapters – it is involved in Russian Far Eastern oil pipeline bargaining, in Venezuelan oil industry bargaining, in bargaining for UNOCAL, and in oil industry bargaining in Iran. Japan features in Russian Far Eastern oil pipeline bargaining and in oil industry bargaining in Iran, whereas the E.U. countries feature in oil industry bargaining in Iran.

I adopt the same method in studying oil industry bargaining in all four case study chapters. Firstly, I briefly look at history of oil industry bargaining in each particular country. This offers us some important insights into oil industry bargaining, illustrates historical tendencies and forces within those countries, and where have these tendencies led us. I use the history of oil industry bargaining to examine how contemporary oil bargaining came to be shaped, as history is necessary to provide a background context to the discussion of current issues. It is important to keep in mind that it is not intended to be a comprehensive history of oil industry bargaining in each country. Secondly, I briefly introduce each country's oil industry and crucial oil statistics. Thirdly, and most importantly, I examine bargaining between the major actors in each particular contemporary oil industry case study. In Chapter 3, I study two bargaining cases in Russia – domestic oil industry bargaining and Russian oil pipeline bargaining, particularly concentrating on Putin's crackdown on Russian oligarchs and on Far Eastern pipeline bargaining between Russia, China and Japan. In Chapter 4, I study oil industry bargaining in Venezuela by concentrating on recent changes in Venezuela's laws under Chavez's rule, and influences this brought upon foreign oil industry actors. In Chapter 5, I look at two different instances of oil industry bargaining in the United States – bargaining for UNOCAL, involving Chevron, an American IOC, and CNOOC, a Chinese NOC, as the main actors, and bargaining for the Arctic National Wildlife Refuge (ANWR) featuring two diametrically opposed coalitions as the main actors. In Chapter 6, I study contemporary oil industry bargaining in Iran, considering it nested within Iranian nuclear bargaining. Finally, I conclude each bargaining case with analysis of the relationship of each case study with the hypotheses. Goals of each actor involved in any particular oil bargaining case are presented in a table at the beginning of each case, and detailed timelines for all bargaining scenarios are presented as appendices (see Appendices 2-7).

It is worth noting that since all of the oil industry bargaining cases studied in this dissertation are contemporary, many are still ongoing at the time of conclusion of research. Thus, in some cases, there is no formal agreement between the parties. However, communication has taken place in each of the case studies, even in the absence of direct negotiations, and this is an indication that bargaining has taken place, albeit tacitly. All actors in all case studies have common and conflicting interests, which is a prerequisite for a bargaining situation. Finally, actors have changed their positions in the course of the period with which I am dealing, what is another precondition for my case studies to be considered as bargaining situations.

My case studies are not parsimonious, as such approaches, according to James Rosenau, “are compelled to ignore the multiple macro and micro levels at which sources of turbulence stir and gather momentum.”³ Therefore, this dissertation forsakes parsimony in order to “acknowledge multiple layers of causation,”⁴ and to engage in comprehensive analysis of bargaining in the oil industry. The complexity of my approach can lead to incoherence. However, the aspects of oil industry bargaining examined here are not empirically arbitrary. As will become evident in Chapter 7, the cases discussed are interrelated and not isolated.

³ James N. Rosenau, *Turbulence in World Politics* (New York: Harvester-Wheatsheaf, 1990), p. 23.

⁴ *Ibid.*