

## APPENDICES

### APPENDIX 1: Selection of the IOC-Host State Bargaining Model Variables

From a review of the relevant literature, numerous host country/industry context factors and IOC-specific resources have been identified (see Figure 2.3). Overall, there are nineteen variables. While eleven of these variables are drawn from general oil industry and each particular host country context, four are IOCs-specific resources, and four are relative variables, where score reflects relative assets of IOCs vis-à-vis host states (for methodology on determining the score, and all the scores, please refer to Appendix 8).

#### Industry and Country Context

##### 1) Reserve Size

Since the host governments have ultimate sovereignty, the more dependent the IOCs on their oil, the more powerful the government's bargaining position. According to Greg Muttitt, countries that control large reserves possess more bargaining power against the IOCs than those in possession of smaller reserves, and the latter generally accept a lower share of revenues than those more attractive to IOCs.<sup>1</sup> Toby Shelley supports this hypothesis, and argues that those countries, which yet have to demonstrate that they have commercial reserves and those that have small reserves, such as Yemen, Angola and Mauritania would usually get a smaller take from contracts with the IOCs.<sup>2</sup> There will clearly be more interest among the IOCs for investing in countries like Saudi Arabia, Iran, Iraq, Kuwait, UAE, Venezuela or Russia, rather than Indonesia, Malaysia or Egypt. For example, Jeroen van der Veer, chief executive of Royal Dutch/Shell said, "One has to realise that with Iran, when you look at both oil and gas reserves, they have a very strong position as a country."<sup>3</sup> If IOCs show more interest, this indicates that they place high value on establishing their presence in that particular host country, which can therefore exploit its natural endowment at the expense of IOCs.

##### 2) Reserve Longevity

Governments in control of oil reserves, which at current production are expected to last longer, are expected to have higher bargaining power vis-à-vis the IOCs, than those governments whose reserves, at current production rates, are expected to last for a shorter period of time. Thus, other things equal, countries with higher R/P ratios are expected to exert more bargaining power against the IOCs as compared to countries with lower R/P ratios.

##### 3) Potential Profitability

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<sup>1</sup> Muttitt, "Production Sharing Agreements: Oil Privatisation by Another Name?"

<sup>2</sup> Shelley, Oil, p. 143. Similar suggestion is offered by L. N. Rangarajan in *Commodity Conflict*, p. 118; likewise, similar is presented in "Chavez Triumphant"; and in Manjeet Singh Pardesi, Amitav Acharya, Premarani Somasundram, Young Ho Chang, Joey Long Shi Ruey, Tang Shiping, Hiro Katsumata, and Vladimir I. Ivanov, "Energy and Security: The Geopolitics of Energy in the Asia-Pacific," Institute of Defence and Strategic Studies, Nanyang Technological University, Singapore, October 2006, p. 35.

<sup>3</sup> Quoted in Sally Jones, *Dow Jones Newswires*, April 25, 2006.

Potential oil production profitability influences bargaining power of IOCs against host countries. This assumption is self-explanatory, as it is obvious that, while excluding all other variables, there will be more interest among the IOCs for investing in countries where production would yield high profits, such as in Saudi Arabia, Iran, Iraq, Kuwait, UAE, Venezuela or Russia, rather than in Canada or Mexico. Higher the potential for profitability, higher the IOCs' interest in establishing their presence, and therefore, higher the bargaining power the host country possesses against the IOCs.

#### 4) Level of Economic Development

The level of economic development of a host country can have an impact on MNC's bargaining power vis-à-vis the government of that country. A host country's "absorptive capacity," referring to the capacity of its local firms and government agencies "to recognise the value of new external information, assimilate it, and apply it to commercial ends,"<sup>4</sup> is directly reflective of its level of economic development.<sup>5</sup> Therefore, a host country, which is at the high stage of economic development, will be associated with high bargaining power. Conversely, for countries that are at lower levels of economic development an MNC would exercise greater bargaining power.

#### 5) Barriers to Entry

Barriers to entry to a particular country's oil industry affect bargaining power of IOCs. If barriers to entry are low and it is easy to establish IOC presence in a particular host country, an IOC would possess high level of bargaining power vis-à-vis the host government. This is so because lower entry barriers indicate that any given host country needs IOC presence in its oil industry and low barriers serve as an invitation to IOCs.

#### 6) Strategic Importance of the Industry

MNCs operating in industries, which are of strategic importance to a host country, are expected to be in relatively weak bargaining position. Poynter found that MNCs operating in high importance industries (including cement, steel, oil refineries, infrastructure and natural resources) were strongly associated with higher intervention levels than MNCs operating in the other industries.<sup>6</sup>

#### 7) Cultural/Political Context

Moreover, IOCs' bargaining power can evaporate with domestic political changes in host countries. For example, host nations, which contain ruling politicians, noted for their

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<sup>4</sup> W. M. Cohen and D. A. Levinthal, "Absorptive Capacity: New Perspective on Learning and Innovation," *Administrative Science Quarterly*, vol. 35, 1990, p. 128.

<sup>5</sup> J. Baranson, "Technology Transfer through the International Firm," *American Economic Review, Papers and Proceedings*, May 1969, pp. 435-40; and B. L. Kedia and R. S. Bhagat, "Cultural Constraints on the Transfer of Technology Across Nations: Implications for Research in International and Comparative Management," *Academy of Management Review*, vol. 13, 1988, pp. 559-71.

<sup>6</sup> Poynter, "Government Intervention in Less Developed Countries: The Experiences of Multinational Companies," p. 18; and Poynter, *Multinational Enterprises & Government Intervention*, pp. 51-2. A similar result was found by Bradley, "Managing against Expropriation."

leftist, socialist, nationalist, or anti-Western and/or anti-capitalist stance will almost always tend to obtain greater rewards from intervening in subsidiaries, which epitomise the ideological opposite.<sup>7</sup> Additionally, when dealings between the government and companies are widely publicised in the press and other media, the government tends to have a bargaining advantage, since IOCs are often portrayed as foreign interlopers, so the government can utilise public opinion to sway negotiations toward more favourable outcomes.<sup>8</sup>

## 8) Competition

Traditional industrial organisation economists have suggested that an industry's level of profitability should decrease as its concentration level (the degree to which a few large sellers dominate an industry in terms of relative market share) decreases.<sup>9</sup> Intense industry competition, or low industry concentration, has been viewed as reducing the bargaining power of an MNC operating in the industry,<sup>10</sup> as firms have to battle more fiercely against each other for such things as customer support, the best inputs, or the latest technology. The result of these battles is heightened environmental uncertainty for individual firms.<sup>11</sup> Robert Grosse argues that the power of government is greater in highly competitive industries, where more than two or three MNCs are able to supply the product or service. In this situation, the government may be able to play the firms against each other to obtain the outcome most favourable to the country.<sup>12</sup> This is also supported by Raymond Vernon, who argues that wherever rival sources of capital, technology or access to markets have appeared, "their rivalry has diluted the unique strengths of any single enterprise and has weakened its bargaining position."<sup>13</sup>

In services, capital, technology or access to markets they offer, besides competing with each other, IOCs nowadays face a lot of competition from service companies, such as Halliburton or Schlumberger; developing world NOCs, as we are witnessing "an increased blurring of NOC-IOC categories"<sup>14</sup>; independents; local private oil companies; and/or specialised energy consultancy firms. Competition that the IOCs face has increased considerably in the past decade, especially with the rise of oil importing countries' NOCs.

With high-profile international ventures, NOCs such as Sonatrach of Algeria, KPC of Kuwait, Saudi Aramco, Petronas of Malaysia, Petrobras of Brazil, Sinopec, CNPC and

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<sup>7</sup> Poynter, *Multinational Enterprises & Government Intervention*, pp. 63-4.

<sup>8</sup> See Grosse, *Multinationals in Latin America*, p. 83.

<sup>9</sup> See J. Bain, "Relations of Profit Rate to Industry Concentration: American Manufacturing, 1936-1940," *Quarterly Journal of Economics*, vol. 65, 1951, pp. 293-324; J. Bain, *Barriers to New Competition* (Cambridge: Harvard University Press, 1956); M. E. Porter, *Competitive Strategy* (New York: Free Press, 1980); and F. M. Scherer and D. Ross, *Industrial Market Structure and Economic Performance* (Boston: Houghton Mifflin Company, 1990).

<sup>10</sup> See Fagre and Wells, "Bargaining Power of Multinationals and Host Governments;" W. C. Kim, "The Effects of Competition and Corporate Political Responsiveness on Multinational Bargaining Power," *Strategic Management Journal*, vol. 9, 1988, pp. 289-95; Lecraw, "Bargaining Power, Ownership and Profitability of Subsidiaries of Transnational Corporations in Developing Countries;" and Robert B. McKern, *Multinational Enterprise and Natural Resources* (Sydney: McGraw-Hill, 1976), p. 23.

<sup>11</sup> G. G. Dess and D. W. Beard, "Dimensions of Organizational Task Environment," *Administrative Science Quarterly*, vol. 29, 1984, pp. 52-73.

<sup>12</sup> Grosse, *Multinationals in Latin America*, p. 84.

<sup>13</sup> Vernon, *Storm over the Multinationals*, p. 194.

<sup>14</sup> Valérie Marcel, "Investment in Middle East Oil: Who Needs Whom?" *Chatham House Report*, February 2006, p. 6.

CNOOC of China, Pemex of Mexico, PdVSA of Venezuela, Statoil of Norway, and Gazprom of Russia, are challenging the IOCs on their territory of high political risk ventures. Many are implementing a dedicated internationalisation strategy, and it is becoming difficult to confine 'national oil companies' to their national borders.<sup>15</sup> While many host governments of these companies started with little skills base, an uneducated workforce, many of them have since expanded their core business to integrate their activities through the value chain and are not embarking on internationalisation strategies where they strive to be as competitive as the IOCs.<sup>16</sup> Saudi Aramco, the top NOC source for best management practices, advanced technology and expertise, rivalling that of major IOCs, enabled Chinese NOCs to improve their exploration and production. Petrobras is tackling exploration in the deep and the ultra-deep acreage with technology that had previously been the reserve of the IOCs, and the Chinese NOCs are especially competitive, because they develop cheap and effective technical solutions.<sup>17</sup> Note however, that the transfer of advanced technology from the United States is effectively barred under regulations governing the export of dual use and other strategically sensitive items.<sup>18</sup>

Additionally, service, or 'niche' companies such as Schlumberger and Halliburton can provide services often at a better cost than IOCs.<sup>19</sup> They offer a wide range of services, related to exploration, seismic, drilling, transportation, and so forth, and this therefore increases friction with IOCs. In addition, service companies are able to step in to countries with high entry barriers to the IOCs, as they, unlike IOCs, which usually engage in large integrated projects, operate under strict and very limited parameters,<sup>20</sup> and unlike the IOCs, prefer fee-for-service agreements, which are also preferred by many host countries.<sup>21</sup> Moreover, by offering financial management tools (hedging, futures), technical consulting, systems consulting, management skills consulting and access to capital, IOCs clash with other service providers, such as banks and specialised consulting groups who already offer these services and may often be preferred by host governments.<sup>22</sup>

## 9) World Oil Market Prices

World oil prices affect bargaining power of IOCs vis-à-vis the host governments.<sup>23</sup> If the oil prices are low, host governments are usually needy of foreign capital investment in their oil industry. Therefore, their bargaining power against the IOCs is negatively affected. Alternatively, if the oil prices are high, host governments are endowed with a lot of capital and will not be needy of foreign investment, and thus, their bargaining power vis-à-vis the IOCs will be higher.<sup>24</sup>

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<sup>15</sup> Ibid.

<sup>16</sup> Ibid, p. 4.

<sup>17</sup> Marcel, *Oil Titans*, p. 209 and 219.

<sup>18</sup> Leverett and Bader, "Managing China-U.S. Energy Competition in the Middle East," p. 192.

<sup>19</sup> NIOC manager quoted in *ibid.* p. 7.

<sup>20</sup> Ibid, p. 8.

<sup>21</sup> Arwa Mohammad Abulhasan, "Future Relations between Kuwait Petroleum Corporation and the International Oil Companies: Success or Failure?" Master of Arts in Law and Diplomacy Thesis, The Fletcher School of Law and Diplomacy, 2004, p. 39.

<sup>22</sup> Marcel, *Oil Titans*, p. 214.

<sup>23</sup> While rising oil prices helped Venezuela in their bargaining with IOCs, they did not help Canada. See Tugwell, *The Politics of Oil in Venezuela*; and Jenkins, "Reexamining the 'Obsolescing Bargain'", pp. 159-60.

<sup>24</sup> Jad Mouawad, "Big Oil's Burden of Too Much Cash," *The New York Times*, February 12, 2005.

## 10) Level of Political and Economic Risk

Finally, a particular country's level of political and economic risk and/or stability affects its bargaining power vis-à-vis the MNCs. For example, if the country's credit ratings, published regularly by Moody's, Standard & Poor's and Fitch, are favourable, and the credit risk is low, excluding all other variables, that particular country would have bargaining advantage vis-à-vis the MNCs. If the political and economic risk were high, the host government would have lower bargaining power against the MNCs.

## 11) Oil Scarcity Perception

Other things being equal, the bargaining power of host countries vis-à-vis MNCs is stronger when minerals are perceived as scarce, and weaker if they are perceived as abundant.<sup>25</sup> Thus, if there is a general perception of oil scarcity, host states and their NOCs are expected to exert higher bargaining power than the IOCs. Alternatively, if there is a general perception of abundance of oil, the IOCs are expected to exert higher bargaining power vis-à-vis host states and their NOCs.

## IOC Specific Resources

### 1) Reputation

Firm reputation may be an important source of an MNC's bargaining power.<sup>26</sup> Economists and strategy scholars have long recognised the strategic importance of "invisible assets" such as corporate reputation, image, and brand name.<sup>27</sup> Positive corporate reputation may enhance an MNC's bargaining power, as positive reputations can convey a signal about an MNC's "socio-political legitimacy" in dealing with various publics (including the host government).<sup>28</sup> In turn, the host government may use high-reputation MNCs already operating in the host country as a signal to the international investment community that it provides an attractive climate for FDI.<sup>29</sup> Thus, an MNC that has a good international reputation may command greater bargaining power insofar as it can leverage its social network ties with other MNCs operating in the host country and achieve favourable terms in its negotiations with the host government.<sup>30</sup>

### 2) Availability of Local Allies

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<sup>25</sup> McKern, *Multinational Enterprise and Natural Resources*, p. 23.

<sup>26</sup> Moon and Lado, "MNC-Host Government Bargaining Power Relationship: A Critique and Extension Within the Resource-Based View," p. 104; also see Vernon, *Sovereignty at Bay*.

<sup>27</sup> See for example C. Fombrun and M. Shanley, "What's In a Name? Reputation Building and Corporate Strategy," *Academy of Management Journal*, vol. 33, 1990, pp. 233-58; K. Wiegelt and C. Camerer, "Reputation and Corporate Strategy: A Review of Recent Theory and Applications," *Strategic Management Journal*, vol. 9, 1988, pp. 443-454; and R. Wilson, "Reputations in Games and Markets," in A. E. Roth (ed.), *Game Theoretic Models of Bargaining* (New York: Cambridge University Press, 1985), pp. 65-84.

<sup>28</sup> H. E. Aldrich and M. Fiol, "Fools Rush In: The Institutional Context of Industry Creations," *Academy of Management Review*, vol. 19, 1994, pp. 642-670. Also see Eden and Appel Molot, "Insiders, Outsiders and Host Country Bargains," p. 368.

<sup>29</sup> S. E. Weiss, "The Long Path to the IBM-Mexico Agreement: An Analysis of the Microcomputer Investment Negotiations," *Journal of International Business Studies*, vol. 21, 1990, pp. 565-596.

<sup>30</sup> S. Ghoshal and C. A. Bartlett, "The Multinational Corporation as an Interorganizational Network," *Academy of Management Review*, vol. 15, 1990, pp. 603-25.

Local allies can be a potent source of bargaining and lobbying power for IOCs vis-à-vis the host government. Barbara Jenkins' 1986 study of the National Energy Policy (NEP) implemented in Canada in October 1980, found that the American IOCs were able to defeat the NEP by using local allies.<sup>31</sup>

### 3) Availability of Alternative Options

An MNC's ability to substitute for host country resources and related, high levels of competition among countries for investment, improves its bargaining power vis-à-vis a host country.<sup>32</sup> For example, if an IOC is engaged in renegotiation with a host government, and if it has equally or more profitable options to pursue elsewhere, this positively affects its bargaining power against the host state. Barbara Jenkins' 1986 study of the National Energy Policy (NEP) implemented in Canada in October 1980, found that the American IOCs were able to defeat the NEP by shifting their oilrigs outside of Canada and cancelling new investments.<sup>33</sup>

### 4) Reserve Replacement

Major IOCs' reserve replacement is an important indicator of their bargaining power. In the oil industry, "reserve replacement is the best guide to whether a company will be able to maintain – or grow – production in the future."<sup>34</sup> Thus, if IOCs do not manage to replace all of their production in any given year this negatively affects their bargaining power vis-à-vis host states. Alternatively, if they replace all the oil they produce in that year, and manage to get hold of additional reserves, this positively affects their bargaining power against the host states and their NOCs.

## Relative Variables

### 1) Capital Possession

Financial resources and capital in MNC's possession increase the bargaining power of an MNC vis-à-vis a host government.<sup>35</sup> Producers need investment capital when their fiscal relationship with the state is structured in such a way that their capital needs are sacrificed to government budgetary needs or that their means of revenue generation cannot meet investment requirements. Cash-rich IOCs seem like a perfect choice for host governments needy of foreign investment, and balance-of-payments difficulties or severe external debt problems may increase a host country's demand for FDI, or limit its freedom of action because of conditions imposed by international financial organisations or commercial

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<sup>31</sup> Jenkins, "Re-Examining the 'Obsolescing Bargain:' A Study of Canada's National Energy Program."

<sup>32</sup> Ibid, pp. 617 and 621-2; Vernon, *Sovereignty at Bay*, and Eden and Appel Molot, "Insiders, Outsiders and Host Country Bargains," p. 365.

<sup>33</sup> Jenkins, "Re-Examining the 'Obsolescing Bargain:' A Study of Canada's National Energy Program."

<sup>34</sup> Schwartz, "A Shell of Itself."

<sup>35</sup> See Fagre and Wells, "Bargaining Power of Multinationals and Host Governments;" Douglas C. Bennett and Kenneth E. Sharpe, "The World Automobile Industry and Its Implications," in Richard S. Newfarmer (ed.), *Profits, Progress, and Poverty* (Notre Dame: University of Notre Dame Press, 1985); Benjamin Gomes-Casseres, "Multinational Ownership Strategies," DBA thesis, Harvard Business School, Boston, 1985; Lecraw, "Bargaining Power;" and Poynter, "Government Intervention."

banks. Dependence of the economy on FDI may constrain a host country, either because of the control current investors exercise or the fear of repelling future investors.<sup>36</sup> These factors carry a negative influence on host country's bargaining power vis-à-vis MNCs. However, if host governments do not have severe debt problems and capital difficulties, they may not be in dire need of FDI, and thus may possess higher bargaining power vis-à-vis the IOCs.

## 2) Technological Know-How

Developing countries seek FDI to access the technology of MNCs. The level of technology an MNC possesses has often been hypothesised to increase the MNC's bargaining power, *ceteris paribus*.<sup>37</sup> The main rationale has been that a high level of technological and managerial complexity makes the MNC a more difficult target for host governments to intervene or expropriate since host governments of developing countries often lack the technological competence or knowledge to run MNC's operation independently. When an MNC's bargaining power (vis-à-vis host government) is founded on technological "know-how", it is likely to provide durable basis for generating and appropriating economic rents. If a host government over the years absorbs the technology through learning/imitation or even expropriation/nationalisation of foreign operations, we would be witnessing an "obsolescing bargain."<sup>38</sup> Thus, local technological expertise can influence bargaining power of IOCs relative to that of the host governments. If local technological knowledge is higher than that of the IOCs, the host government would not need the latter, and their bargaining power would be extremely weak. Alternatively, if IOC technological expertise were higher than that of the host government, then the IOC would have higher bargaining power opposed to the host government. It is important to consider technological expertise of the IOCs and host governments in comparative perspective. If it were at relatively similar levels, it would not endow any particular actor with extra bargaining power.

## 3) Managerial Skills

Managerial expertise may be a potent source of an MNC's bargaining power that yields sustainable economic rents.<sup>39</sup> Poynter identified operational and managerial complexity as a key determinant of an MNC's bargaining power, as MNCs characterised by a more sophisticated configuration of technical, operational and managerial systems would have greater bargaining power relative to the host governments.<sup>40</sup>

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<sup>36</sup> Kobrin, "Testing the Bargaining Hypothesis," p. 622.

<sup>37</sup> See Bradley, "Managing against Expropriation;" Fagre and Wells, "Bargaining Power of Multinationals and Host Governments;" Lecraw, "Bargaining Power, Ownership and Profitability of Subsidiaries of Transnational Corporations in Developing Countries;" Poynter "Government Intervention in Less Developed Countries;" Bergsten, Horst, and Moran, *American Multinationals*; Vernon, *Sovereignty at Bay*; Vernon, *Storm over the Multinationals*; Charles Oman, *New Forms of International Investment in Developing Countries* (Paris: OECD, 1984); Vernon, "Sovereignty at Bay Ten Years After"; and Poynter, *Multinational Enterprises and Government Intervention*.

<sup>38</sup> Raymond Vernon, "The Obsolescing Bargain: A Key Factor in Political Risk," in Mark B. Winchester (ed.), *The International Essays for Business Decision Makers*, vol. 5 (Houston: Center for International Business, 1980), pp. 281-287.

<sup>39</sup> Moon and Lado, "MNC-Host Government Bargaining Power Relationship: A Critique and Extension Within the Resource-Based View," p. 104; also see Vernon, *Sovereignty at Bay*.

<sup>40</sup> Poynter, "Government Intervention in Less Developed Countries: The Experiences of Multinational Companies."

#### 4) Access to Markets

Access to markets is a MNC power resource.<sup>41</sup> If all other variables are excluded, the ability to export and market access provides IOCs with bargaining power advantage over the host states. However, host states might have considerable access to oil-importing countries' markets through their NOCs' operations, and if this were the case, the IOCs' bargaining power vis-à-vis host governments would be reduced.

#### Variables not Included

##### 1) Host State's International Institution Membership

According to Lorraine Eden, the role of multilateral rules negotiated in international institutions of which host countries are members could limit bargaining power of host states, since most governments are members of multilateral organisations.<sup>42</sup> Related, Rami Ramamurti argues that government-to-government bargains can establish overall rules of the game, which then constrain MNC-host state bargaining in specific issue areas.<sup>43</sup> Following, Eden suggested that the web of agreements is creating an investment regime that offers more protection, and bargaining power, to multinationals.<sup>44</sup> Thus, if particular host states are members of organisations such as the IMF, World Bank, or the WTO, that would limit their bargaining power vis-à-vis MNCs. For example, it can be suggested that American MNCs were certainly helped by the fact that in the mid and late 1990s, Russia and Venezuela suffered economically and were highly indebted. Since the U.S. has been the main creditor of their debt, one could assume that American MNCs received a degree of indirect help due to this development.<sup>45</sup> However, one could argue that if a host country were a member of OPEC, as many of these same host states are, its bargaining power over IOCs would be enhanced. Goals of OPEC need to be considered when assessing such a possibility. OPEC's 1961 Statute claims that "Due regard shall be given at all times to the interests of the producing nations and to the necessity of securing a steady income to the producing countries."<sup>46</sup> In 1968, OPEC issued a Declaratory Statement of Petroleum Policy in Member Countries. This referred to the inalienable right, as expressed by the United Nations, of all countries to exercise permanent sovereignty over their natural resources in the interests of their national development. The Declaratory Statement pointed out that this right applied to OPEC Member Countries directly undertaking the exploitation of their own, indigenous exhaustible resources. Cooperation lies at the roots of OPEC's existence. Indeed, OPEC was founded on the premise of cooperation, with its first Conference of 1960 resolving that: "The principal aim of the Organization shall be the unification of petroleum policies for the Member Countries and the determination of

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<sup>41</sup> Kobrin, "Testing the Bargaining Hypothesis," p. 620; Vernon, *Storm over the Multinationals*, pp. 171-2; Poynter, *Multinational Enterprises & Government Intervention*, pp. 60-1; and McKern, *Multinational Enterprise and Natural Resources*, p. 22.

<sup>42</sup> Eden and Appel Molot, "Insiders, Outsiders and Host Country Bargains," p. 366.

<sup>43</sup> Ramamurti, "The Obsolescing 'Bargaining Model'?"

<sup>44</sup> Lorraine Eden, "The Emerging North American Investment Regime," *Transnational Corporation*, vol. 5, 1996, pp. 61-98.

<sup>45</sup> Derived from Poynter's assumption, that home nations can provide host nations with aid, money, military and economic support, or act as a supporter in multilateral organisations such as the World Bank, the United Nations, etc. Poynter, *Multinational Enterprises & Government Intervention*, p. 62.

<sup>46</sup> "OPEC: Vision, Mission and Development," *World Oil Outlook to 2025* by Dr Maizar Rahman, Indonesian Governor for OPEC, Acting for the OPEC Secretary General Indonesian National Committee, World Energy Council Jakarta, Indonesia 29 July 2004.

the best means for safeguarding the interests of Member Countries, individually and collectively.”<sup>47</sup> Therefore, cooperation with other member states may help a particular OPEC host state to maximise its interests in a bargaining situation with the IOCs. Thus, due to symmetrically opposite effects of different institutions on host states’ bargaining power vis-à-vis MNCs, the overall international institution membership of host states will be disregarded as a variable in determining host states’ bargaining power vis-à-vis the IOCs.

## 2) IOC’s Home State Support

It makes logical sense that different country origins of MNCs may affect bargaining power differently in a particular host country. This is due to different historical, cultural and political backgrounds. Further, some have argued that MNCs originating from politically and economically more powerful countries have more bargaining power than those originating from weaker countries.<sup>48</sup> For example, if this stood in the oil industry, in bargaining with Iran, Russia and Venezuela, IOCs from the United States would possess more bargaining power than the IOCs from the United Kingdom, Spain, Italy or France, as the U.S., the world’s largest power, would be able to endow its IOCs with extra bargaining power vis-à-vis the host governments. However, this simplified formula ignores the historical realities, which show us that due to differing interests, the U.S. government more often does not, than it does offer support to its IOCs in their overseas bargaining ventures. Moreover, in some countries, host governments may target American IOCs in particular, just because they have grievances against anything American.

Bennett and Sharpe argued that MNC’s “power resources are not entirely interchangeable from context to context, or from contest to contest. What serves as a basis for power in one situation may be worthless, perhaps even a liability, in another.”<sup>49</sup> Therefore, one could regard supposition that power resources are “fungible,” and that the possession of power resources gives one a centralised capacity whenever and wherever one pleases,<sup>50</sup> as dangerously misleading. Hence, considering bargaining power of IOCs by not only considering IOC-specific resources, but also industry and country context (introducing scope and domain as I did above – see variable 7) host state’s cultural/political context), proves to be extremely important. In some cases, powerful home states, such as the U.S., even if they support their IOCs in bargaining with host states, they may in fact weaken these IOCs due to a particularly hostile and anti-American political and cultural context.

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<sup>47</sup> Ibid.

<sup>48</sup> Eden and Appel Molot, “Insiders, Outsiders and Host Country Bargains,” p. 383. They argue that the more powerful U.S. government should be able to influence the MNC-host state bargaining process in Canada in a way that the less powerful Japanese government could not.

<sup>49</sup> Douglas C. Bennett and Kenneth E. Sharpe, “Agenda Setting and Bargaining Power: The Mexican State versus Transnational Automobile Corporations,” *World Politics*, vol. 32, no. 1, October 1979, p. 75. Also see Moran, *Multinational Corporations: The Political Economy of Foreign Direct Investment*, pp. 3-24; Richard S. Newfarmer, “International Industrial Organization and Development: A Survey,” in Richard S. Newfarmer (ed.), *Profits, Progress, and Poverty* (Notre Dame: University of Notre Dame Press, 1985); and Philip, “The Limitations of Bargaining Theory.”

<sup>50</sup> The phrase is from Talcott Parsons, whose suggestion that power be seen on the analogy of money leads to the erroneous supposition of the fungibility of power. See Talcott Parsons, “One the Concept of Political Power,” in *Sociological Theory and Modern Society* (New York: Free Press, 1967). For a corrective, see Baldwin, “Money and Power.”

## APPENDIX 2: Timeline of Russia's Domestic Oil Bargaining

Date	Event
December 1995	The Duma passed a law on production-sharing agreements
1996	"Loans for shares" scheme; the oligarchs became owners of some of Russia's most attractive assets, and big political actors in their own right
June 1996	The legislation on production sharing agreements was entered into force, and it discussed license holders negotiating special terms without reference to whether they were Russian or foreign
February 1999	An improvement in legislation, which made PSAs the most attractive form of foreign investment in the Russian oil and gas industry
2000	Vladimir Putin came to power in March; very soon he declared a change in the rules of the game, where oligarchs were no longer able to count on "special access" to the Kremlin as during Yeltsin's rule
July 2000	Putin told the oligarchs that he would not interfere with their businesses or re-nationalise their possessions as long as they "stayed out of politics"
Early 2003	The Duma adopted a law which effectively scraps PSAs; under this legislation, oil, gas or other natural resources must be offered, first in open tenders and only then, if no purchasers are found, re-bid on PSA terms; in other words, the government would treat PSAs as a special regime to be applied selectively on a case-by-case basis, and they are likely to be limited to complex and capital-intensive offshore projects
Mid 2003	The Russian procurator's office began arresting Yukos executives
October 2003	Arrest of Yukos CEO Mikhail Khodorkovsky
January 2004	The Russian government announced that it wanted over \$1 billion for a license to explore and develop one of the three Sakhalin-3 parcels, Kirinsky block, the rights to which would be won through a tender process; this decision effectively annulled the results of a 1993 tender, in which Exxon Mobil, Chevron and Rosneft received the same exploration rights
March 2004	The presidential elections; Putin wins a new term
April 2004	The Duma passed new oil taxes (export duties) that raised revenues when crude prices were high
August 2004	The new export duties took effect; they work on a sliding scale that hands the state the lion's share of any gains in the oil price over \$25 a barrel
December 2004	Yuganskneftegaz, which accounted for 60% of Yukos's oil production capacity, was sold by the government for \$9.35 billion, ostensibly to pay some of Yukos's huge tax bill (of \$21 billion). The sale was to Baikal Finance Group, a hitherto unknown firm, which was three days later bought by Rosneft, a state-owned oil company for an undisclosed sum
February 2005	Russian government's decision to ban majority foreign participation in new natural resource concessions
April 2005	Russian government presented TNK-BP, the largest foreign oil presence in Russia, with an arbitrary \$936 million tax bill
June 2005	The Kremlin paid \$6 billion through Rosneft to increase its stake in Gazprom from 38 to 51 percent
September 2005	72.7 percent of Sibneft bought by Gazprom for \$13 billion
May 2006	Russia's Academy of Natural Science recommended that the state takes majority control of Shell's, 55 percent owned and \$20 billion worth, Sakhalin-2 field, the Kharyaga license held by Total, and Exxon Mobil's \$17 billion Sakhalin-1 field, because they were all behind schedule
August 2006	Amid skyrocketing oil prices, the Moscow Arbitration Court declared bankruptcy and liquidation of Yukos, assets of which were to be auctioned at well below market rates to Kremlin-controlled companies, Rosneft and Gazprom
September 2006	Russia's Natural Resources Ministry withdrew its approval of Royal Dutch/Shell's Sakhalin-2 permit, and revoked the license on environmental grounds, although the construction work on the development of the field was 75 percent complete, and Gazprom is expected to dominate it in future
December 2006	Russia suspended vital permits for Sakhalin-2 venture, and it appeared likely that Royal

	Dutch/Shell will be giving up its controlling stake in the project, and handing Gazprom a significant share
Late March 2007	Beginning of the auction process in which whatever is left of Yukos, will be acquired by Rosneft and Gazprom

### APPENDIX 3: Timeline of Oil Pipeline Bargaining between Russia, China and Japan

Date	Event	Decision in Favour of
July 2001	President Jiang Zemin signed an agreement in Moscow for a feasibility study of a pipeline from Angarsk to Daqing	China
July 2002	Feasibility study completed; Yukos to construct the pipeline	
August 2002	State-owned Transneft, whose monopoly on oil export pipelines was threatened by the Yukos project, first raised the idea of a pipeline to Nakhodka	
January 2003	On his visit to Moscow Prime Minister Junichiro Koizumi promised Japanese financial support for the Nakhodka pipeline	
April 2003	Citing that the Angarsk oil reserve was not large enough to sell oil to both China and Japan, then-Russian deputy foreign minister Alexander Losyukov said that Russia had rejected a Japanese proposal to construct a trans-Siberian pipeline to provide Japan with oil, and would instead build a shorter pipeline to Daqing	
May 2003	Yukos' head, Mikhail Khodorkovsky, signed an agreement with CNPC that seemed to have sealed the Daqing deal Japan dropped its request for Russian government's financial guarantees and agreed to contribute \$7 billion to help develop the oilfields	
June 2003	Putin said that the Pacific pipeline "looks preferable because it allows broad access to markets"	Japan
July 2003	Japan dispatched a delegation, led by Iwao Okamoto, director-general of the Natural Resources and Energy Agency, to Moscow; the Japanese energy officials discussed with their Russian counterparts about providing financial and technical assistance to the construction of the Pacific pipeline and the development of oilfields in eastern Siberia; the Japan Bank for International Cooperation was said to be willing to finance the construction project even without any loan guarantees from the Russian government	
September 2003	Kremlin's assault on Yukos; Russia's Prime Minister Mikhail Kasyanov's statement after talks with his Chinese counterpart, Wen Jiabao, in Beijing: "Russia would uphold its commitments to supply oil to China," by delaying consideration of the pipeline to Daqing for three to four months to "assess the environmental impact."	
October 2003	Khodorkovsky arrested	
February 2004	Igor Yusufov, then Russian energy minister, hinted that Russia was leaning towards the construction of the Pacific line due to its greater strategic importance to the country; the pipeline was to be built by the state-owned Transneft	
May 2004	The heads of Gazprom and the two oil companies Rosneft and Surgutneftegaz affirmed their commitment to common routes for oil and gas pipelines to Nakhodka	
September 2004	The Russian government officially withdrew its support for Daqing route and instead expressed interest in an even longer and more expensive pipeline from Taishet, and not Angarsk, to Nakhodka, from which oil could be shipped to Japan and other Asian customers	
December 2004	Prime Minister Mikhail Fradkov formally announced the decision to go with Japan	

	A mysterious \$6 billion transfer from China for future oil deliveries, that were used to help Rosneft, a state-owned oil company, buy Yuganskneftegaz	
April 2005	When the government's instructions to Transneft were released, the schedule for pipeline construction, to be done by the end of 2008, refers only to an initial section from Taishet to Skovorodino in the Amur region – a stone's throw from the Chinese border With Yukos out of the way, Moscow shifted its attention back to the Daqing route. It announced that the pipeline will head south from Skovorodino first, and that Japanese fears that they would not be prioritised may be realised.	China
July 2005	Putin said that China would get two-thirds of 600,000 bpd of oil that Russia plans to export to Asia within four years	
September 2005	Putin said that Russia would first build a pipeline from eastern Siberia to China and then a smaller line to the Pacific coast near Japan.	
Early November 2005	Russian Prime Minister Mikhail Fradkov assured his Chinese counterpart Wen Jiabao that the construction of a key cross-border crude oil pipeline will go ahead as per 2001 agreement	
Late November 2005	In a document on the pipeline project – which was one of the main focuses of the Russo-Japanese summit in Tokyo, just weeks after Fradkov's meeting with Wen Jiabao, Russia promised Japan that it will build a Pacific-bound oil pipeline linking eastern Siberia with the Russian Far East. However, Russia fell short of setting a date for constructing it, and some have suggested that despite public statements to the contrary, Russia looks set to have the eastern Siberian oil line serve China before Japan	
December 2005	Russia started implementing a project to build the Taishet-Skovorodino pipeline, and Transneft and CNPC got engaged in talks to build a pipeline segment from Skovorodino to China	
March 2006	According to memoranda signed during Putin's visit to China, over the next 15 years Russia will most likely become the largest energy supplier to China	
April 2006	The construction of the Taishet-Skovorodino pipeline was launched	
July 2006	Putin said that he could not give Japan guarantees that a planned Far Eastern pipeline would eventually reach the Pacific coast, citing uncertainty about oil supplies	

#### APPENDIX 4: Timeline of Oil Industry Bargaining in Venezuela

Date	Event
February 1999	Chávez came to power
January 2002	Venezuela's 2001 Hydrocarbons Law, which raised royalties paid by private companies to 20 – 30 percent from the previous 1 – 16.66 percent, and from 1 to 16.66 percent for those producing from the tar sands, came in effect but not in practice as of yet; at the same time, the government increased a corporate tax rate for oil companies from 'preferential rate' of 34 percent to 50 percent; the law also guaranteed PdVSA at least 51 percent stake in any project regarding exploration, production, transportation and initial storage of oil
April 2002	U.S. intelligence agencies provided support to Venezuelan military personnel who had briefly toppled Chávez
December 2002	Nationwide strike, organised by opponents of President Chávez, was also joined by the employees from PdVSA, shutting down a large portion of the country's oil industry and drastically reducing the production of Venezuelan oil and its delivery to internal and external markets; Chávez declared the strikers' demands, which called for an early referendum on the President's rule, unconstitutional and dismissed around half (18,000) of PdVSA's total work force (32-40,000). Chávez then took full control of the company and put political loyalists in charge
October 2004	The new law came into practice when Chávez surprised the IOCs by announcing on his weekly radio broadcast that he was increasing royalties paid to the state by companies involved in heavy crude production in the Orinoco Tar Belt
November 2004	Venezuela and Russia concluded an agreement setting the stage for Venezuelan purchases of Russian arms; agreements on energy and other matters were also signed
December 2004	Chávez inaugurated Rafael Ramirez, a political loyalist, in charge of both PdVSA and the MEP Chávez was reported to have referred to Venezuela's long oil-producing history as "100 years of domination by the United States." He asserted that "Now we are free and place this oil at the disposal of the great Chinese fatherland."
January 2005	Venezuela signed 19 bilateral oil and gas agreements with China in order to increase exports to Beijing in exchange for the promise of future Chinese investment in Venezuelan oilfields
February 2005	Chávez threatens to cut oil supplies to the US Rosoboronekspport signed a contract to sell 100,000 Kalashnikov rifles to Venezuela, and in addition to this deal, Moscow has offered Venezuela the opportunity to manufacture Kalashnikovs under license
March 2005	A delegation from Tehran visited Caracas, and PDVSA employees are now getting technical training from Iran Russian and Venezuelan representatives signed a \$120 million agreement for Venezuela to purchase nine attack and one transport helicopters, first three of which were delivered in December 2005; additionally, there are indications that Caracas may purchase another 34 Russian helicopters and 50 MiG-29 fighter aircraft to replace its fleet of 22 American-made F-16s; an agreement on cooperation in the energy sphere was signed that envisions Russian firms building petrochemical and power plants in Venezuela as well as participating in oil and gas exploration, extraction, refining, and transport; Russian firms will also engage in modernising the Venezuelan coal industry
April 2005	The Venezuelan Energy Minister, Rafael Ramirez, announced that operating strategic operating agreements (essentially RSAs) between PdVSA and foreign companies would be terminated as from December 31, 2005, with a grace period of six months for companies who are parties to operating contracts

May 2005	The IOCs operating in the country have been compared to Yukos and ordered to pay between \$2 and 3 billion in back taxes for the last ten years
	The first ever tanker with 1.8 million barrels of crude left Venezuela for China
July 2005	Tax auditors raided a Chevron office in Maracaibo, city in western Venezuela
August 2005	Royal Dutch/Shell's office in Maracaibo was closed by the Venezuelan tax agency for challenging its \$132 million tax bill, which was given to Shell in July 2005
	Venezuela opened its first oil office in China
	Chávez wins 59 percent of the public vote in a plebiscite that kept him in office
October 2005	Caracas had hinted specifically that future investments in the Orinoco Tar Belt would be subject to higher royalties and that the current terms would be renegotiated at some point
	22 of the 32 operating agreements signed by foreign oil companies with PdVSA have been migrated to the new regime
November 2005	After the signing of two contracts for crude and fuel oil between CNPC and PdVSA, Venezuela is to double oil sales to China, to 160,000 bpd average in 2006, with plans to bring this to 300,000 by the end of 2006
Early April 2006	Venezuela's government took control of two oilfields, one operated by France's Total and the other by ENI of Italy, after the companies refused to sign up to new arrangements converting their operating contracts into JVs in which PdVSA will have a majority stake
	Venezuela has begun to ship around 2 million barrels of oil per month to India
Late April 2006	After all 32 oil fields have been shifted to joint ventures, rumours have started that four heavy oil projects in the eastern Orinoco River basin, where Exxon Mobil, Chevron, Total, BP, Conoco Phillips and Statoil convert extra heavy crude into some 600,000 bpd of synthetic crude using specialised refineries, could follow suit in near future; In addition, it was suggested that the companies involved could see income taxes increased to 50 percent from 34 percent and royalties hiked to 30 percent from 16.66 percent
May 2006	Chávez increased royalties for all companies involved in the country not to 30, but to 33.3 percent; the income tax was also been raised, as predicted, to 50 percent from 34 percent
	PdVSA announced that it planned to buy 18 oil tankers from Chinese shipyards at a cost of \$1.3 billion to allow for increased shipments to China
July 2006	On his visit to Tehran, where after pledging that Venezuela would "stand by Iran at any time and under any condition," Chávez invited Iranian investment in Venezuela's oil industry
	CITGO announced plans to reduce its network of U.S. gas stations by 14 percent, to 11,200
August 2006	CITGO sold a 42.1 percent share in the Lyondell-CITGO refinery in the U.S., for \$2.3 billion
November 2006	Chávez again threatens to cut oil supplies to the US
December 2006	Chávez wins 63 percent of votes in a presidential election
Late February 2007	Chávez signed a decree for the government to take a majority stake in four heavy crude upgrading projects in the Orinoco River basin by May 1, 2007
March 2007	Chávez said Venezuela was on track to reach its goal of raising oil sales to China to 1 million barrels a day by 2012 as he announced plans for Venezuela and China to build three refineries in China that will process a total of 800,000 barrels a day of heavy Venezuelan crude, to be ready within three years. He also said the two countries decided to start a joint oil shipping company with its own tankers to carry crude and other products between Venezuela and China.
Early April 2007	Rafael Ramírez sent a chilling signal to the US, saying Venezuela might sell refineries in Texas and Louisiana that process crude from Exxon's Venezuelan oil fields.

## APPENDIX 5: Timeline of Bargaining for UNOCAL

Date	Event
April 4, 2005	Directors of UNOCAL accepted a \$16.5 billion offer to be bought by Chevron; the offer was one quarter in cash and three quarters in Chevron stock
June 22, 2005	CNOOC made a counteroffer of \$18.5 billion in cash, financed in part by low interest rate loans from its state-owned parent company
June 30, 2005	The U.S. Congress passed a resolution by 398 to 15 expressing national security concerns about the acquisition of UNOCAL by the CNOOC
July 13, 2005	In a congressional hearing, Frank Gaffney Jr., President of the Center for Security Policy, told the House Armed Services Committee that the sale of UNOCAL to CNOOC “would have adverse effects on the economic and national security interests of the United States.” He pointed to “the folly of abetting communist China’s effort to acquire more of the world’s relatively finite energy resources” and warned of “the larger and ominous Chinese strategic plan of which this purchase is emblematic”
Mid July 2005	Chevron increased its bid to \$17.7 billion, turning up the heat on CNOOC to respond with a higher bid of its own
July 19, 2005	The Chevron-UNOCAL merger accepted by UNOCAL
July 26, 2005	House Resolution (H.R. 6) was amended to require that the Department of Energy (DOE), along with the Departments of Defense and Homeland Security, conduct a 120-day study on the economic and security implications of China’s growing demand for energy. An important provision of that amendment was that the White House could not approve the CNOOC offer until 21 days after the DOE study was completed. Hence, by adding as much as 141 days to the takeover process, Congress undermined CNOOC’s incentive to continue the bidding war with Chevron
August 2, 2005	CNOOC withdrew its bid, thus leaving it to Chevron to complete the takeover
August 10, 2005	The Chevron-UNOCAL merger completed

## APPENDIX 6: Timeline of Bargaining for the Future of ANWR

Date	Event
May 1998	The U.S. Geological Survey (USGS) issued revised estimates of oil and gas resources in the 1002 Area; the 1998 USGS assessment showed an overall increase in estimated oil resources when compared to all previous government estimates; the estimate reaffirmed the 1002 Area's potential as the single most promising prospect in the United States; the total quantity of recoverable oil within this entire assessment area is estimated between 5.7 and 16 billion barrels, with a mean value of 10.4 billion barrels
February 2001	Republican Senator Frank Murkowski, Senator for Alaska and Chairman of the Senate Energy and Natural Resources Committee, introduced his National Energy Security Act 2001; Title V of this bill outlined a program for the development of oil and gas resources thought to be present under Area 1002 of ANWR
May 2001	The National Energy Policy report asserted that: "Measures to enhance energy security ... must begin at home ... The first step towards a sound international energy policy is to use our own capability to produce, process and transport energy resources we need;" in what is to be "environmentally responsible energy development," the NEP recommended opening up the ANWR to oil companies for drilling; the National Energy Policy Development (NEPD) Group, headed by the Vice-President Dick Cheney and the Secretary of State Colin Powell, recommended that President Bush directs the Secretary of the Interior to work with Congress to authorise exploration and, if resources are discovered, development of the 1002 Area of ANWR
October 2001	The Interior Secretary Gale A. Norton, announced the start-up of a controversial new oilfield in Alaska's Beaufort Sea – the Northstar field operated by BP. The Northstar project had been strongly opposed by US environmentalists and Norton's declaration demonstrated a new willingness to ride roughshod over them. Senator Murkowski and Senator Jim Inhofe from Oklahoma tried to attach a drilling provision to a massive \$345 billion defence bill, immediately following the World Trade Center attack; Murkowski and other Republicans tried to convince senators that opening the refuge was now a matter of national energy security; However, the Senate Majority Leader Democrat Tom Daschle managed to keep the ANWR provision out of the defence bill
March 2002 / March 2003	The House repeatedly approves drilling in the refuge as part of broad energy legislation, but the Senate rejects drilling, unable to overcome a Democratic-lead filibuster
March 2004	The Congress passed its budget resolution for 2005 with no mention of oil and gas revenues from the Arctic Refuge
November 2004	Republicans gain four seats in the Senate, expanding their majority to 55; ANWR drilling advocates predict that their increased strength in the Senate will help to open the Refuge to oil development
March 2005	The Senate inserted into the budget revenue provision that anticipated oil lease sales in ANWR; a Democratic-lead attempt to strip the provision from the budget measure fell short by 49 votes to 51, and therefore this provision became immune to a Democratic filibuster; the budget document became a vehicle for authorising ANWR oil drilling
April 2005	The bill, which called for drilling for oil in the ANWR was approved by the House of Representatives
August 2005	The Energy Policy Act of 2005, a statute that was passed by the Congress on July 29, and signed into law on August 8, did not include the provision from the original bill, which called for drilling for oil in the ANWR
December 2005	Senator Ted Stevens (R-AK) attached Arctic Refuge drilling language to the annual defence appropriation bill; however, a bipartisan group of Senators led a successful filibustering of the bill, and the language was subsequently removed from the bill
March 2006	While the Senate was busy passing a largely symbolic budget amendment in support of opening the ANWR to drilling, Prudhoe Bay faced the largest ever spill to hit Alaska's North Slope, as 760,000 litres of crude escaped; the budget resolution had,

	as in 2002 and 2003, fallen a few votes short of the 60 needed to block a Democrat-led filibuster
May 2006	The Congress passed the American-Made Energy and Good Jobs Act, which would open ANWR to development Moreover, a new proposal to open ANWR for drilling was launched by Richard Pombo (R), the Chairman of the House Resources Committee, but together with the American-Made Energy and Good Jobs Act was later blocked by the Senate
August 2006	BP closed the Prudhoe Bay oilfield due to a leak caused by corrosion on an oil transit line; the TAPS was to be closed until 26 km of this ageing pipeline have been inspected and repaired; the bottom-line is that oil companies, which are focused on their economic gains, cannot be trusted to protect Alaska's fragile environment
November 2006	After mid-term elections, both the U.S. Congress and the U.S. Senate became controlled by the Democrats, who are most likely opposed to drilling in Alaska

## APPENDIX 7: Timeline of Oil Industry and Nuclear Bargaining in Iran

Date	Event
1995	Buyback contracts designed
Early March 1995	Conoco, an American IOC, offered a lucrative \$1.6 billion contract to develop two Iranian offshore oil fields
Mid March 1995	President Clinton signed an executive order that bars American companies from conducting business with Iran; Clinton's decree stops American companies from purchasing Iranian crude oil;
May 1995	Decree was extended after President Clinton had formally declared a national state of emergency between Iran and the United States, claiming "an extraordinary threat to the national security, foreign policy and economy of the U.S. constituted by the actions and policies of the government of Iran."
1996	The U.S. Congress adopted the Iran and Libya Sanctions Act (ILSA), imposing severe penalties on non-U.S. firms that invest more than \$20 million in Iran's oil industry
November 1996	The European Union opposed the enforcement of ILSA sanctions on its members, and it passed Resolution 2271 directing EU members not to comply with ILSA
1997	Moderate president Khatami elected in Iran
August 1997	Executive Order (decree) consolidated and clarified by the Clinton administration
September 1997	When the French company TotalFinaElf and the Russian giant Gazprom struck a \$2 billion deal with Iran to develop the huge offshore South Pars field in the Persian Gulf, Washington issued thinly veiled threats to fine the company's branches in the United States
1999	Azadegan oil field discovered, representing Iran's largest oil discovery in 30 years
August 1999	Japanese Foreign Minister Komura Masahiko's visit to Iran, and the resumption of yen loans
November 2000	President Khatami visited Tokyo and announced that his government would give Japan preference in negotiations over the development of Azadegan oil field
January 2001	The Majlis approved development of Azadegan by foreign investors using the "buyback" model
July 2001	Japanese Ministry of International Trade and Industry's (MITI) Minister Hiranuma visited Tehran with an 80-man delegation of Japanese economic leaders
August 2001	ILSA extended for five years
September 2001	After September 11, 2001, suddenly Tokyo began putting much greater emphasis on the U.S.-Japan security alliance, and became more fearful of doing anything that would have annoyed Washington at that volatile time
January 2002	In his State of the Union speech, President Bush identified Iran as one of the countries that support terrorism and included it in his "Axis of Evil"
June 2002	The E.U. gave the green light to launch formal trade relations with Iran, despite heavy pressure against this from the U.S.
August 2002	An Iranian opposition group publicly disclosed the locations of two previously secret nuclear facilities in Iran
December 2002	The White House expressed great concerns over two secret Iranian nuclear plants, which it charged could be used to produce parts of nuclear weapons; on the same day, Iran asserted that the suspect construction sites were for peaceful purposes, and were fully open to United Nations nuclear experts
March 2003	Executive decree from August 1997 continued by President Bush Iran and India conducted a joint naval exercise that was possibly motivated on Tehran's part by the U.S. naval presence in the Persian Gulf
June 2003	The business negotiations between Iranians and the Japanese were more-or-less complete, and all that had to be done was to seal the agreement; Tokyo

	had kept Washington informed, and so just before the deal was to be signed, the Bush Administration launched a diplomatic offensive on Tokyo; National Security Adviser Condoleezza Rice, Secretary of State Colin Powell, and Deputy Secretary of State Richard Armitage threatened Tokyo: Signing this deal with Tehran could damage the U.S.-Japan alliance; they brought up the nuclear issue in Iran as a main concern, and in addition, pointed that Iran supported terrorists and had close relationship with North Korea
July 2003	Iranian Foreign Minister Kamal Kharrazi released a statement that if Japan failed to act, then Iran would begin negotiating with China, India, and/or Russia on the Azadegan deal; Tehran said that they still preferred Japan to other candidates, and that they would not give up on the negotiations
	Richard Boucher, the State Department's spokesman, said that this was a "particularly unfortunate time" to be striking deals with Iran
August 2003	Kharrazi visited Tokyo and urged Japanese leaders to defy the U.S. pressure
2004	Hardliners take control of the Majlis
Early 2004	Japan sent 550 of its Self-Defense Forces (SDF) to Samawa, Iraq, in accordance with Washington's strong wishes and this may have made Tokyo feel more secure about defying the Bush administration on Iran
February 2004	A Japanese consortium led by Inpex finally went ahead with the \$2 billion Azadegan deal and signed the agreement
March 2004	President Bush extended presidential decree on Iran, citing the "unusual and extraordinary threat" to U.S. national security posed by Iran
August 2004	Washington prodded Tokyo to cancel the Azadegan deal and pursue oil interests in Libya instead however, Tokyo did not accept this offer
October 2004	The ambitious Memorandum of Understanding signed between Iran and China (through Sinopec); under this agreement, China may buy between \$70 billion and \$100 billion of Iranian oil and natural gas over the next 30 years, while developing Yadavaran, Iran's biggest onshore oilfield, and South Pars fields in the Persian Gulf, the largest natural gas reserve on the planet; after the oil and natural gas agreement had been signed, Li Zhaoxing, the Chinese foreign minister, paid a visit to Iran, saying that China saw "no reason" to refer Iran's nuclear program to the UN
January 2005	The state run Indian Oil Corp. reached an agreement with the Iranian firm Petropars to develop a gas block in the gigantic South Pars gas field
February 2005	Moscow and Tehran concluded an agreement under which spent nuclear fuel from Bushehr nuclear plant, which Russia works to complete, and which is to be fully operational by November 2007, would be shipped back to Russia
June 2005	The election of hardline president Mahmoud Ahmadinejad in Iran; Chinese President Hu Jintao was among the first to congratulate Ahmadinejad on his victory
September 2005	Both China and Russia abstained in the vote which declared Iran in violation of its NPT commitments for having hidden its enrichment work
December 2005	Russia confirmed a deal to sell 30 surface-to-air (Tor M1) missile systems to Iran for \$1 billion, drawing criticism from the United States and Israel
February 2006	The IAEA concluded that Iran was in pursuit of nuclear weapons and the issue was referred to the U.N. Security Council
March 2006	Joint Economic Committee of the U.S. Congress issued a research report on Iran's oil and gas wealth arguing that "ILSA is believed to have limited Iran's oil production capabilities"
	U.S. Deputy Secretary of State Robert Zoellick had "informally" asked Tokyo to write off its investment in Azadegan
	Iranian Interior Minister Mostafa Pourmohammadi argued that, "If they [the U.N. Security Council] politicise our nuclear case, we will use any means. We are rich in energy resources. We have control over the biggest and most sensitive energy route of the world... No means [for reprisals] will be ignored and we will not disregard any means."

	President Bush extended the presidential decree on Iran
Late March 2006	Iran given a 30 days ultimatum to return to the negotiating table or face isolation Russia and China refused to have Iran's nuclear activities declared "a threat to peace and security," since this could open the door to tougher action in future
April 2006	ILSA tightened, codified, and renamed to Iran Freedom and Support bill by the Congress
May 2006	Tehran suggested that if Japan went cold on the Azadegan deal under the threat of the U.S. sanctions, and did not begin work on the field by September 22, 2006, then China or Russia will be happy to step in
Early June 2006	Iran's supreme leader, Ayatollah Ali Khamenei, threatened to block oil from leaving the Persian Gulf if Iran's security was in danger: "Beware, if you make the slightest mistake over Iran, the energy flow through this region will be seriously in danger."
August 2006	Tehran again suggested that others might step in to develop Azadegan if Japan does not begin work before the deadline
October 2006	Japan's inaction and its inability to stay in the game resulted in its Azadegan oil concession reduced to 10 percent from 75 percent.
April 2007	Iran announced that it could produce nuclear fuel on an industrial scale, and warned that it would review its NPT membership if further pressure was applied by the West over its nuclear programme

## APPENDIX 8: Measurement of the IOC-Host State Bargaining Model Variables

### Methodology

Each variable is awarded a score for Iran, Russia, and Venezuela for both 1998/99 and 2005/06. The score indicates relative bargaining power between IOCs and these three host states. The score for each variable is determined according to the following scale (possible scores within each category in brackets):

4.00-5.00 = very high (4.00, 4.25, 4.50, 4.75, 5.00)  
 3.00-3.99 = high (3.00, 3.25, 3.50, 3.75)  
 2.00-2.99 = medium (2.00, 2.25, 2.50, 2.75)  
 1.00-1.99 = low (1.00, 1.25, 1.50, 1.75)  
 0.00-0.99 = very low (0.00, 0.25, 0.50, 0.75)

Higher the score, more powerful the host government vis-à-vis the IOCs, and lower the score, more powerful the IOCs vis-à-vis the host government. Thus, while score of 5.00 indicates the highest possible relative host state's power against the IOCs, 0.00 indicates the highest possible relative power of IOCs vis-à-vis the host state. A score of 2.50 indicates bargaining power equilibrium. Please note that each score has been assigned most objectively, based on much evidence, thought and analysis. While assigning scores in this manner may be considered arbitrary and unscientific, it best served my objective of providing a coherent picture of the actual bargaining power relationship between host states and the IOCs, since the large number of variables prohibited me from engaging in graspable and unambiguous qualitative analysis.

### Measurement

#### Industry and Country Context

##### 1) Reserve Size

Russia, Venezuela and Iran all possess high crude oil reserves. When one considers changes in official oil reserves of Iran, Russia, and Venezuela between 1998 and 2005, it is important to emphasize that Venezuela and Russia's oil reserves grew by 19.4 and 3.6 billion barrels, respectively. This is reflected in higher score for Russia, but not in the case of Venezuela. Meanwhile, Iran's official reserves grew considerably after discovery of Azadegan field. Thus, this is reflected in the increase of Iran's score.

	Iran		Russia		Venezuela	
	1998	2005	1998	2005	1998	2005
Reserves (billion barrels)	93.7	137.5	55.0	74.4	76.1	79.7
World Rank	5	2	7	7	6	6
Score	4.25 (VH)	4.50 (VH)	3.75 (H)	4.00 (H)	4.00 (H)	4.00 (H)

Source: BP, Statistical Review of World Energy 2006. Note: Higher the reserves, higher the score

## 2) Reserve Longevity

While Iran and Venezuela's R/P ratios increased between 1998 and 2005 by 26.4 and 12.7 years, respectively, Russia R/P ratio dropped by 3.4 years. This is reflected in the increase of Iran and Venezuela's score, and the fall in Russia's score between 1998 and 2005.

	Iran		Russia		Venezuela	
	1998	2005	1998	2005	1998	2005
Reserves/Production (R/P) Ratio (years)	66.6	93.0	24.8	21.4	59.9	72.6
World R/P Ratio (years)	39.8	40.6	39.8	40.6	39.8	40.6
Score	3.75 (H)	4.25 (VH)	1.75 (L)	1.50 (L)	3.50 (H)	4.00 (VH)

Source: BP, Statistical Review of World Energy 2006. Note: Higher the longevity, higher the score

## 3) Potential Profitability

A barrel of oil costs \$2-4 to explore and produce in Iran, between \$6-12 in Russia, and around \$4.50 in Venezuela, except for Orinoco Tar Belt, where it stands at anywhere up to, but not exceeding \$18. It is important to note that while exploration and production costs in Iran, Russia, and Venezuela have not changed considerably since 1998, the oil prices increased dramatically. On one hand, when oil prices stand at \$14-15 a barrel, as they did in 1998, very little economic rent is to be divided between the host government and the IOCs, and potential profitability is low. On the other hand, when oil market prices are at over \$50 a barrel, as they were in 2005, one could see a lot of economic rent divided before a barrel that has been produced in Iran, Russia, and Venezuela reaches the markets, and thus all three countries were awarded with a higher score for 2005 than for 1998.

	1998			2005		
Avg. Oil Price	\$14.36/barrel (WTI)			\$56.51/barrel (WTI)		
Production Cost	Iran	Russia	Venezuela	Iran	Russia	Venezuela
	\$2-4	\$6-12	\$4.50-18	\$2-4	\$6-12	\$4.50-18
Score	3.25 (H)	2.50 (M)	2.00 (M)	4.50 (VH)	4.00 (VH)	3.75 (H)

Sources: For Iran - "OPEC and the High Price of Oil," A Joint Economic Committee Study, United States Congress, November 2005, p. 5; Maugeri, "Two Cheers for Expensive Oil," p. 161; Al-Attar and Alomair, "Evaluation of Upstream Petroleum Agreements," p. 250; and Thomas R. Stauffer, "The Economic Cost of Oil and Gas Production: A Generalized Methodology," OPEC Review, vol. 28, no. 2, June 1999, p. 192; For Russia - Adnan Vatanserver, "Prospects on Russia's Stance Towards OPEC," Institute for the Analysis of Global Security, September 29, 2003; Paul, "Oil in Iraq;" and Al-Attar and Alomair, "Evaluation of Upstream Petroleum Agreements," p. 250; For Venezuela - Michael Piskur, "Venezuela Moves to Nationalize its Oil Industry," Power and Interest News Report, May 19, 2006, <http://www.pinr.com>, [May 25, 2006]; "Myth Busting - How Much Money Does Venezuela Really Get From Oil?" Venezuelan News, Views and Analysis, January 17, 2006, <http://www.venezuelanalysis.com>, [May 26, 2006]; and Al-Attar and Alomair, "Evaluation of Upstream Petroleum Agreements," p. 250. Note: Higher the profitability, higher the score

#### 4) Level of Economic Development

Both in 1998 and 2005 Iran, Russia and Venezuela were developing or transition countries with medium levels of economic development. This brings us to the situation in which it is hard to establish whether IOCs or host governments of these three countries possess relative bargaining advantage, and the scores are reflective of this.

	Iran		Russia		Venezuela	
	1998	2005	1998	2005	1998	2005
GDP/PPP Per Capita	\$5,000	\$8,100	\$4,000	\$10,700	\$8,500	\$6,500
Score	2.25 (M)	2.50 (M)	2.00 (M)	2.75 (M)	2.75 (M)	2.00 (M)

Sources: Central Intelligence Agency, The World Factbook 1999 (Washington, D.C.: CIA, 1999); and Central Intelligence Agency, The World Factbook 2006 (Washington, D.C.: CIA, 2006). Note: Higher the development, higher the score

#### 5) Barriers to Entry

Low entry barriers, evident in Russia (privatisation and PSA Law) and Venezuela (la apertura) in the mid and late 1990s indicated that these countries required IOC presence in their oil industries and low barriers served as an invitation to IOCs. This is reflected in low scores for both Russia and Venezuela for 1998/99. Alternatively, when barriers to entry are high, and I showed in case study chapters that they currently are high in Venezuela, Russia and especially Iran, this shows that host countries are unwelcoming and do not want or need IOCs. Therefore, their bargaining power against the IOCs is positively affected, which is evident in higher scores for all three countries in 2005/06. Note that despite Khatami's attempt at liberal reform in Iran in the 1990s, nothing similar to Venezuela's la apertura or Russia's privatisation, followed by the PSA Law, took place in Iran, and this is reflected in high score for 1998/99. Even higher score for Iran in 2005/06 is reflective of current leadership's antagonism for any such reform.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	3.50 (H)	4.25 (VH)	1.75 (L)	4.00 (H)	1.25 (L)	4.00 (H)

Note: Higher the barriers, higher the score

#### 6) Strategic Importance of the Industry

Oil is strategically very important for Russia, and particularly Iran and Venezuela. This can be seen from the share of oil export revenues in these countries' overall export earnings and GDP for 1998 and 2005. Moreover, the strategic importance measured in these terms, increased between 1998 and 2005. Likewise, importance of oil in other bargaining arenas also increased for Iran (in the nuclear issue), Russia (for reclaiming great power status) and Venezuela (for spreading Bolivarian Revolution). This is all reflected in higher scores for all three countries in 2005 when compared to 1998.

	Iran		Russia		Venezuela	
	1998	2005	1998	2005	1998	2005

of GDP	8.5%	24.6%	15.9%	16.4%	12.3%	34.3%
of export earnings	76.6%	80.5%	24.3%	49.6%	66.8%	86.6%
In other bargaining arenas	medium	very high	low	high	medium	very high
Score	3.50 (H)	4.50 (VH)	2.75 (M)	3.75 (H)	3.50 (H)	4.75 (VH)

Sources: For Iran and Venezuela, see Organization of Petroleum Exporting Countries, OPEC Annual Statistical Bulletin 2005 (Vienna, Austria: Ueberreuter, 2006), pp. 13-5; for Russia, AFP, December 28, 1998, AFP, February 4, 1999, and Energy Information Administration, "Non-OPEC Countries Oil Revenues," June 16, 2005, <http://www.eia.doe.gov/emeu/cabs/opecnon.html>, [March 24, 2007]. Note: Higher the importance, higher the score

## 7) Cultural/Political Context

The 1990s in Venezuela and Russia witnessed opening of these countries' oil industries to foreign investment due to favourable political context. However, in this decade both countries have become increasingly hostile and opposed to the IOC involvement, due to the changed political context. As evident from the case study chapters, both countries need government control of oil to further their goals in other bargaining arenas (such as domestic and international politics). Likewise, anti-British and anti-American sentiment in Iran and Iranian pursuit of nuclear technology is resulting in slow removal of Western IOCs from the country. American IOCs have not been present there since mid-1990s and European IOCs have recently been discouraged from investing there. Where strong nationalist feeling exists, as nowadays in Russia, Iran and Venezuela, it is "particularly likely to be directed at foreign oil companies," since oil is a non-renewable resource and it carries a lot of strategic significance.<sup>51</sup> Additionally, when dealings between the government and companies are widely publicised in the press and other media, as they are in Iran, Russia, and Venezuela, the government tends to have a bargaining advantage, since IOCs are often portrayed as foreign interlopers, the government can utilise public opinion to sway negotiations toward more favourable outcomes.<sup>52</sup> Therefore, due to these developments, bargaining power of Western IOCs vis-à-vis the host governments of Iran, Russia and Venezuela is weakened, and this is clearly reflected in the scores for 2005/06 when compared to 1998/99.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	3.75 (H)	4.75 (VH)	2.25 (M)	4.50 (VH)	1.50 (L)	4.75 (VH)

Note: More hostile the context higher the score

## 8) Competition

The IOCs face higher level of competition in Iran, Russia and Venezuela in the current decade than they did in the 1990s, and this carries a negative effect on their bargaining power against governments of these countries. While competition in Iran might be lower

<sup>51</sup> Philip, "The Limitations of Bargaining Theory," p. 236.

<sup>52</sup> See Grosse, *Multinationals in Latin America*, p. 83.

than in Russia and Venezuela due to the absence of American IOCs and service companies, it is still high due to the presence of developing countries' NOCs. Many of these countries, particularly China, maintain close relationship with the Iranian regime. Local service companies also offer important services to the NIOC.<sup>53</sup> An NIOC manager explained their perspective:

Service companies can provide services often at a better cost than IOCs. This is also true with Iranian service companies. They can do exploration services, seismic, drilling, tankers.... There are many, many alternatives to IOCs.<sup>54</sup>

In Venezuela, there are a wide variety of IOCs, developing countries' NOCs (again, favoured by the government) and service companies, and therefore, industry concentration is very low. In Russia, although the industry concentration is not as low as in Venezuela, this is primarily due to the government consolidation. Russian private, and at the same time Kremlin-friendly oil companies (i.e. Lukoil, Surgutneftegaz), government-owned companies (Gazprom, Rosneft), both of which "consider international majors as competitors,"<sup>55</sup> together with many service and consultancy firms, offer staunch competition to the IOCs. Therefore, whereas in the mid and late 1990s the IOCs did not face too much competition, in 2005/06, competition negatively affected their bargaining power in Iran, Russia and Venezuela, and this is reflected in the scores below.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	2.25 (M)	3.75 (H)	2.00 (M)	4.50 (VH)	1.75 (L)	4.50 (VH)

Note: Higher the competition, higher the score

### 9) World Oil Market Prices

When oil prices are low, and when IOCs have little cash available, as in the latter parts of the 1980s and for most of the 1990s oil executives are courted by commodity-rich countries to develop their national resources. Due to low amounts of oil exports revenues host governments are needy of foreign investment in their oil industry. Therefore, their bargaining power against the IOCs is negatively affected. However, when prices rise, as they did in early years of the new millennium, host governments have a tendency to rethink their contracts and seek higher taxes and royalties. Thus, host governments endowed with a lot of capital are not as needy of foreign investment.<sup>56</sup> In this case, their bargaining power vis-à-vis that of the IOCs is positively affected.

Average Oil Price	1998			2005		
	\$14.36/barrel (WTI)			\$56.51/barrel (WTI)		
Score	Iran	Russia	Venezuela	Iran	Russia	Venezuela
		1.50 (L)			4.00 (VH)	

<sup>53</sup> Marcel, "Investment in Middle East Oil," p. 7.

<sup>54</sup> Quoted in Marcel, *Oil Titans*, p. 213.

<sup>55</sup> Bahgat, "Russia's Oil Potential: prospects and Implications," p. 139.

<sup>56</sup> Jad Mouawad, "Big Oil's Burden of Too Much Cash," *The New York Times*, February 12, 2005.

Note: Higher the price, higher the score

### 10) Level of Political and Economic Risk

In 2006, both Iran and Venezuela were considered as high risk countries, while Russia was considered as a medium risk country. Except for Russia, this is similar to the situation in 1998. Therefore, with slight variations, all three countries are continuously disadvantaged in their dealings with the IOCs due to high political and economic risks associated with investing in these countries.

	Iran		Russia		Venezuela	
	1998	2006	1998	2006	1998	2006
Moody's Credit Rating	B2 Speculative Grade	B2 Speculative Grade	Ba3 Speculative Grade	Baa2 Investment Grade	Ba2 Speculative Grade	B2 Speculative Grade
Political and Economic Risk	High	High	High	Medium	High	High
Score	1.25 (L)	1.25 (L)	1.75 (L)	2.00 (M)	1.50 (L)	1.25 (L)

Sources: For a full list of Moody's, Standard & Poor's and Fitch rankings country credit ratings see <http://entry.credit-suisse.ch>, [June 14, 2006]; for political and economic risk, see "2006 Political and Economic Risk," Oxford Analytica, <http://www.aon.com/politicalrisk>, [June 13, 2006]. Note: Higher the risk worse the credit rating, lower the score

### 11) Oil Scarcity Perception

Oil spare production capacity is a good indicator of general abundance or scarcity of oil. While in 1998 global oil spare production capacity stood at 8 percent of total oil demand, by 2005 it dropped to only 2 percent of world oil demand. Thus, it is not surprising that there are widespread perceptions of future oil scarcity and oil production peak, which in 2005 negatively affected IOCs' bargaining power vis-à-vis Iran, Russia, and Venezuela.

World Oil Production Spare Capacity	1998			2005		
		8% of world oil demand			2% of world oil demand	
Peak Oil Perception	low			high		
Score	Iran	Russia	Venezuela	Iran	Russia	Venezuela
	1.00 (L)			4.00 (VH)		

Source: Leonidas P. Drollas, "The Oil Market – Key Questions," Centre for Global Energy Studies, June 29, 2006, p. 4. Note: Higher the scarcity perception, higher the score

### IOC Specific Resources

#### 1) Reputation

Western IOCs had a positive reputation throughout the 1990s, and thus, they were invited to invest in Russia and Venezuela. This has not been the case in Iran, where American IOCs have not been welcome since the mid-1990s, and where country's leaders and industry managers are essentially anti-Western, a legacy of the time of the consortia:

As an Iranian who went through nationalisation, revolution... my view of oil [is very shaped by those events]. I worked in the consortium and was astounded to find a "no Persian-speaking" sign in the managers' mess. I saw that people were accomplishing their private business in the back field and I asked them why they were doing that. They said there were no toilets. There was no loo for workmen, who of course were all Iranian. So now, when outsiders say that "they will teach me something"...<sup>57</sup>

Nowadays, it is important to note that reputation of IOCs, such as Exxon Mobil (see Chapter 3), which acted arrogantly in its bargaining with Russia and Venezuela,<sup>58</sup> and Shell, which single-handedly and unsuccessfully managed Oman's reservoirs,<sup>59</sup> and over-stated its own worldwide reserves, is low. In addition, there exists a lack of trust in IOCs,<sup>60</sup> particularly in OPEC countries such as Iran and Venezuela, countries historically exploited by these same companies. Thus, as illustrated above, many national oil experts in these countries exhibit a residual resentment of IOCs. It is common knowledge to IOCs that tapping into any of OPEC countries' natural resources is a very inflammatory subject.<sup>61</sup> These factors negatively affect bargaining power of IOCs vis-à-vis host governments of Iran, Venezuela and Russia, particularly in the current decade, when these countries are lead by populist leaders.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	4.50 (VH)	4.50 (VH)	1.50 (L)	3.00 (H)	2.00 (M)	4.00 (VH)

Note: Worse the IOCs' reputation, higher the score

## 2) Availability of Local Allies

Even if IOCs had any local allies in Iran, Venezuela and Russia in 2005/06, these allies were unable to exert any influence over their respective leaders. Since autocratic leaders with overwhelming power at their disposal rule all three countries, any attempt to do so would have resulted in utter failure, most likely in imprisonment of local lobbyists, and in further deterioration of relations between the host government and IOCs. Local allies, such as the leadership of PdVSA (i.e. Luis Giusti) and some Russian oligarchs (i.e. Khodorkovsky) helped Western IOCs establish their presence in Venezuela and Russia, respectively, in the 1990s. Moderate Iranian President Khatami can be considered Western IOCs' tacit ally, as he pushed for economic reform. However, by 2006, Western IOCs lost all their major local allies in all three countries. Hence, local lobbyists (if any) are nowadays not able to improve bargaining power of IOCs vis-à-vis autocratic governments of Iran, Russia and Venezuela.

<sup>57</sup> An NIOC manager, quoted in Marcel, *Oil Titans*, p. 217.

<sup>58</sup> IOCs often overestimate what they have to offer and how valuable it is to the counterpart. In addition, they rarely consider NOCs as competitors. Marcel, "Investment in Middle East Oil: Who Needs Whom?" p. 4.

<sup>59</sup> *Ibid*, p. 3.

<sup>60</sup> *Ibid*.

<sup>61</sup> See Marcel, *Oil Titans*, pp. 42-3.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	3.75 (VH)	4.00 (VH)	1.00 (L)	3.50 (H)	1.50 (L)	3.75 (H)

Note: Higher the availability, lower the score

### 3) Availability of Alternative Options

Nowadays, IOCs do not have alternative, equally or more attractive, options to pursue when bargaining with governments of Iran, Russia and Venezuela. Countries and “safe zones” that are open to IOC investment are those in which oil production has already peaked and production is costly (lower U.S. states, North Slope of Alaska, the Gulf of Mexico, North Sea); where IOCs’ presence is already established (U.S., U.K., Canada, Australia); where new production is possible only if oil prices remain at very high levels (Alberta); in areas where there are huge technical challenges and production is expensive (Siberia, Alberta, offshore West Africa); or in alternative energy sources (oil shale, natural gas). Many of these options are very risky, as they may become unprofitable if oil prices drop considerably in the future.

In addition, the IOCs are not welcome in the major oil-producing region of the world, the Middle East, and also in North Africa, Brazil and Mexico. If they are present in some countries in these regions, it is usually, as in Iran, under unfavourable terms. Similar to what is taking place in Russia and Venezuela, the IOCs are also struggling to maintain their presence in Kazakhstan, Ecuador, Bolivia, Chad and Nigeria. In addition, similar to Russia and Venezuela, Libya and the U.K. have made changes aimed at getting a bigger take of their oil resources.<sup>62</sup> Analysts suggest that Angola, Africa’s fourth largest oil producer, will soon try to renegotiate some of its contracts with IOCs.<sup>63</sup> Africa, former Soviet Union, the Middle East and Latin America, regions in which IOCs most want to do business, are becoming increasingly difficult operating environments. All these factors reduce IOCs’ bargaining power vis-à-vis Iran, Russia and Venezuela, what is reflected below.

	1998			2005		
	Iran	Russia	Venezuela	Iran	Russia	Venezuela
Score	1.00 (L)			4.50 (VH)		

Note: Higher the availability, lower the score

### 4) Reserve Replacement

In 1998, five major IOCs replaced more oil reserves than they produced in the year, and their reserves grew by 3.7 percent when compared to 1998. However, they did not manage to replace all of the oil produced in 2005, and thus, between 2004 and 2005 their reserves dropped by 9.5 percent. Thus, other things equal, while IOCs’ bargaining power vis-à-vis host states increased in 1998, it decreased considerably in 2005.

<sup>62</sup> “Venezuela’s Chavez May Escalate Fight with Exxon, Oil Producers,” Bloomberg.com, April 24, 2006, <http://www.bloomberg.com>, [April 27, 2006].

<sup>63</sup> “The Troubling Trend of Nationalization,” MSNBC.com, May 2, 2006, <http://msnbc.msn.com>, [May 4, 2006].

	1998			2005		
Average for 5 Majors	+3.7% (1.56 billion barrels)			-9.5% (-3.39 billion barrels)		
Score	Iran	Russia	Venezuela	Iran	Russia	Venezuela
	1.75 (L)			4.00 (VH)		

Note: Higher the reserve replacement, lower the score

IOC	Reserves (billion barrels)		Balance (2005-2004; billion barrels)
	1997	1998	
Exxon Mobil	10.895	11.550	0.655
BP Amoco	7.614	7.304	-0.310
TotalFinaElf	5.905	6.267	0.362
Chevron	4.506	4.697	0.191
Texaco	3.267	3.573	0.306
Royal Dutch/Shell	9.681	10.031	0.350
Total Majors	41.866	43.422	1.556

Source: Organization of the Petroleum Exporting Countries, OPEC Annual Statistical Bulletin 2000 (Vienna, Austria: Ueberreuter, 2001), p. 124.

IOC	Reserves (billion barrels)		Balance (2005-2004; billion barrels)
	2004	2005	
Exxon Mobil	11.651	11.229	-0.422
BP	7.550	7.161	-0.389
Total	7.003	6.592	-0.411
Chevron	5.511	3.626	-1.885
Royal Dutch/Shell	3.745	3.466	-0.279
Total Majors	35.460	32.074	-3.386

Source: Organization of the Petroleum Exporting Countries, OPEC Annual Statistical Bulletin 2005 (Vienna, Austria: Ueberreuter, 2006), p. 129.

## Relative Variables

### 1) Capital Possession

Cash-rich IOCs seem like a perfect choice for host governments needy of foreign investment, and this was clearly the case in 1998, when one considers current account balances and foreign exchange reserves held by Iran, Russia, and Venezuela (see below). However, unlike in 1998, when oil prices stood at \$14-15 a barrel, in 2005, with oil prices above \$50 a barrel, evident in their positive current account balances and high foreign exchange reserves (see below), Russia, Venezuela and Iran could increasingly self-finance projects, as some of their investment capital was insulated from short-term government budgetary needs. In addition, Steffen Hertog argues, “current [high] oil prices generate surpluses with which governments can afford to buy any imaginable exploration and production service on the international market without yielding resource ownership.”<sup>64</sup> Among Russia, Venezuela and Iran’s NOCs, NIOC was likely the only company, which

<sup>64</sup> Steffen Hertog, “The Oil-Foreign Policy Nexus: A Response to Simon Bromley,” *St Antony’s International Review: The International Politics of Oil*, vol. 2, no. 1, May 2006, p. 72.

was relatively capital-constrained because large funds were needed to support Iran's non-oil economy, more so than in Russia or Venezuela. However, even if they are needy of extra capital, Russian, Iranian and Venezuelan NOCs can turn to developing countries' NOCs or international financial institutions, rather than to IOCs, what gives them extra options in securing additional financial resources, if needed. Thus, IOCs' increased capital possession (see below) carries little or no effect on their bargaining power vis-à-vis host governments.

	Iran		Russia		Venezuela	
	1998	2005	1998	2005	1998	2005
Current account balance	-\$2.14 billion	\$13.27 billion	\$2.3 billion	\$84.25 billion	-\$4.43 billion	\$25.36 billion
Foreign exchange reserves	\$3.92 billion	\$40.06 billion	\$2.0 billion	\$182.2 billion	\$13.6 billion	\$30.74 billion
Average for majors <sup>6</sup>	\$3.0 billion	\$21.0 billion	\$3.0 billion	\$21.0 billion	\$3.0 billion	\$21.0 billion
Score	2.00 (M)	2.75 (M)	2.00 (M)	4.50 (VH)	2.50 (M)	3.00 (H)

Sources: For Iran and Venezuela, Organization of the Petroleum Exporting Countries, OPEC Annual Statistical Bulletin 2005 (Vienna, Austria: Ueberreuter, 2006), p. 17; for Russia, Central Intelligence Agency, The World Factbook 1999 (Washington, D.C.: CIA, 1999); and Central Intelligence Agency, The World Factbook 2006 (Washington, D.C.: CIA, 2006). Note: Higher the IOCs' relative capital possession, lower the score

IOC	Profits	
	1998	2005
Exxon Mobil	\$8.1 billion	\$36.1 billion
Royal Dutch/Shell	\$0.4 billion	\$25.3 billion
BP	\$4.6 billion	\$22.6 billion
Total	\$2.0 billion	\$14.5 billion
Chevron	\$1.9 billion	\$14.1 billion
Conoco Phillips	\$1.0 billion	\$13.6 billion
Average	\$3.0 billion	\$21.0 billion

Sources: For 1998 - Organization of the Petroleum Exporting Countries, OPEC Annual Statistical Bulletin 2000 (Vienna, Austria: Ueberreuter, 2001), p. 125; for 2005 - "The Forbes Global 2000: The World's Biggest Public Companies," *Forbes*, April 17, 2006, pp. 51-9; Notes: BP and Amoco, and Exxon and Mobil merged to create BP Amoco and Exxon Mobil in December 1998 and November 1999, respectively. In 2001, BP Amoco acquired Arco, and in 2003 was renamed BP. TotalFina merged with Elf Aquitaine in France in February 2000 to create TotalFinaElf, which was renamed Total in 2003. Chevron and Texaco merged to create ChevronTexaco in October 2001. The name was further changed to Chevron in May 2005. Chevron merged with UNOCAL in August 2005. Conoco and Phillips merged in 2002 to create Conoco Phillips. Data series have been adjusted to include the new companies.

## 2) Technological Know-How

Despite a perception in many IOCs that most NOCs are technically incompetent, they have in fact honoured specific skills that relate to geological characteristics of their reservoirs. Iran, for instance, although it generally possesses insufficient technological

capability, has a concentration of carbonate reservoirs, and the constraints of these unusual reservoirs have allowed NIOC to develop specific expertise, which the company could in future apply elsewhere in the Middle East and the Caspian Sea area.<sup>65</sup> Former Soviet Union and OPEC's NOCs have kept their industry running with little or no help from the IOCs for the past 30 years, and while local technological knowledge in Russia, Iran and Venezuela may not be at the level of major IOCs, it is certainly not too much lower. For example, Russia is managing a remarkable production growth without major IOC involvement and its extractive capacities have strengthened in recent years,<sup>66</sup> and Venezuela's PdVSA has already in the 1980s been successful in selling oil production technology throughout Latin America and in the Middle East.<sup>67</sup> Besides significant local technological expertise, Venezuela and Iran both managed to absorb some technological expertise from IOCs present there, since the IOCs usually "provide scientific and technical training, share know-how, introduce universal standards, and encourage local research and development."<sup>68</sup>

Future looks bright for NOCs, as some, NIOC for example, can tap into a large national pool of qualified engineers and have a competitive advantage over the IOCs, which are faced with a talent gap.<sup>69</sup> Moreover, if the nuclear controversy leads to Iran's total isolation from European and Japanese oil companies, then Tehran will increasingly turn to Chinese NOCs, supplement their investment capital with expertise from more technologically advanced Russian companies, and rely on government-to-government marketing deals. Additionally, in the current period of high oil prices, NOCs can purchase smaller, independent private oil companies in a drive to acquire the skills, the technology and the international exposure; they can buy advice from energy consultancy firms; sign limited contracts with service companies; or get help from other NOCs, and further increase their bargaining power.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	1.50 (L)	1.75 (L)	2.00 (M)	2.25 (M)	1.50 (L)	1.75 (L)

Note: Higher the IOCs' relative technological know-how, lower the score

### 3) Managerial Skills

While both in 1998/99 and in 2005/06, Western IOCs certainly possessed superior managerial expertise to that of state-owned companies of Russia, Venezuela, and Iran,<sup>70</sup> other things equal, this gave them a degree of bargaining advantage against the host states. However, in recent years, many international business consultancy firms offer professional managerial advice to the NOCs of Russia, Venezuela and Iran, in order to enhance the quality of their management skills. This in turn limits any bargaining advantage of the IOCs, which is still, however, higher than that of NOCs, particularly against Venezuela,

<sup>65</sup> Marcel, *Oil Titans*, p. 73. Similarly, Sonatrach of Algeria has had long experience of exploring for oil under geologically challenging salt domes.

<sup>66</sup> Ahrend and Tompson, "Realising the Oil Supply Potential of the CIS," p. 50.

<sup>67</sup> Grosse, *Multinationals in Latin America*, p. 241.

<sup>68</sup> Imle, Jr., "Multinationals and the New World of Energy Development," p. 269.

<sup>69</sup> Marcel, *Oil Titans*, p. 118.

<sup>70</sup> For more on Iran, see Marcel, *Oil Titans*, p. 177.

since PdVSA lost many experienced managers when Chávez sacked 18,000 employees in 2002.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	1.50 (L)	1.75 (L)	1.75 (L)	2.25 (M)	2.00 (M)	1.75 (L)

Note: Higher the IOCs' relative managerial skills, lower the score

#### 4) Access to Markets

Based on empirical evidence presented in case study chapters, although the Western IOCs were relatively important in providing markets for Iranian, Russian and particularly Venezuelan crude in the 1990s, these countries are not highly dependent on IOCs for market access in the current decade. Venezuela might be the only exception. Although it exports much of its crude to its own refineries in the United States, eight of which it owns fully or partially, and markets gasoline at 13,000 CITGO stations (to be reduced to 11,200), home countries of IOCs present in Venezuela, particularly the U.S., still take a major share of its oil and gas exports.<sup>71</sup> Their share is declining as China is becoming an increasingly important customer, and it is certain that the IOCs will not be responsible for transporting crude to China and accessing the Chinese market. As Iran exported larger share of its crude to Asia in 2005/06 than it did in 1998/99, IOCs do not play a major role in providing it with market access, but only a secondary role with its European markets. Needless to say, a similar scenario occurred in Russia. Through Transneft, Russia controls its pipelines out of the country, and additionally, is able to export much of its crude by using facilities and tankers of its own national and private companies, through which it has established downstream presence in much of Central and Eastern Europe, the Balkans, Western Europe and the United States in the recent years.<sup>72</sup> Hence, nowadays, since they provide only limited market access to Iran and Russia, IOCs do not gain any bargaining power vis-à-vis these countries, which is still not the case with Venezuela.

	Iran		Russia		Venezuela	
	1998/99	2005/06	1998/99	2005/06	1998/99	2005/06
Score	2.00 (M)	2.75 (M)	2.00 (M)	2.50 (M)	1.50 (L)	2.00 (M)

Note: Higher the IOCs' relative access to markets, lower the score

#### Final Tables and Figures

The average scores for both 1998/99 and 2005/06 are averaged by dividing the total score for each host state with the number of variables (19). For all the scores, and overall and individual variable differences between 1998/99 and 2005/06 scores for Iran, Russia, and Venezuela, please refer to the tables and figures below.

<sup>71</sup> Owen Matthews, "The Politics of Pipelines," *Newsweek*, July 3, 2006, p. 29.

<sup>72</sup> Lukoil owns approximately 2,000 gasoline stations in the United States, and aims to acquire 1,000 more. See Maureen Lorenzetti, "Russian, US Interests Pledge Co-operation on Energy Sector," *Oil and Gas Journal*, vol. 101, no. 38, October 6, 2003, pp. 22-4; and Jason Bush, "Lukoil: It's Russian for 'Fill 'Er Up'," *Business Week*, October 23, 2006, p. 52. Also, see Antill and Arnott, *Oil Company Crisis*, p. 8.

Variable	1998/99			2005/06		
	Iran	Venezuela	Russia	Iran	Venezuela	Russia
Reserve Size	4.25	4	3.75	4.5	4	4
Reserve Longevity	3.75	3.5	1.75	4.25	4	1.5
Potential Profitability	3.25	2	2.5	4.5	3.75	4
Economic Development	2.25	2.75	2	2.5	2	2.75
Barriers to Entry	3.5	1.25	1.75	4.25	4	4
Strategic Importance	3.5	3.5	2.75	4.5	4.75	3.75
Cultural/Political Context	3.75	1.5	2.25	4.75	4.75	4.5
Competition	2.25	1.75	2	3.75	4.5	4.5
Political/Economic Risk	1.25	1.5	1.75	1.25	1.25	2
Oil Prices	1.5	1.5	1.5	4	4	4
Oil Scarcity Perception	1	1	1	4	4	4
Industry/Country Specific Subtotal	30.25	24.25	23	42.25	41	39
Average	2.75	2.20	2.09	3.84	3.73	3.55
Reputation	4.5	2	1.5	4.5	4	3
Local Allies	3.75	1.5	1	4	3.75	3.5
Alternative Options	1	1	1	4.5	4.5	4.5
Reserve Replacement	1.75	1.75	1.75	4	4	4
IOC Specific Subtotal	11	6.25	5.25	17	16.25	15
Average	2.75	1.56	1.31	4.25	4.06	3.75
Capital Possession	2	2.5	2	2.75	3	4.5
Technological Know-how	1.5	1.5	2	1.75	1.75	2.25
Managerial Skills	1.5	2	1.75	1.75	1.75	2.25
Market Access	2	1.5	2	2.75	2	2.5
Relative Subtotal	7	7.5	8	9	8.5	11.5
Average	1.75	1.88	1.94	2.25	2.13	2.88
TOTAL	48.25	38	36	68.25	65.75	65.5
AVERAGE	2.54	2.00	1.89	3.59	3.46	3.45

Table A8-1: The Total and Individual Variable Score for Iran, Russia, and Venezuela (1998/99 and 2005/06)

Table A8-2: The Overall Difference Between Host States' Bargaining Power vis-à-vis IOCs' (1998/99 and 2005/06; Average for Iran, Russia, and Venezuela)

	1998/99	2005/06	Difference
HS Reserve Size	4.00	4.17	0.17
HS Reserve Longevity	3.00	3.25	0.25
HS Production Profitability	2.58	4.08	1.50
HS Economic Development	2.33	2.42	0.08
HS Barriers to Entry	2.17	4.08	1.92
HS Strategic Importance of Oil	3.25	4.33	1.08
HS Cultural/Political Context	2.50	4.67	2.17
HS Competition	2.00	4.25	2.25
HS Political/Economic Risk	1.50	1.50	0.00
Oil Prices	1.50	4.00	2.50
Oil Scarcity Perception	1.00	4.00	3.00
IOC Reputation	2.67	3.83	1.17
IOC Local Allies	2.08	3.75	1.67
IOC Alternative Options	1.00	4.50	3.50
IOC Reserve Replacement	1.75	4.00	2.25
Relative Capital Possession	2.17	3.42	1.25
Relative Technological Know-how	1.67	1.92	0.25
Relative Managerial Skills	1.75	1.92	0.17
Relative Market Access	1.83	2.42	0.58
Overall Average	2.14	3.50	1.36

Figure A8-1: Relative Bargaining Power between Iran and IOCs (Individual Variables; 1998/99 and 2005/06)

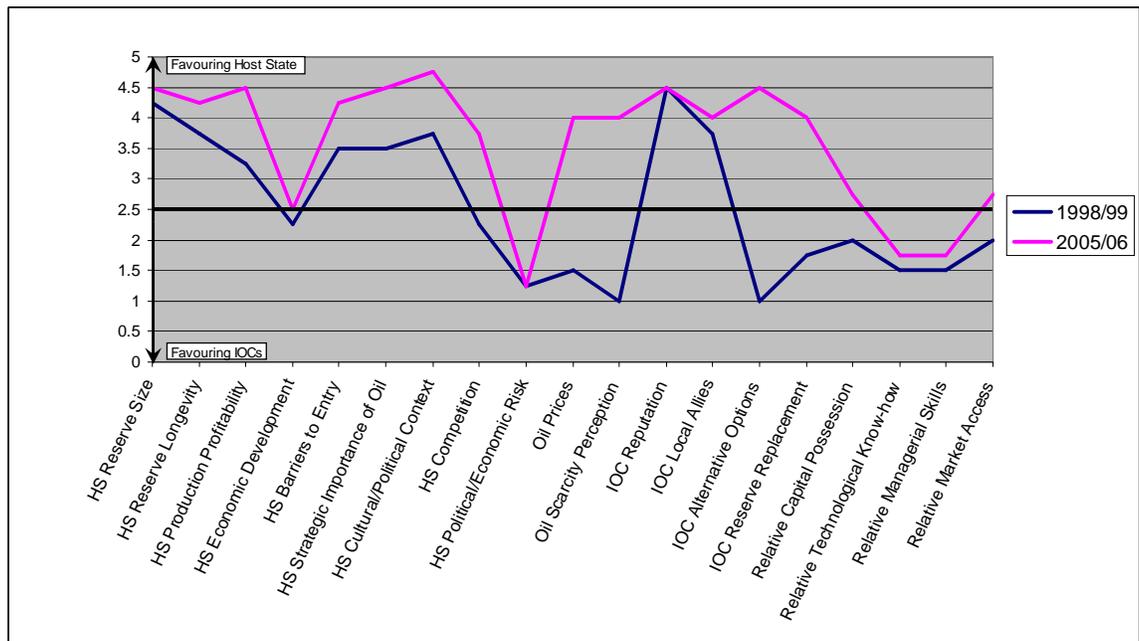


Figure A8-2: Relative Bargaining Power between Venezuela and IOCs (Individual Variables; 1998/99 and 2005/06)

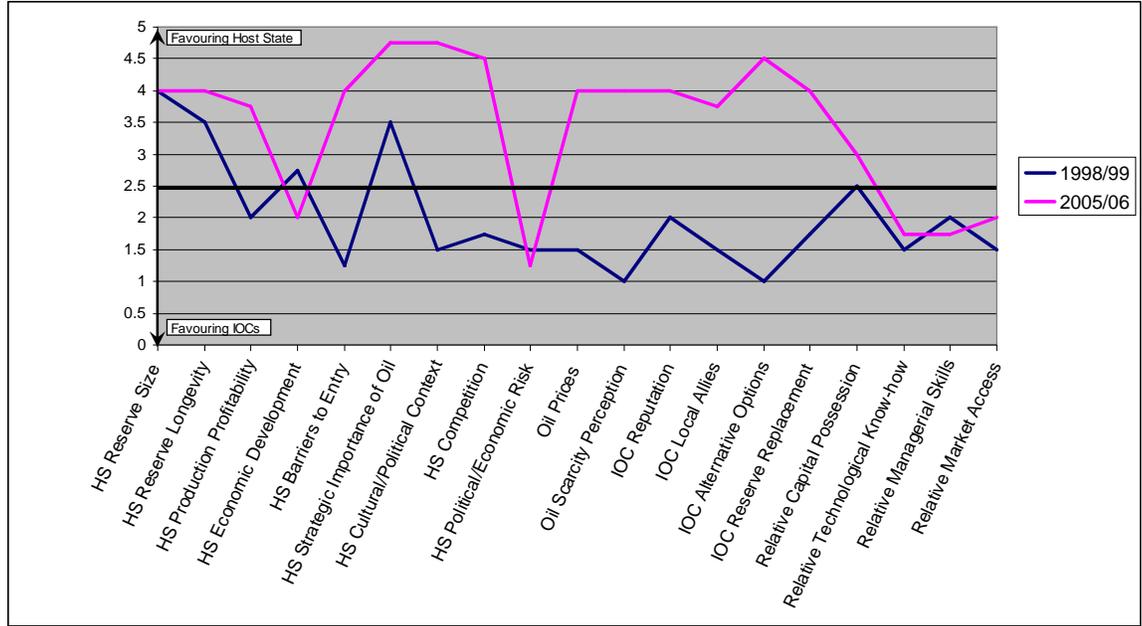
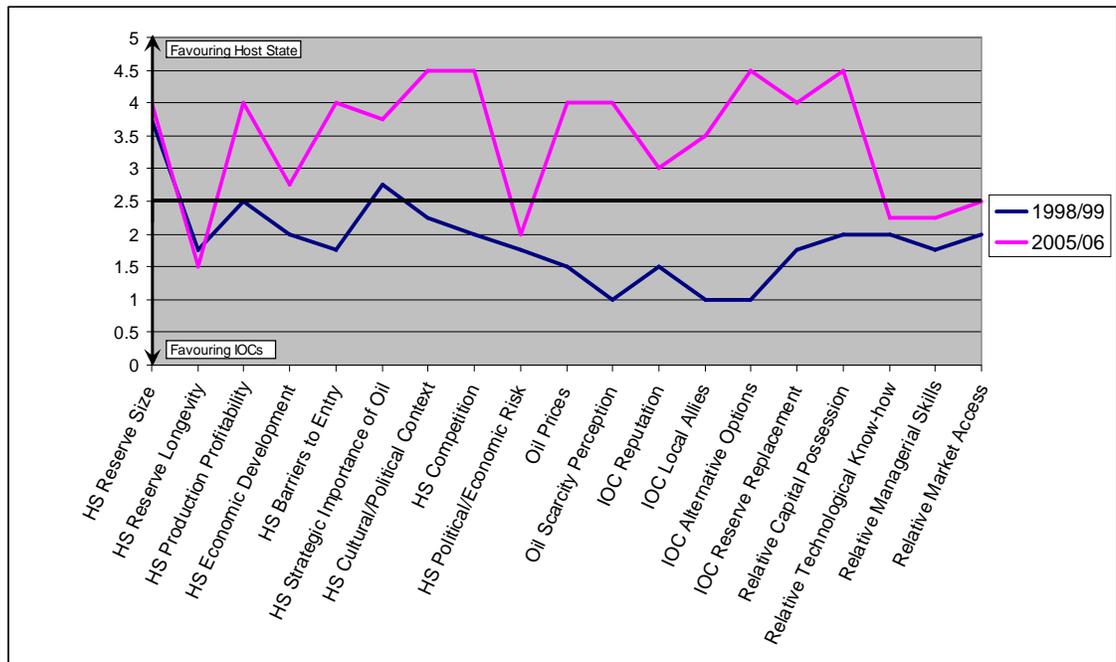


Figure A8-3: Relative Bargaining Power between Russia and IOCs (Individual Variables; 1998/99 and 2005/06)



## APPENDIX 9: Acronyms and Abbreviations

ADNOC	Abu Dhabi National Oil Company
AIOC	Anglo-Iranian Oil Company
ANILCA	Alaska National Interest Lands Conservation Act
ANWR	Arctic National Wildlife Refuge
Aramco	Arabian American Oil Company
BBC	British Broadcasting Corporation
BFG	Baikal Finance Group
BP	British Petroleum
bpd	barrels per day
BTC	Baku-Tbilisi-Ceyhan
CAFE	Corporate Average Fuel Economy
CCP	Chinese Communist Party
CEO	Chief Executive Officer
CERA	Cambridge Energy Research Associates
CFR	Council on Foreign Relations (US)
CIA	Central Intelligence Agency (US)
CIS	Commonwealth of Independent States
CNOCs	consumers' national oil companies
CNOOC	China National Offshore Oil Corporation
CNPC/PetroChina	China National Petroleum Corporation
COG	Chief of Government
CSIS	Center for Strategic and International Studies
CSR	corporate social responsibility
CVP	Corporación Venezolana de Petróleo
DOE	Department of Energy (US)
EIA	Energy Information Administration (US)
ENI	Ente Nazionale Idrocarburi (Italian oil company)
EOR	enhanced oil recovery
EU	European Union
FCO	Foreign and Commonwealth Office (UK)
FDI	Foreign Direct Investment
FIRA	Foreign Investment Review Agency (Canada)
GAO	Government Accountability Office (US)
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HR	House Resolution (US)
IAEA	International Atomic Energy Agency
IBS	International Business Studies
IEA	International Energy Agency
ILSA	Iran and Libya Sanctions Act
IMF	International Monetary Fund
INOC	Iraq National Oil Company
IOB	Iranian Oil Bourse
IOC	international oil company
IOCorp	Indian Oil Company

IPE	International Political Economy
IR	International Relations
JV	joint venture
kbpd	thousand barrels per day
KPC	Kuwait Petroleum Corporation
mbpd	million barrels per day
MEP	Ministry of Energy and Petroleum (Venezuela)
MIT	Massachusetts Institute of Technology
MITI	Ministry of International Trade and Industry (Japan)
MNC	multinational company
MNE	multinational enterprise
MOIP	Mandatory Oil Import Program
MoP	Ministry of Petroleum (Iran)
MP	member of parliament
NAFTA	North American Free Trade Agreement
NDRC	National Development Reform Commission (China)
NEP	National Energy Policy (US; Canada)
NEPD	National Energy Policy Development (US)
NGL	natural gas liquids
NIOC	National Iranian Oil Company
NNPC	Nigerian National Petroleum Corporation
NOC	national oil company
NPT	Nuclear Non-Proliferation Treaty
NRDC	National Resources Defense Council (US)
OAPEC	Organization of Arab Petroleum Exporting Countries
OBM	obsolescing bargain model
OECD	Organization of Economic Cooperation and Development
ONGC	Oil and Natural Gas Corporation
OPEC	Organization of Petroleum Exporting Countries
PBM	political bargaining model
PdVSA	Petróleos de Venezuela S.A. (Venezuelan NOC)
Pemex	Petróleos Mexicanos (Mexican NOC)
Pertamina	Perusahaan Tambang Minyak Negara (Indonesian NOC)
Petrobras	Petróleo Brasileiro (Brazilian oil company)
Petronas	Petroleum Nasional Berhad (Malaysian NOC)
PNOCs	producers' national oil companies
PPC	petro-political cycle
PPP	Purchasing Power Parity
PRC	People's Republic of China
PSA	Production Sharing Agreement
R/P	reserves/production
R/T	royalty/tax
RSA	risk service agreement
S&P	Standard and Poor's
SCO	Shanghai Cooperation Organization
SDF	Self-Defense Forces (Japan)

SEO	State Energy Office (China)
SETC	State Economic and Trade Commission (China)
SingTel	Singapore Telecom
Sinopec	China National Petrochemical Corporation
SPR	Strategic Petroleum Reserve (US)
SST	supersonic transport
SUV	sport-utility vehicle
TAPS	Trans-Alaska Pipeline System
TNC	transnational corporation
TNK	Tyumen Oil (Russian oil company)
TNK-BP	Tyumen Oil-British Petroleum
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCRET	United Nations Centre for Natural Resources, Energy and Transport
UNESCO	United Nations Educational, Scientific and Cultural Organization
UFG	United Financial Group
UNOCAL	Union Oil Company of California
US	United States
USGS	United States Geological Survey
USSR	Union of Soviet Socialist Republics
VER	voluntary export restraint
WMD	weapons of mass destruction
WTI	West Texas Intermediate
WTO	World Trade Organization
YPFB	Yacimientos Petrolíferos Fiscales Bolivianos (Bolivian NOC)