

## THE UNITED STATES

The focus of this chapter is on bargaining in the American oil industry, by examining two case studies. The first case study deals with bargaining for the acquisition of UNOCAL, an American oil company, and features Chevron, an American IOC, the U.S. Congress, and CNOOC, a Chinese NOC, as the major actors. The second case study looks at bargaining for the future of the Arctic National Wildlife Refuge (ANWR) and it features two opposing coalitions – the Arctic Power and the Alaska Coalition – as the main actors.

Politics clearly ruled over purely economic reasons in determining the outcome of bargaining for UNOCAL. Although CNOOC offered \$2 billion more than Chevron for UNOCAL, it did not manage to acquire this company. If it were for purely economic factors, and if the bidding game for UNOCAL was primarily market driven, CNOOC would now be in charge of UNOCAL assets. James Dorn argues, “There is little doubt that CNOOC’s bid would have prevailed if not for congressional interference.”<sup>1</sup> However, in oil industry bargaining, economic factors infrequently dominate politics, and the outcome of UNOCAL bargaining was clearly influenced by the latter, as Congress inserted itself in the middle of the CNOOC-UNOCAL deal. Similarly, politics are likely to determine the outcome of bargaining for the future of ANWR regardless of who wins in the end. Politics – energy dependence on unfriendly overseas regimes – primarily drives the Bush administration to enhance domestic oil supplies. Economically, it would make much more sense to buy oil from the markets and not spend billions of dollars on developing technologically demanding oilfields in Alaska. Domestic politics – the dominance of both the Congress and the Senate – will eventually determine the outcome of this bargaining case.

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<sup>1</sup> Dorn, “U.S.-China Relations,” p. 6.

## Introduction to America's Oil Industry

Three major bargaining episodes loom from the history of America's oil industry.<sup>2</sup> The first was the early-1900s bargaining over monopoly rights between Standard Oil, which at one point controlled 90 percent of the U.S. market and much of the international market as well,<sup>3</sup> and the rest of the country, in which the former was on the losing end. The second was bargaining over voluntary and mandatory import quotas, which lasted for almost two decades, between 1955 and 1973. Discovery of cheaper, mainly Middle Eastern oil abroad threatened U.S. independent producers, whose production costs were rising. These aggrieved producers pressed the White House and lawmakers in Congress to adopt measures to limit the import of cheaper foreign crude, which was delivered and imported by the majors. Consequently, in 1955 the government imposed 'voluntary' restrictions on imports in order to curb the flow of cheap imports and alleviate the adjustment burden on domestic producers. However, since demand for imports continued to surge, on 10 March 1959, President Eisenhower announced the imposition of mandatory quotas on oil imports into the United States – The Mandatory Oil Import Program (MOIP).<sup>4</sup> Given that

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<sup>2</sup> For studies of history and political economy of American oil industry and American oil policy, see Yergin, *The Prize*; Harold F. Williamson and Arnold R. Daum, *The American Petroleum Industry, Vol. 1, The Age of Illumination, 1859-1899* (Evanston: Northwestern University Press, 1959); Harold F. Williamson, Ralph L. Andreano, Arnold R. Daum, and Gilbert C. Klose, *The American Petroleum Industry, Vol. 2, The Age of Energy, 1899-1959* (Evanston: Northwestern University Press, 1963); Isser, *The Economics and Politics of the United States Oil Industry, 1920-1990*; Hans Jacob Bull-Berg, *American International Oil Policy: Causal Factors and Effect* (New York: Pinter, 1987); G. John Ikenberry, *Reasons of State: Oil Policies and the Capacities of American Government* (Ithaca: Cornell University Press, 1988); David S. Painter, *Oil and the American Century: The Political Economy of US Foreign Oil Policy, 1941-1954* (Baltimore: Johns Hopkins University Press, 1986); Eric M. Uslaner, *Shale Barrel Politics: Energy and Legislative Leadership* (Stanford: Stanford University Press, 1989); Richard H. K. Vietor, *Energy Policy in America since 1945: A Study of Business-Government Relations* (Cambridge: Cambridge University Press, 1984); Cowhey, *The Problems of Plenty*; Franklin Tugwell, *The Energy Crisis and the American Political Economy: Politics and Markets in the Management of Natural Resources* (Stanford: Stanford University Press, 1988); Paul Joskow, *U.S. Energy Policy during the 1990s* (Washington, D.C.: National Bureau of Economic Research, 2001); and Edward D. Porter, *US Energy Policy, Economics Sanctions, and World Oil Supply: Who's Isolating Whom?* (Washington, D.C.: American Petroleum Institute, August 1998).

<sup>3</sup> Theodore H. Moran, "Managing an Oligopoly of Would-be Sovereigns: The Dynamics of Joint Control and Self-control in the International Oil Industry Past, Present, and Future," *International Organization*, vol. 41, no. 4, Autumn 1987, p. 579. Ultimately, Rockefeller's great success conflicted with U.S. antimonopoly (antitrust) laws: in 1911, Standard was forcibly broken into dozens of smaller companies. For an excellent figure showing full deconstruction of Standard Oil Trust between 1900 and today, see Falola and Genova, *The Politics of the Global Oil Industry*, p. 26. For more on the break up of Standard Oil, see Yergin, *The Prize*, pp. 97-110. In a sense, however, Rockefeller's legacy never died. Most of Standard's corporate shards have since been reconstituted into the handful of giants that until 1971 controlled most of the international oil business; in fact, two Standard spin-offs, Exxon and Mobil, recently merged to form the largest oil company in the world by assets, market value and profits (see "The Forbes Global 2000: The World's Biggest Companies," *Forbes*, April 18, 2005). Moreover, the business model Rockefeller pioneered – that of a giant multinational corporation, capable of operating in any market or sector, but dependent for its profits on ever-greater oil production – remains the standard in the energy business (Roberts, *The End of Oil*, pp. 37-8).

<sup>4</sup> For more on import quotas, see Isser, "The Battle Over the Oil Import Quota," in his *The Economics and Politics of the United States Oil Industry, 1920-1990*, pp. 97-120; Blair, *The Control of Oil*, pp. 169-86; Edward H. Shaffer, *The Oil Import Programme of the United States: An Evaluation* (New York: Praeger, 1968); Douglas R. Bohi and Milton Russell, *Limiting Oil Imports: An Economic History and Analysis* (Baltimore: Resources for the Future and the Johns Hopkins Press, 1978),

after the imposition of mandatory quotas, majors could not bring foreign oil into their own system in the U.S., they had to develop markets and make profits elsewhere in the world, and thus they were not supportive of the MOIP.<sup>5</sup> The mandatory program taught the majors a bargaining lesson. They may have had the financial resources, they may have had the scale and the expertise, but the independents had the domestic political influence, and it was to them that the senators and congressional representatives from the oil patch responded. The MOIP was finally scrapped by Nixon in April 1973 following the peak of U.S. oil production in 1970 and subsequent gasoline shortages in light of rising demand. In general, the MOIP merely postponed rising U.S. dependence on Middle Eastern oil imports, and failed as a security measure, because it stimulated production levels that eroded domestic reserves.<sup>6</sup>

Finally, between 1970 and 1972 oil companies successfully defeated the environmentalists in their push for construction of the Alaskan oil pipeline. The domestic energy crisis and the recession that followed posed the first major challenge to the environmental movement. The first environmental policy affected by the energy crisis was the construction of the Alaskan oil pipeline. Between 1970 and 1972, environmentalists filed a series of lawsuits that effectively delayed the construction of a pipeline designed to transport oil from the North Slope of Alaska to the West Coast. In opposition to the environmentalists, the lobbying and public relations effort to expedite approval of the Alaska pipeline was primarily led and funded by the oil and natural gas industry.<sup>7</sup> Their

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especially chapters 2 and 3; Leaver, "Consuming Power: the US and International Oil," pp. 6-13; Morse, "A New Political Economy of Oil?" pp. 8-9; Yergin, *The Prize*, p. 538; and Brossard, *Petroleum: Politics and Power*, pp. 62-4.

<sup>5</sup> Yergin, *The Prize*, pp. 539-40. The import quotas did achieve their fundamental goal: They provided ample protection for domestic oil production against lower-cost foreign oil, evident in the fact that by 1968, U.S. crude oil output was 29 percent higher than it had been in 1959, the year the mandatory quotas were introduced. Companies, large and small, adapted to mandatory quotas. The majors, despite their initial vociferous criticism of the quotas, eventually came to see the merit in a program that protected the profitability of their own domestic operations, albeit at the expense of their foreign ones. Their adjustment was facilitated by the fact that demand elsewhere was growing with sufficient rapidity to absorb their foreign production.

<sup>6</sup> Joseph S. Nye, David A. Neese, and Alvin A. Alm, "Conclusion: A US Strategy for Energy Security," in Neese and Nye (eds.), *Energy and Security*, p. 391.

<sup>7</sup> Oil firms placed a large number of ads in newspapers in major cities stating the industry's case. Testifying before Congress on March 27, 1972, Arco's president, Thornton Bradshaw, whose company owned 28 percent of the pipeline as well as a major share of North Slope exploration rights, stated that the country "can no longer afford continuing delay bringing Alaska oil to the people that need it." He told the Congress "every day we delay costs us, in terms of the 1980 trade deficit, another \$10 million." Bradshaw promised that, if construction began at once, Alaskan oil could be delivered to the continental United States by 1977. Quoted in *Congressional Quarterly Almanac*, 1973 (Washington, D.C.: Congressional Quarterly, 1974), p. 598.

position was supported by the State of Alaska and the Nixon administration.<sup>8</sup> In 1972, the seven oil companies involved in the pipeline construction began to press for legislation to expedite its construction. In response, more than thirty organisations, the majority of the environmental groups, formed the Alaska Public Interest Coalition. The environmentalists argued “the Alaska route would be an environmental disaster” and urged that other routes, including one through Canada, be studied. Furthermore, they contended that there was “an almost total lack of information on the justification for haste.”<sup>9</sup> Following heavy lobbying by the oil companies, in July 1973, the Senate voted to bar further court challenges to the pipeline’s construction on environmental grounds and directed the Secretary of the Interior to issue the necessary authorisation for the pipeline construction. Four months later, and after the first oil shock, final action on this legislation was completed by Congress.<sup>10</sup> The environmentalists attributed their defeat to the power of the oil industry and its allies.<sup>11</sup>

The above episodes illustrate the domestic bargaining strength of American oil companies, particularly smaller companies, as in the Standard Oil and MOIP bargaining episodes, and influence they have on American politicians and lawmakers. I established in Chapter 2 (the section on home state-MNC relations) that oil industry in the U.S. spends large amount of financial resources for lobbying to get political support in Washington. In doing this, and in order to influence agenda-setting in Congress, since 1990, a disproportionate amount of oil industry’s overall ‘lobbying’ contributions went to members of committees dealing with energy issues,<sup>12</sup> and thus, American oil companies have at times been able to exercise considerable influence over U.S. domestic oil policy.<sup>13</sup> For example, despite a lot of pressure from the environmentalists, by securing powerful political allies in the Congress, and by siding with the automotive industry, they have been able to maintain policy status quo

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<sup>8</sup> Vogel, *Fluctuating Fortunes*, pp. 129-30.

<sup>9</sup> Quoted in *Congressional Quarterly Almanac*, 1973, p. 598.

<sup>10</sup> Vogel, *Fluctuating Fortunes*, p. 130.

<sup>11</sup> George Alderson, the legislative director of the Friends of the Earth, and the environmentalist coalition’s coordinator, said: “This is the greatest accumulation of power that ever confronted the environmentalists in a legislative fight.” Another environmentalist observed, “The oil companies put across a wide range of pressure to convince Americans that Alaska oil would be put into their gas tanks.” Faced with a choice between potential ecological damage to a remote wilderness area and a continued shortage of gasoline, the American public chose the former. Both quoted in *Congressional Quarterly Almanac*, 1973, p. 604.

<sup>12</sup> Hojnacki and Kimball, “Organized Interests and the Decision of Whom to Lobby in Congress.”

<sup>13</sup> See Mark A. Smith, *American Business and Political Power: Public Opinion, Elections, and Democracy* (Chicago: The University of Chicago Press, 2000); and Vogel, *Fluctuating Fortunes*.

concerning climate change, and avoid any substantial investments in alternative or renewable forms of energy and therefore any policy aimed at curbing domestic petroleum consumption.<sup>14</sup> One could argue therefore that in this context, ‘money buys influence’ line of reasoning is plausible and even probable, but not conclusively verified.<sup>15</sup>

The historical bargaining episodes, which were briefly examined above, also show that the institutional locus of political action on domestic petroleum policy lies in Congress, and the executive branch of the U.S. government possesses precious few tools to affect energy policy at the domestic level.<sup>16</sup> The failure of the Clinton administration – featuring a decidedly ‘green’ Vice President Al Gore – to enact its environmental agenda is illustrative of this point. While presidential influence may alter a few crucial votes in a strongly divided Congress, comprehensive energy legislation with its far-reaching implications, will generally pass or fail regardless of presidential preferences. Use of the presidential veto can typically block legislation but does not provide the agenda-setting power required to pursue comprehensive energy legislation. This power rests in the plethora of issue overlapping committees and subcommittees, which formulate the legislation that is accepted or rejected by Congress.<sup>17</sup>

As elaborated in Chapter 2, where I surveyed the relationship between home states and MNCs, the major IOCs’ record has been mixed concerning their influence on the U.S. foreign oil policy as well as domestic oil policy, as more often than not, they did not receive backing from the U.S. government. Although the President possesses crucial ability to frame and act upon U.S. foreign policy agenda, and thus, he is responsible for formulating

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<sup>14</sup> David L. Levy and Ans Kolk, “Strategic Responses to Global Climate Change: Conflicting Pressures on Multinationals in the Oil Industry,” *Business and Politics*, vol. 4, no. 3, 2002, p. 275; David L. Levy and Daniel Egan, “A Neo-Gramscian Approach to Corporate Political Strategy: Conflict and Accommodation in the Climate Change Negotiations,” *Journal of Management Studies*, vol. 40, no. 4, 2003, p. 817; and Gary Bryner, “Congress and the Politics of Climate Change,” in P. G. Harris (ed.), *Climate Change and American Foreign Policy* (New York: St. Martin’s Press, 2000), p. 124. For example in 2001, Lee Raymond, then the CEO of Exxon Mobil, said that while the company would invest \$10 billion in 2002, ‘not a penny of that will go on renewable energy.’ Quoted in “The Slumbering Giants Awake,” *The Economist*, February 8, 2001. Moreover, the National Energy Policy Act of 2005 “did next to nothing to improve the fuel efficiency of vehicles, which represent a lion’s share of oil consumption.” Barnes, “NOCs and U.S. Foreign Policy,” p. 27.

<sup>15</sup> For example, the oil industry failed to secure its interests on a number of issues such as gasoline composition and federal land-use. Goel, “A Bargain Born of a Paradox,” p. 474 and 478.

<sup>16</sup> Ikenberry, *Reasons of State*, p. 44.

<sup>17</sup> Goel, “A Bargain Born of a Paradox,” pp. 472-3.

American foreign oil policy,<sup>18</sup> the U.S. foreign policy interests are not necessarily identical to, or aligned with, those of the oil industry.

According to BP, in 2005 the United States had 29.3 billion barrels of proved oil reserves, eleventh highest in the world.<sup>19</sup> These reserves are concentrated overwhelmingly (over 80 percent) in four states: as of 31 December 2003, Texas had 22 percent of total US oil reserves; Louisiana also had 22 percent; Alaska 20 percent; and California 18 percent.<sup>20</sup> U.S. proven oil reserves have declined by 19.5 percent since 1985, with the largest single-year decline (1.9 billion barrels) occurring in 1998.<sup>21</sup> With the exception of the early 1980s, the U.S. crude oil production has been in a continuous decline ever since its peak in 1970 (see Table 5.1). During 2005, the United States produced 6.8 million bpd, which was as low as in 1961. Total U.S. oil production in 2005 declined sharply, by around 3.75 million bpd, or 35 percent, from 10.6 million bpd averaged in 1985, and was only 60 percent of its peak value in 1970 (Table 5.1). Regardless of the decline in production, in 2005, the U.S. was still the third largest oil producer in the world.

Table 5.1: The U.S. Crude Oil Production and Consumption (Selected Years and 1995-2005)

Year	Production (mbpd)	Consumption (mbpd)	Balance (mbpd)
1970	11.297	14.710	-3.413
1977	9.863	18.443	-8.580
1985	10.580	15.726	-5.146
1995	8.322	17.725	-9.403
1996	8.295	18.309	-10.014
1997	8.267	18.621	-10.354
1998	8.011	18.917	-10.906
1999	7.731	19.519	-11.788
2000	7.733	19.701	-11.968
2001	7.669	19.649	-11.980
2002	7.626	19.761	-12.135
2003	7.400	20.033	-12.633
2004	7.228	20.732	-13.504

<sup>18</sup> See *ibid.* pp. 479-81; Harold Hongju Koh, "Why the President Almost Always Wins in Foreign Affairs," in D. G. Adler and L. N. George (eds.), *The Constitution and the Conduct of American Foreign Policy* (Wichita: University Press of Kansas, 1996), pp. 158, 159 and 171. For more on influence of oil on the US foreign policy in the 1980s, see Melvin A. Conant, *The Oil Factor in US Foreign Policy, 1980-1990* (Lexington, Mass.: Lexington Books, 1982).

<sup>19</sup> BP Statistical Review of World Energy 2006.

<sup>20</sup> All of these figures include onshore plus Federal and state offshore reserves. "United States Country Analysis Brief," Energy Information Administration, January 2005, [www.eia.doe.gov](http://www.eia.doe.gov), [November 24, 2005].

<sup>21</sup> BP Statistical Review of World Energy 2006.

2005	6.830	20.655	-13.825
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Source: BP Statistical Review of World Energy 2006

The United States is the largest oil consumer in the world, averaging 20.7 million bpd in 2005. This is not surprising, as it currently has some of the world's lowest taxes on oil products, legacy and remnant of the history of Congress protection of domestic oil industry interests (see above). In 2005, the U.S. averaged total net crude oil and product imports of 13.8 million bpd, representing 67 percent, or over two-thirds of total U.S. oil demand (see Table 5.1), and this makes the United States by far the largest oil importer in the world (see Table 1.1), as its imports quadrupled in the past three and a half decades. Overall, in 2004, the top suppliers of oil to the United States were Canada (2.1 million bpd), Mexico (1.7 million bpd), Saudi Arabia (1.6 million bpd), Venezuela (1.6 million bpd), and Nigeria (1.1 million bpd).<sup>22</sup>

Domestically, the United States has left oil exploration, production, and distribution to private companies. The U.S. is the home of many large oil and gas companies, including remnants of the original Seven Sisters – Exxon Mobil and Chevron – and numerous other medium-to-large companies, such as Conoco Phillips, Valero Energy, Marathon Oil, Occidental Petroleum, Devon Energy, Anadarko Petroleum, Amerada Hess, Burlington Resources, Apache, Sunoco and many more. The main foreign oil presence in the U.S. is that of the two majors, BP and Royal Dutch/Shell, who are active both in downstream and upstream activities, and of refining company CITGO, which is owned by Venezuela's PdVSA, and which controls nearly 7 percent of U.S. refining capacity.

#### CASE STUDY 4: Bargaining for UNOCAL – The Rise of Neo-mercantilism

Table 5.2: Goals of Main Actors in Bargaining for UNOCAL

Actor	Bargaining Goals
Chevron	Dire need for additional reserves, and therefore acquiring UNOCAL at the lowest price possible
UNOCAL	Accepting the best bid without domestic and government opposition

<sup>22</sup> Energy Information Administration, "Monthly Energy Review," September 2005, [www.eia.doe.gov/emeu/mer/petro.html](http://www.eia.doe.gov/emeu/mer/petro.html) [October 12, 2005].

The government of the PRC/CNOOC	Purchasing UNOCAL at any price, this involves bidding much higher than other potential buyers; driven by the need for control of more oil reserves
The U.S. government and the Congress	Not allowing a company owned by its hegemonic challenger to buy into its own, crucially important oil industry

On 4 April 2005, directors of UNOCAL, the twelfth largest U.S. oil company,<sup>23</sup> accepted a \$16.5 billion acquisition offer by Chevron, the second largest U.S. oil company.<sup>24</sup> The offer was one quarter in cash and three quarters in Chevron stock. However, on 22 June 2005, CNOOC, the third largest Chinese NOC,<sup>25</sup> made a counteroffer of \$18.5 billion in cash, financed in part by low interest rate loans from its state-owned parent company. CNOOC needs overseas fields to complete their mission to double oil production between 2005 and 2010 in order to contribute to meeting China’s long-term oil demand. UNOCAL would have made that objective possible in just one transaction.<sup>26</sup>

However, on 30 June 2005, a nonbinding House Resolution (H.R. 344) recommending presidential review of the CNOOC deal was passed by a vote of 398 to 15.<sup>27</sup> In a letter to President Bush, House Energy and Commerce Committee Chairman Joe Barton declared, “we urge you to protect American national security by ensuring that vital U.S. energy assets are never sold to the Chinese government.”<sup>28</sup> In 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. Although higher, CNOOC’s offer faced “unprecedented political opposition” in

<sup>23</sup> In 2004, Unocal was the 15<sup>th</sup> biggest oil company in the U.S. by sales, 12<sup>th</sup> by profits, 16<sup>th</sup> by assets, and 13<sup>th</sup> by market value. “The Forbes Global 2000: The World’s Biggest Companies,” *Forbes*, April 18, 2005.

<sup>24</sup> 25 percent in cash and 75 percent in Chevron’s stock.

<sup>25</sup> It is interesting to note that before the purchase the CNOOC (41<sup>st</sup> largest oil company in the world) was ranked lower than Unocal (34<sup>th</sup>) in “The Forbes Global 2000”.

<sup>26</sup> Will Kennedy, “China May Drill Philippine Oil That Shell, Chevron Rejected,” *Bloomberg.com*, November 29, 2005.

<sup>27</sup> The logic, as stated in H.R. 344, is simple: (1) Oil and natural gas are “strategic assets critical to national security and the Nation’s economic prosperity.” (2) China is an authoritarian regime “strongly committed to national one-party rule by the Communist Party” and owns about 70 percent of CNOOC’s stock. (3) Subsidised loans will be used to help finance the proposed takeover. (4) CNOOC may whip oil and natural gas directly to China rather than sell it in world energy markets, which “would result in the strategic assets of Unocal Corporation being preferentially allocated to China by the Chinese government.” The “would weaken the ability of the United States to influence the oil and gas supplies of the Nation through companies that must adhere to United States laws.” (5) The acquisition “could provide access to Unocal Corporation’s sensitive dual-use technologies that the United States would otherwise restrict for export to China.” (6) The CNOOC deal therefore threatens, “To impair the national security,” and “the President should initiate immediately a thorough review of the proposed acquisition, merger, or takeover.” Quoted material from “House Resolution 344,” June 30, 2005, <http://thomas.loc.gov/cgi-bin/query/D?c109:1:/temp/~c109nZltvE>, [August 10, 2005].

<sup>28</sup> Quoted in Brody Mullins and Dennis K. Berman, “Republicans Urge White House to Review Cnooc’s Unocal Bid,” *Wall Street Journal*, June 29, 2005.



Washington, which made it impossible to compete with Chevron by “creating a level of uncertainty that presents an unacceptable risk to our ability to secure this transaction,”<sup>29</sup> finally leading it to withdraw its bid on 2 August 2005, thus leaving it to Chevron to complete the takeover.

UNOCAL was a relatively small player in the U.S. oil industry. Its 2004 American production was barely 57,000 bpd, or 0.8 percent of total U.S. crude oil production and 0.3 percent of total U.S. crude oil consumption.<sup>30</sup> In past, there was no U.S. opposition to PetroChina’s acquisition of Indonesian assets of American companies Devon Energy and Amerada Hess Corporation.<sup>31</sup> If considering only these, and no other factors, it makes no sense that CNOOC’s effort aroused intense opposition in Congress, evident in the letter to the Treasury Department, in which 41 Republican and Democrat politicians raised their concerns that Chinese takeover of UNOCAL could compromise national security. In response, the Treasury Secretary John Snow warned that U.S. firms would face increasing difficulty competing with Chinese oil companies for “scarce energy resources.”

Why did mercantilist factors and protectionism rule over liberal rhetoric in the UNOCAL bargaining game? There are four major reasons, which explain this, three of which come from the American side, and one from the Chinese side. Firstly, UNOCAL carried the symbolic value, and U.S. domestic constituents’ opposition to Chinese purchase of the company stemmed from the overall context of Sino-American relations. Secondly, by stopping its acquisition of UNOCAL, Washington attempted to limit Beijing’s emerging political, economic and military power. Some of UNOCAL’s possessions and activities were located in strategically important regions, which are becoming areas of competition between the U.S. and China, and in addition, some U.S. politicians feared that China would remove oil from the markets. Thirdly, skilful lobbying by Chevron clearly influenced the outcome. Finally, CNOOC offer was not strictly commercial, as the bid would not be possible without the help of Chinese government, which was in a quest to ensure secure

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<sup>29</sup> “CNOOC Bows Out of Unocal Bidding amid Political Furor,” *Investor’s Business Daily*, August 3, 2005.

<sup>30</sup> Bernard A. Gelb, “Unocal Corporation’s Oil and Gas,” *Congressional Research Service (CRS) Report for Congress*, RS22182, July 1, 2005, p. 2.

<sup>31</sup> Kennedy, “China May Drill Philippine Oil That Shell, Chevron Rejected.”

energy supplies.<sup>32</sup> All of these factors highlight the importance of issue linkage in determining the outcome of UNOCAL bargaining and are examined in more detail in the following section.

### Outcome

Chevron won the bid as the U.S. Congress passed a resolution expressing national security concerns about the acquisition of UNOCAL by CNOOC, despite the fact that CNOOC's bid was \$2 billion higher than Chevron's. Thus, evidently, Chevron and the U.S. Government were on the winning side, whereas China and its company, CNOOC, were on the losing side of the bargain. It is unclear where UNOCAL's shareholders fit, since its board was not the primary determinant of which bid was accepted. The Chevron-UNOCAL merger was completed on 10 August 2005.

### Analyses

#### The United States

Symbolism was the first reason why political considerations prevailed over the economic ones in bargaining for UNOCAL. Regardless of whether Chinese takeover of a relatively small American oil and gas firm was a risk to U.S. national security, since energy is a strategic commodity, the Chinese purchase of UNOCAL carried a lot of symbolic value. It comes as no surprise that according to a Wall Street Journal poll, besides 96 percent of the Congress, 74 percent of the U.S. public also opposed the deal. American politicians' and public objections to the deal parallel those heard in the 1970s, when Saudis recycled their petro-dollars by buying into U.S. industries, and in the 1980s, when Japan embarked on a buying spree of American assets.<sup>33</sup> Then, as now, congressional representatives spread misguided fears of excessive foreign control and national-security threats. To illustrate, CNOOC was described as the corporate vehicle of "a Communist dictatorship."<sup>34</sup> Every

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<sup>32</sup> My views about bargaining for Unocal are summed up in Vlado Vivoda, "China, the United States and Unocal: The Triumph of Politics in Oil Bargaining," GlobalComment.com, August 10, 2005, [www.globalcomment.com/businessworld/article\\_8.asp](http://www.globalcomment.com/businessworld/article_8.asp) [August 12, 2005].

<sup>33</sup> See Bernard Wysocki, Jr and Jacob M. Schlesinger, "For U.S., China Is a Replay of Japan; Washington Sees Parallels To '80s Battles with Tokyo, But Oil Changes the Stakes," Wall Street Journal, June 27, 2005.

<sup>34</sup> R. James Woolsey quoted in Steve Lohr, "Who's Afraid of China Inc.?" The New York Times, July 24, 2005.

time the public and politicians perceive a non-Western 'invasion', despite its liberal rhetoric America gets protectionist. Saudi attempted acquisition in the U.S. steel industry, Japanese acquisition of Rockefeller Centre, followed by the 1988 Exon-Florio provision to stem Japanese investment in the U.S.,<sup>35</sup> communist Chinese attempt to buy UNOCAL, or Dubai Ports' failed attempt to acquire port facilities in the U.S., all carry enormous symbolic value. Due to historical and/or present hostility towards and fear of the Arabs, the Japanese, or the Chinese, there was, and still is a high degree of public and political opposition to these countries' acquisitions of important assets in the United States.

Moreover, in order to understand the rationale behind high symbolic value of UNOCAL, the CNOOC-UNOCAL deal must be considered within the broader context of U.S.-China engagement, as bargaining for UNOCAL touched a host of American anxieties about China that had little to do with the merits of the competing offers by the oil companies. The rising U.S. trade deficit with China and Chinese unfair trade practices caused by undervaluation of its currency are regarded by many politicians in the United States as Chinese victory and American loss, and therefore perceived as a threat to U.S. economic and strategic security.<sup>36</sup> Further, China's rapid rise as an economic power, its military ambitions, and American jobs lost to efficient Chinese manufacturers were among the concerns.<sup>37</sup> Furthermore, Americans were concerned with China's human right violations, and with the fact that intellectual-property pirates in China were illegally copying American movies and software. Such perceptions point to the fact that American domestic factors clearly helped to determine the outcome of UNOCAL bargaining. Hence, American protectionism and fear, evident in the flurry of anti-China resolution and bills introduced by members of Congress around the time of the CNOOC-UNOCAL bid, was driven by perceptions of a general 'China threat',<sup>38</sup> and played a big role in determining the outcome of bargaining for UNOCAL. China, a rising economic and military power, and a potential hegemonic challenger had to be stopped from acquiring a U.S. oil company.

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<sup>35</sup> This legislation enables the president to block a foreign acquisition of a U.S. firm that "impairs or threatens to impair" U.S. national security. See Graham, "No Reason to Block the Deal," p. 24.

<sup>36</sup> James A. Dorn, "U.S.-China Relations in the Wake of CNOOC," CATO Institute Policy Analysis, no. 553, November 2, 2005, p. 6.

<sup>37</sup> The U.S. industry was blaming China for the loss of up to three million manufacturing jobs in President George W. Bush's first term. Steve Lohr, "Sale Hinges on Lobbyists, not Cash," *The New York Times*, July 6, 2005.

<sup>38</sup> For more on perceptions of the 'China threat', see Herbert Yee and Ian Storey (eds.), *The China Threat: Perceptions, Myths and Reality* (London: Routledge, 2002); and Bill Gertz, *The China Threat: How the People's Republic Targets America* (Washington, D.C.: Regnery Publishing, 2000).

The second reason why political considerations prevailed over economic ones in bargaining for UNOCAL was that since oil is considered a strategic commodity, the U.S. wanted to keep a medium-sized company (UNOCAL) under its control. Before the takeover, UNOCAL produced oil and gas in nine countries outside the United States – Thailand, Vietnam, Indonesia, Bangladesh, Myanmar, The Netherlands, Azerbaijan, Congo, and Brazil, and 70 percent of its oil and gas reserves were located in Asia. Further, UNOCAL is a significant provider of natural gas to South and Southeast Asia (The Philippines, Bangladesh, and Thailand), it owned sensitive undersea mining and deep-water drilling technology,<sup>39</sup> which China was eager to get, and with an 8.9 percent share, was the third largest shareholder in Baku-Tbilisi-Ceyhan (BTC) Pipeline. Thus, if UNOCAL was acquired by CNOOC, the Chinese government would have also gained a share in this recently launched pipeline, which carries oil from the Caspian to the Mediterranean, and then to the export markets in the U.S. and Europe. Thus, China would gain a foothold in a region of utmost strategic importance to the United States, and it could use the pipeline to fuel its own hunger for oil. Additionally, China would further establish its presence in Southeast and South Asia, regions of increased strategic competition between the United States and China, at the American expense, by controlling the production and provision of oil and mostly natural gas in the Philippines, Thailand, Vietnam, Myanmar, Indonesia and Bangladesh. Moreover, by acquiring UNOCAL, which had some possessions in Brazil, China would further establish its energy related activities in South America. It already ventured in several Latin American countries (Venezuela, Argentina, Ecuador, and Brazil) and in Canada. Finally, UNOCAL owned offshore platforms in Cook Inlet, Alaska, and the Gulf of Mexico that are in close proximity to important U.S. national strategic facilities and infrastructure, which were not to become properties of the People's Republic of China.

All these considerations influenced many American decision-makers, and it became unlikely that the U.S. would give up UNOCAL, and the examples are plentiful. Richard D'Amato, Chairman of U.S.-China Economic and Security Review Commission, told the

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<sup>39</sup> Unocal Corporation, "2002 Annual Report," <http://www.unocal.com>, 2002, p. 1 and 5. Unocal has an 8.9 percent interest in the BTC pipeline.

House Committee on Armed Services on 13 July 2005 that “Chinese takeover of [UNOCAL’s] assets will introduce or increase Chinese political influence in all the regions where UNOCAL assets are located, some of which are of political and strategic importance to the U.S., displacing the influence of an American company with American standards.”<sup>40</sup> A growing concern voiced both by the Pentagon’s 2005 Annual Report to Congress on the Military Power of the People’s Republic of China, and by Congress was that China’s demand for direct ownership of oil and gas and other “strategic assets” would pose security risks, particularly if China acquired U.S. energy companies. In a congressional hearing on 13 July 2005, Frank Gaffney Jr., President of the Centre 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.”<sup>41</sup> Former CIA chief R. James Woolsey claimed that it is “naïve” to think that the attempted Chinese takeover of UNOCAL is just a commercial matter, and that it is unrelated to China’s strategy for domination of world energy markets and East, South and Southeast Asia. He also stressed that CNOOC’s proposed acquisition is part of China’s long-term strategy to gain military pre-eminence in the Pacific region and that, were China to succeed, this would be inimical to U.S. interests.<sup>42</sup> In fearing that China would take UNOCAL’s oil off the market, Richard D’Amato claimed that since “the Chinese treat energy reserves as assets in the same way a 19<sup>th</sup> century mercantilist nation-state would,” China’s “goal is to acquire and keep energy reserves around the world and secure delivery to China above and beyond any market considerations.” Thus, “the Chinese practice of hoarding oil would divert those supplies from global market,” and if China soaks up too much of the world energy reserves, the

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<sup>40</sup> “National Security Dimensions of the Possible Acquisition of UNOCAL by CNOOC and the Role of CFIUS,” Statement of Hon. C. Richard D’Amato, Chairman, U.S.-China Economic and Security Review Commission, Before the House Committee on Armed Services, July 13, 2005, [http://uscc.gov/testimonies\\_speeches/testimonies/2005/05\\_07\\_13\\_testi\\_damato.pdf](http://uscc.gov/testimonies_speeches/testimonies/2005/05_07_13_testi_damato.pdf), [July 20, 2005].

<sup>41</sup> Frank J. Gaffney Jr., “CNOOCered’: The Adverse National Security Implications of the Proposed Acquisition of Unocal by the China National Offshore Oil Corporation,” Testimony submitted to the House Armed Services Committee, July 13, 2005, <http://www.centerforsecuritypolicy.org/GaffneyChinaTestimonyf7122.pdf>, [August 10, 2005].

<sup>42</sup> Woolsey quoted in Edward M. Graham, “No Reason to Block the Deal,” *Far Eastern Economic Review*, July 2005, p. 27.

international market will be increasingly squeezed, what could have a devastating impact on the U.S. economy.<sup>43</sup>

Although Congress used national security arguments to justify the scrutiny of the proposed CNOOC-UNOCAL deal, the relatively small size of UNOCAL convinced some experts that the security card was just a ploy to tilt the deal in favour of the other suitor, Chevron.<sup>44</sup> Chevron, the sixth-largest corporation in the U.S., exploited its established presence in Washington in bargaining for UNOCAL. It has a sizeable in-house team, represented by the chairman of the House Committee on Resources, Richard W. Pombo, and outside lobbyists and policy advisers, such as Wayne Berman, chairman of the Federalist Group, who served in George Bush Senior's administration, and a leading fundraiser for George W. Bush.<sup>45</sup> Pombo was the very person responsible for amending House Resolution (H.R. 6) on 26 July 2005, 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.<sup>46</sup> Pombo later admitted in an interview, "If we [the Congress] hadn't put the amendment in the energy bill, they [CNOOC] might have succeeded."<sup>47</sup> Further, Washington lawmakers who have expressed opposition to CNOOC's bid for UNOCAL have received more than \$100,000 in campaign contributions from Chevron since 2002, according to the Financial Times, which cited publicly available filings in the US.<sup>48</sup> Congressional support for Chevron supports Stephen Krasner's suggestion that large American corporations involved in raw materials possess

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<sup>43</sup> "National Security Dimensions of the Possible Acquisition of UNOCAL by CNOOC and the Role of CFIUS," Statement of Hon. C. Richard D'Amato, Chairman, U.S.-China Economic and Security Review Commission, Before the House Committee on Armed Services, July 13, 2005, 2005, [http://uscg.gov/testimonies\\_speeches/testimonies/2005/05\\_07\\_13\\_testi\\_damato.pdf](http://uscg.gov/testimonies_speeches/testimonies/2005/05_07_13_testi_damato.pdf), [July 20, 2005].

<sup>44</sup> Dorn, "U.S.-China Relations," p. 2.

<sup>45</sup> Lohr, "Sale Hinges on Lobbyists, not Cash."

<sup>46</sup> See Dorn, "U.S.-China Relations," p. 2, David Greising, "China Scraps Its Unocal Bid," *Chicago Tribune*, August 3, 2005; and House Committee on Resources, "Conference Completes Work on Energy Policy Act," news release, July 26, 2005, <http://resourcescommittee.house.gov/Press/releases/2005/0726energybill.htm>, [August 10, 2005].

<sup>47</sup> Quoted in Loretta Ng, "Citing 'Political Environment' Cnooc Backs Off Its Bid to Acquire Unocal," *New York Sun*, August 3, 2005.

<sup>48</sup> "US Lawmakers Meddle in CNOOC's Unocal Bid," *The Financial Times*, July 6, 2005.

substantial political resources which can help them in influencing Congress, and the levers of power in the Congress which helped them prevail, were within the oil industry's grasp on a number of occasions.<sup>49</sup>

It is important to note that in reality, and against American politicians' perceptions, if CNOOC acquired UNOCAL and directly shipped oil to China, instead of buying it on the open market, there would be no net change in the world price of oil, and so the United States would not have been 'crowded out'. China would buy less oil on the market and there would be more available for other countries to purchase.<sup>50</sup> In addition, "UNOCAL would not provide China with an 'oil weapon.'"<sup>51</sup> In other words, Edward Graham has suggested that there was no reason to block the deal.<sup>52</sup> When passing the H.R. 344, Congress ignored the obvious reality. In relation to Chinese acquisition of sensitive drilling technology through UNOCAL, Jerry Taylor said, "there is nothing UNOCAL has in the oil sector that isn't available through contractors, or private vendors, or whatnot ... there's nothing proprietary there."<sup>53</sup> However, these obvious facts played no role in the bargaining process.

## China

The fourth and the final reason why political considerations dominated the economic ones in bargaining for UNOCAL stems from the Chinese strategic security. Since most of China's oil imports come by sea, and are vulnerable to a U.S. Navy blockade, Beijing is seeking to diversify its sources away from the Middle East to Russia, Central Asia and Pacific. UNOCAL's possessions in Asia would serve this purpose, albeit to a limited, but nevertheless important extent, and would put China in control of additional 1.7 billion

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<sup>49</sup> For example, in the Middle East oil policy in the 1940s. See Krasner, *Defending the National Interest*, pp. 74, 156, 189, 198-9, 213-5.

<sup>50</sup> Bergsten, et al, *China: The Balance Sheet*, pp. 112-3.

<sup>51</sup> Jerry Taylor, written testimony submitted to the House Armed Services Committee, session on "National Security Implications of the Possible Merger of the China National Offshore Oil Corporation with Unocal Corporation," July 13, 2005. See also Jerry Taylor, "CNOOC Bid for Unocal No Threat to Energy Security," *Cato Institute Center for Trade Policy Studies, Free Trade Bulletin*, no. 19, July 19, 2005.

<sup>52</sup> Graham, "No Reason to Block the Deal," p. 25. Also see Edward M. Graham and David M. Marchick, *US National Security and Foreign Direct Investment* (Washington, D.C.: Institute for International Economics, 2006).

<sup>53</sup> Excerpted from the July 13, 2005, audiotapes of the House Armed Services Committee Hearings on the CNOOC-UNOCAL Deal. Edward Graham agrees with Taylor's assessment, and argues, "Any technological expertise held by Unocal is readily available to China from many other sources." Graham, "No Reason to Block the Deal," p. 25.

barrels of oil equivalent, control of which in China is perceived as important if there is a real shortage on the markets.

While trying to portray their attempted purchase of UNOCAL as purely economic, the Chinese side launched a public offensive against the U.S. government, attacking the latter of mixing politics with an economic issue. For example, Liu Jianchao, a spokesperson for China's Foreign Ministry, claimed that in bargaining for UNOCAL "commercial activities should not be interfered in or disturbed by political elements," and that "we [Chinese Foreign Ministry] demand that the U.S. Congress correct its mistaken ways of politicising economic and trade issues, and stop interfering in the normal commercial exchanges." In addition, CNOOC Chairman Fu Chengyu stated, "the bid is simply a normal business activity based on the principles of the free market."<sup>54</sup>

However, the Chinese side failed to keep activities strictly commercial in the first place. Although some have suggested that China's oil companies are not "the puppets of the government" whose "corporate interests are not always in line with those of the government or the Communist Party,"<sup>55</sup> it is more than likely that "if CNOOC were truly a private [and independent] firm, Congress would not have been so concerned."<sup>56</sup> CNOOC, 70 percent government owned, planned to pay for UNOCAL by using substantial loans (\$7 billion) from its parent company (also called CNOOC), \$6 billion from a major Chinese government-owned bank (Industrial and Commercial Bank of China), and only \$3 billion from its financial advisers (JP Morgan and Goldman Sachs). The U.S. Treasury Department was not impressed by this plan, which was clearly driven by Chinese government policy. Further evidence of this is that the \$7 billion loan from the government-owned parent company would come with only 3.6 percent interest, lower than 4.2 percent, which U.S. government treasury bonds yielded at the time and interest-free loan from the government-owned bank.

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<sup>54</sup> Quotes from Matt Pottinger, "Cnooc Drops Offer for Unocal, Exposing U.S.-Chinese Tensions," Wall Street Journal, August 3, 2005.

<sup>55</sup> Xu, "China's Energy Security," p. 272.

<sup>56</sup> Dorn, "U.S.-China Relations," p. 8.



In a statement that portrayed the American sentiment regarding the attempted Chinese takeover of UNOCAL, Chevron vice chairman Peter Robertson said that CNOOC “clearly isn’t a commercial company. In my opinion, that’s not right... We think it’s a national energy-security issue. We’re clearly up against the Chinese government.”<sup>57</sup> In yet another statement, Richard D’Amato told the House Committee on Armed Services on 13 July 2005 that CNOOC’s takeover bid for UNOCAL “gives every appearance of being an effort by the Chinese government to take over a private American oil company.”<sup>58</sup> It is clear that CNOOC’s access to the Chinese government and to cheap financing which gave it an unfair advantage vis-à-vis Chevron, did not sit well with American politicians and the public.

Thus, indirectly, by allowing CNOOC to get cheap government money for its attempted acquisition of UNOCAL, Chinese strategic security concerns influenced the bargaining outcome. The Americans perceived this move as the attempt of the Chinese government, and not of a private company, to buy strategic American assets, with domestic backlash against the Chinese an unavoidable outcome. Senator Byron Dorgan, who drafted anti-CNOOC legislation, objected to the Chinese move on fair-trade grounds. The Chinese government, he says, would not allow an American company to buy a Chinese oil company. “So why on earth should they be able to buy an American oil company?”<sup>59</sup>

What are some possible consequences of unsuccessful Chinese bid for UNOCAL? Consequences may be felt in the overall Sino-American bargaining relationship, working against U.S. interests. China may start buying European Airbus airplanes rather than American Boeings. It may offer more diplomatic and other help to Iran in building up its nuclear capacity. It may stop recycling its trade surplus by purchasing the U.S. treasury bonds,<sup>60</sup> and therefore stop financing Bush’s ‘economic experiment’ and low interest rates. All this is uncertain. However, China will certainly continue getting more assertive in its attempt to secure sufficient energy in order to fuel its economic growth. For example, only

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<sup>57</sup> Quoted in Schwartz, “Why China Scares Big Oil,” p. 42.

<sup>58</sup> “National Security Dimensions of the Possible Acquisition of UNOCAL by CNOOC and the Role of CFIUS,” Statement of Hon. C. Richard D’Amato, Chairman, U.S.-China Economic and Security Review Commission, Before the House Committee on Armed Services, July 13, 2005, [http://uscc.gov/testimonies\\_speeches/testimonies/2005/05\\_07\\_13\\_testi\\_damato.pdf](http://uscc.gov/testimonies_speeches/testimonies/2005/05_07_13_testi_damato.pdf), [July 20, 2005].

<sup>59</sup> Lohr, “Who’s Afraid of China Inc.?”

<sup>60</sup> Ibid. In 2004, China had a record \$162 billion trade surplus with the United States.

days after UNOCAL withdrawal, CNPC acquired PetroKazakhstan for \$4.2 billion, beating India's state-owned Oil & Natural Gas Corp. (ONGC) by \$600 million, and offering 21.1 percent premium on the price of PetroKazakhstan's shares.<sup>61</sup> This acquisition was regarded as "revenge on Washington for the blocking of the China acquisition of UNOCAL," as U.S. IOCs had previously made major efforts to lock up Kazakhstan oil.<sup>62</sup>

Further, China is likely to turn its attention to other independent American oil companies, such as Murphy Oil. The bottom-line is that the United States and China are competing for global hegemony. In order to secure adequate energy supplies and in line with this competition, in oil industry bargaining, political considerations are likely to continue to dominate economic considerations. In recent years, Chinese oil demand growth has been staggering (see Table 3.5). This rise in demand was largely met by increasing imports. In order to feed its growing hunger for imported oil, China is very likely to get more assertive in securing oil and gas supplies from the Middle East, Russia, Central Asia, South America and Africa, regions that provide the U.S. with a large share of its own imported oil. Against U.S. wishes, China will also continue to look for energy in rogue states, and states unfriendly to the U.S., such as Venezuela, Iran, Sudan, Syria or Myanmar.

One important fact can be learnt from bargaining from UNOCAL. IOCs can benefit from public and political support at home. Chevron's bid for UNOCAL was supported by heavy lobbying in Congress. There was barely a peep in the U.S. when BP, a foreign oil company, bought both Amoco and Arco. Thus, to an extent, the fight for UNOCAL was about deep anxieties over China's long-term oil and other ambitions, and the way in which these will affect the future of Big Oil. IOCs face a harsh landscape worldwide, as government-backed NOCs elbow their way into the industry.<sup>63</sup> As shown in Chapters 3 and 4, these, and other IOCs are struggling in competition for reserves and concessions with NOCs in both Russia and Venezuela, and have to be helped to compete. If Western governments support their IOCs, as the U.S. government did in the case of UNOCAL, and their interests are aligned, Big Oil's bargaining power may increase. The case of

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<sup>61</sup> Jason Bush, "China and India: A Rage for Oil," *Business Week*, September 5, 2005.

<sup>62</sup> William F. Engdahl, "China Lays Down Gauntlet in Energy War," *Asia Times*, December 21, 2005. Exxon Mobil was charged with bribery of Kazakh officials to win a presence in the Kazakh oil business, and a senior Mobil executive was later jailed on U.S. tax evasion in New York tied to the Kazakh bribery payments.

<sup>63</sup> Schwartz, "Why China Scares Big Oil," p. 40.

UNOCAL is reminiscent of another past reaction of an IOC's home government, when in 1987/88, KIO, a part of the Kuwait Investment Authority, bought a 23 percent stake in BP. In response, BP successfully appealed to the British government to intervene, as its board members argued that what was ostensibly a portfolio transaction by KIO was in fact a veiled attempt by KPC to take over BP.<sup>64</sup> With their inability to secure badly needed oil reserves in non-Western countries, such as Russia and Venezuela where their home governments could not do much to help them (see Chapters 3 and 4), IOCs are in dire need of more help from their home governments, at least on their home turf. If such help does not arrive, they will likely engage in further industry consolidation, in some way possibly a full swing back to the almost-monopoly days of Standard Oil as effects of the antitrust decision of 1911 may continue to be negated one company at the time.<sup>65</sup> Alternatively, they risk being bought by a Chinese company, as some have predicted that in future, driven by rising demand for oil imports, many foreign assets will inevitably be swallowed up by Chinese interests.<sup>66</sup>

### Conclusion

American and Chinese strategic security concerns and the U.S. domestic bargaining factors influenced the outcome of bargaining for UNOCAL. Since China is on its way to becoming an economic (and military) superpower, as perceived from Woolsey's and Gaffney's statements, it is considered strategically important for the United States to limit the growth of China and preserve its world hegemony. Symbolism and the overall 'China threat' perception in the U.S. resulted in much negative publicity surrounding CNOOC's UNOCAL takeover bid, and when considered together with successful lobbying by Chevron in the U.S. Congress, CNOOC had no choice but to pull out. Finally, the fact that CNOOC is owned by the Chinese government, which for its own strategic security reasons adopted a mercantilist approach to the oil markets in recent years, made the

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<sup>64</sup> Mary-Ann Tétreault, *The Kuwait Petroleum Corporation and the Economics of the New World Order* (Westport, CT: Quorum Books, 1995), pp. 200-2.

<sup>65</sup> Besides Chevron's acquisition of Unocal, Conoco Phillips spent nearly \$36bn to acquire US gas producer Burlington Resources. This purchase was said to be motivated, at least in part, by a desire to rebalance its upstream portfolio, which is heavily tilted towards Venezuela, where 10 percent of the company's upstream capital is invested. "Chavez Triumphant."

<sup>66</sup> "Feeding the Dragon," *Petroleum Economist*, December 2005; and "Unocal: A Bump in the Road," *Petroleum Economist*, April 2006.

Chinese bid for UNOCAL perceived as highly political, and both the U.S. public and politicians wanted to prevent it from materialising.

#### Relationship with Hypotheses

The case study of bargaining for UNOCAL has direct relevance to two of the hypotheses set in Chapter 2. Evidence presented in this case study is supportive of hypothesis two, since as the interests of Chevron and the U.S. Government were aligned, the U.S. Government supported Chevron in bargaining with CNOOC. This support resulted in bargaining success for Chevron. Evidence is not supportive of hypothesis four, since the U.S. government's perception of threat to its oil supply security resulted in its bargaining success, as it heavily supported Chevron against the Chinese takeover of a strategic asset. For more discussion, please refer to Chapter 7.

### CASE STUDY 5: Bargaining for the Future of Arctic National Wildlife Refuge (ANWR) – Oil versus Environment

The political conflict over ANWR centres on the question of whether to approve energy development there, or whether to continue to prohibit development in order to protect the area's biological, recreational, and subsistence values. While ANWR is rich in oil potential, it is also rich in flora and fauna. Although its development has been debated for decades, sharp increases in oil prices between 2004 and 2006, and the 2001 terrorist attacks against the U.S. have intensified the debate and bargaining over the issue. Current law prohibits oil and gas leasing in the refuge. Below, after introducing the main actors in this bargaining case, I will briefly outline the historical background before engaging in the analyses of recent events.

Bargaining over the rights to drill in the ANWR serves as a perfect example of polarised visions between neoconservatives and progressives in the American political landscape. The pro-oil big business, Republican-led, neoconservative attempt to develop the Arctic Refuge is led by the politicians of the Alaska State delegation, in conjunction with its political allies in the Bush-Cheney administration, and supported by Arctic Power, the primary lobbying organisation for the state of Alaska, the Alaska congressional delegation,

and the oil companies.<sup>67</sup> On the other side, the Alaska Coalition consists of many environmental, indigenous and religious groups, and many Democrat Senators support them in opposition to drilling in the ANWR (see Table 5.3 for their bargaining goals).

Table 5.3: Goals of Main Actors in Bargaining for the Future of ANWR

Actor	Bargaining Goals
The U.S. government (particularly the Bush administration)	Emphasising energy independence and therefore opening any domestic reserves for drilling
U.S. Senate/Congress	Dependable on which party has the majority: Republicans (pro-drilling); Democrats (anti-drilling)
The Alaskan government	As it receives much of its budget from oil, it definitely supports drilling in ANWR
Oil companies	Clearly supportive of drilling as it would give them much needed additional reserves
Anti-drilling activists (“Alaska Coalition”)	Utterly opposed to drilling in the ANWR for various interests

Development advocates argue that ANWR oil would reduce U.S. exposure to Middle Eastern supplies; lower oil prices; extend the economic life of the Trans Alaska Pipeline; and create jobs in Alaska and elsewhere in the United States. They maintain that ANWR oil could be developed with minimal environmental harm, and that the footprint of development could be limited to a total of 8 km<sup>2</sup>. Opponents argue that intrusion on such a remarkable ecosystem cannot be justified on any terms; that economically recoverable oil found would provide little energy security and could be replaced by cost-effective alternatives, including conservation; and that job claims are exaggerated. They maintain that development’s footprints would have a greater impact than is implied by a limit on total acreage.<sup>68</sup> The high profile fight over U.S. congressional votes on whether or not to open the ANWR to oil drilling started in the late 1980s, continuing into the 1990s until the present day.<sup>69</sup>

<sup>67</sup> Standlee, *Oil, Globalization, and the War for the Arctic Refuge*, pp. 16-7.

<sup>68</sup> M. Lynne Corn, Bernard A. Gelb and Pamela Baldwin, “Arctic National Wildlife Refuge (ANWR): Controversies for the 109<sup>th</sup> Congress,” CRS Report RL33523, July 7, 2006.

<sup>69</sup> For more on history of politics of ANWR see David M. Standlee, *Oil, Globalization, and the War for the Arctic Refuge* (Albany: State University of New York Press, 2006), Chapter 2.

The 1980 Alaska National Interest Lands Conservation Act (ANILCA),<sup>70</sup> expanded ANWR from 36,400 km<sup>2</sup> to 76,900 km<sup>2</sup>, and designated around 32,300 km<sup>2</sup> as wilderness. Congress specifically left open the question of management of a 6,000-km<sup>2</sup> Arctic Coastal Plain area of ANWR because of the likelihood that it contains significant oil and gas resources.<sup>71</sup> Section 1002 of the Act directed the Department of the Interior (DOI) to conduct geological and biological studies of the Arctic Coastal Plain, ‘the 1002 Area’, and to provide Congress with the results of those studies with recommendations on future management of the area. Section 1003 of the Act prohibited leasing of the 1002 Area until authorised by an act of Congress.<sup>72</sup>

In 1987, after more than five years of biological baseline studies, surface geological studies, and two seasons of seismic exploration surveys, the DOI recommended to Congress that the 1002 Area be leased for oil and gas exploration and production in an “environmentally sensitive manner.”<sup>73</sup> In 1988, the Natural Resources Defense Council, the trustees for Alaska, and the National Wildlife Federation issued their own report challenging the DOI findings.<sup>74</sup> In 1989, the pendulum of influence swung towards the environmentalists, following the catastrophic oil spillage from Exxon Valdez and thus, in 1991, the provision to open the ANWR to development was dropped from the National Energy Policy Act.<sup>75</sup> In 1995, both the Senate and the House passed legislation containing a provision to authorise leasing in the 1002 Area, but the legislation was vetoed by President Clinton in December 1995, after intense lobbying by the environmentalists.<sup>76</sup>

In 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

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<sup>70</sup> See “Alaska National Interest Lands Conservation Act” (ANILCA), Public Law 96-487-December 2, 1980 94 STAT. 2371, <http://alaska.fws.gov/asm/nilca/toc.html>, [March 19, 2007].

<sup>71</sup> National Energy Policy, ch. 5, p. 9.

<sup>72</sup> *Ibid.* For more history of legislation on ANWR, see M. Lynne Corn, “Arctic National Wildlife Refuge: Background and Issues,” CRS Report RL31278, May 15, 2003. For legal background, see Pamela Baldwin, “Legal Issues Related to Proposed Drilling for Oil and Gas in the Arctic National Wildlife Refuge (ANWR),” CRS Report RL31115, April 22, 2003. For specific actions, including key votes, see Anne Gillis, M. Lynne Corn, Bernard A. Gelb, and Pamela Baldwin, “Arctic National Wildlife Refuge: Legislative Actions Through the 109<sup>th</sup> Congress, First Session,” CRS Report RL32838, March 30, 2005.

<sup>73</sup> National Energy Policy, ch. 5, p. 9.

<sup>74</sup> See Natural Resources Defense Council (NRDC), National Wildlife Federation, and Trustees for Alaska, *Tracking Arctic Oil: The Environmental Price of Drilling the Arctic National Wildlife Refuge* (New York: Natural Resources Defense Council, 1991).

<sup>75</sup> Rutledge, *Addicted to Oil*, p. 70.

<sup>76</sup> *Ibid.* p. 71.

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. Peak production from ANWR, according to the U.S. Government sources, could be between 1 and 1.35 million bpd, and would account for approximately a quarter of all U.S. oil production,<sup>77</sup> but not much more than five percent of U.S. consumption.<sup>78</sup> While it is undoubted that the ANWR holds enormous untapped reserves, drilling and producing oil in deep ice-covered waters, thousands of kilometres from any tanker port, would pose enormous technical challenges. Special equipment and highly trained crews would have to be brought in and protected in a harsh environment. Thousands of engineering and technical hurdles would have to be overcome simply to bring the oil to the surface, to say nothing of building pipelines to get oil to the market.<sup>79</sup>

Since the Arctic is among the more fragile ecosystems on the planet, environmental groups have been willing to fight hard to protect it.<sup>80</sup> For nearly twenty years of debate over opening the ANWR to oil development, they have effectively kept oil companies from tapping into a reserve that lies beneath the ANWR, despite decades of well-financed oil industry lobbying.<sup>81</sup> However, in Bush administration's effort to increase the U.S. domestic energy supplies, outlined in 2001 National Energy Policy, America would rediscover its supply-side roots, as it did in the 1950s and 1960s. Oil companies would be encouraged to tap new domestic reserves – including those in the ANWR. However, import quotas would be impossible this time. Bush administration's long-standing drive for increased domestic oil production, most notably in the ANWR, aims to increase America's energy independence and reduce its reliance on foreign oil, which constitutes approximately two-

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<sup>77</sup> National Energy Policy, ch. 5, p. 9; U.S. Department of Interior, Geological Survey (USGS), "Arctic National Wildlife Refuge, 1002 Area, Petroleum Assessment," USGS Fact Sheet 0028-01, 1998; U.S. Department of Interior, Geological Survey (USGS), "The Oil and Gas Potential of the Arctic National Wildlife Refuge 1002 Area, Alaska," USGS Open File Report 98-34, 1999; and Energy Information Administration, "Potential Oil Production from the Coastal Plain of the Arctic National Wildlife Refuge: Updated Assessment," May 2000, <http://www.eia.doe.gov>, [May 10, 2005]. Also see Kenneth J. Bird, "Potential Oil and Gas Resources of the Arctic National Wildlife Refuge in Alaska: 1002 Area," *Polar Geography*, vol. 24, no. 1, 2000, pp. 13-34.

<sup>78</sup> Paul Krugman, "Oil's Awkward Realities," *New York Times*, September 27, 2001.

<sup>79</sup> Roberts, *The End of Oil*, p. 64.

<sup>80</sup> For negative impacts of oil on environment in general, see Falola and Genova, *The Politics of the Global Oil Industry*, chapter 6.

<sup>81</sup> Roberts, *The End of Oil*, p. 64.

thirds of its oil consumption (see Table 5.1). Its focus is on security of supply, rather than security from the economic and environmental impact of demand.<sup>82</sup>

In 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.”<sup>83</sup> Five months later, the Interior Secretary Gale A. Norton, announcing the start-up of a controversial new oilfield in Alaska’s Beaufort Sea – the Northstar field operated by BP – declared, “In the aftermath of the 11 September terrorist attacks, Americans charged our Government to strengthen national security. This is a positive step in that direction.”<sup>84</sup> The Northstar project had been strongly opposed by US environmentalists and Norton’s declaration demonstrated a new willingness to ride roughshod over them. Bush and his team ‘kicked sand’ in the faces of the domestic supporters of the Kyoto agreement, which aimed to limit greenhouse gases, and opening up the ANWR for drilling was next on the agenda.<sup>85</sup>

In what was to be “environmentally responsible energy development,”<sup>86</sup> the 2001 National Energy Policy recommended opening up the ANWR to oil companies for drilling. It is argued:

Technological improvements over the past 40 years have dramatically reduced industry’s footprint on the tundra, minimised waste produced, and protected the land for resident and migratory wildlife. These advances include the use of ice roads and drilling pads, low-impact exploration activities, and extended reach and through-tubing rotary drilling. These technologies have significantly reduced the size of production-related facilities ... [to] no more than 2,000 acres [8 km<sup>2</sup>] ... if the 1002 Area of ANWR is developed.<sup>87</sup>

Thus, the National Energy Policy Development (NEPD) Group, headed by the Vice-President Dick Cheney and the Secretary of State Colin Powell, recommended that the President direct the Secretary of the Interior to work with Congress to authorise

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<sup>82</sup> A book by Steve A. Yetiv, *Crude Awakenings: Global Oil Security and American Foreign Policy* (Ithaca, NY: Cornell University Press, 2004), is an example of such a vision of energy security. Yetiv casts U.S. intervention in aid of supply security as beneficial yet minimises the impact of its refusal to intervene on the issue of global climate change.

<sup>83</sup> National Energy Policy, ch. 8, p. 1.

<sup>84</sup> US Department of the Interior, “First Alaska Offshore Energy Flows Today,” News Release, November 1, 2001.

<sup>85</sup> Rutledge, *Addicted to Oil*, p. 71.

<sup>86</sup> National Energy Policy, ch. 3, p. 9.

<sup>87</sup> *Ibid.* ch. 5, p. 9.



exploration and, if resources are discovered, development of the 1002 Area of ANWR. Further, the NEPD Group suggested that Congress should require the use of the best available technology and should require that activities will result in no significant adverse impact to the surrounding environment.<sup>88</sup> Finally, the Group suggested the use of an estimated \$1.2 billion of bid bonuses from the environmentally responsible leasing of ANWR for funding research into alternative and renewable energy resources, including wind, solar, geothermal and biomass.<sup>89</sup>

While Cheney's NEPD Group was getting to work on its Report to the President in 2001, pressure to open up Area 1002 of the ANWR began to build, and since, the move to allow oil exploration generated a tremendous amount of controversy, pitting environmental and energy conservationists against the oil industry and the government. The campaign to open up the ANWR was led by Arctic Power, a lobbying organisation which was created in the 1990s by the Alaskan state and oil companies, "with the express intention to serve as a lobby group to open up the Arctic Refuge to drilling."<sup>90</sup> Arctic Power is publicly funded by the oil companies, such as Exxon Mobil, BP, Conoco Philips and Chevron,<sup>91</sup> with the interest of exploring and producing in the ANWR, as they need to get their hands on any oil reserves, regardless of potential profitability;<sup>92</sup> and State Government of Alaska,<sup>93</sup> and a number of individuals, such as Alaska's politicians, Governor Frank Murkowski and Senators Lisa Murkowski, Ted Stevens and Don Young.<sup>94</sup> Alaska had done well out of oil development, at least in the material sense. For many years, a strict royalty and taxation regime had channelled considerable wealth to individual Alaskans. Thus, Alaska's government and politicians are leading proponents of oil exploration in ANWR, as oil provides 80 percent of the state's unrestricted general revenues, which helps the state maintain one of the lowest tax rates in the United States. The drilling campaign was also

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<sup>88</sup> Ibid. ch. 5, p. 10.

<sup>89</sup> Ibid. ch. 6, p. 17.

<sup>90</sup> Standlee, *Oil, Globalization, and the War for the Arctic Refuge*, p. 74.

<sup>91</sup> Nelson D. Schwartz, "The Biggest Company in America is also a Big Target," *Fortune*, April 17, 2006, p. 54.

<sup>92</sup> This is the author's opinion, and is not expressed publicly, as the oil companies remain publicly neutral about drilling in the ANWR, not to hurt their public image, and tend to press for their cause through the Arctic Power and the State of Alaska, which is controlled by the oil industry. However, David Standlee (*Oil, Globalization, and the War for the Arctic Refuge*, p. 51) argues that if the ANWR were opened for drilling, then the oil companies would proceed to drill and make a profit.

<sup>93</sup> According to Standlee, "Arctic Power was created explicitly and formally as a nongovernmental organisation designed solely to lobby the U.S. Congress to open up the Arctic Refuge for drilling." Ibid, p. xiv.

<sup>94</sup> For more on their involvement, see *ibid*, pp. 60-5.

supported by The Heritage Foundation, a public policy research institute whose stated mission is to formulate and promote conservative public policies, and which has had a significant impact on the domestic and foreign policies of the U.S. government.<sup>95</sup>

In February 2001, Republican Senator Frank Murkowski, then 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, calling it “the starting point for what will be an important debate during this session of the 107<sup>th</sup> Congress.” Introducing his bill, Murkowski announced:

Today is the first step in ending America’s dependence on other nations to power our progress... Each day more than 8 million barrels of crude oil come from foreign shores. That is a dangerous strategy by anyone’s measure. This bill spells out a national energy strategy with a critical goal – to finally reduce to 50 percent the amount of oil we import.<sup>96</sup>

In October 2001, 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 Centre attack. Murkowski and other Republicans tried to convince senators that opening the refuge was now a matter of national energy security.<sup>97</sup> A variety of conservative organisations lined up behind Murkowski and Arctic Power, arguing that oil from the ANWR would allegedly replace oil imported from Iraq and elsewhere in the Middle East.<sup>98</sup> Arctic Power claimed that the ANWR’s coastal plain contained, “from 9 billion to 16 billion barrels of recoverable oil,”<sup>99</sup> what corresponded relatively well with USGS estimate of 5.7 to 16 billion barrels of recoverable oil. While 16 or even 10.4 billion barrels of oil would be a remarkable addition to America’s reserves of 29.4 billion barrels, the Senate Majority Leader, Democrat Tom Daschle managed to keep the ANWR provision out of the defence bill.<sup>100</sup>

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<sup>95</sup> For example, see Charli E. Coon, “Tapping Oil Reserves In A Small Part of ANWR: Environmentally Sound, Energy Wise,” The Heritage Foundation, August 1, 2001; and Ben Lieberman, “Congress Should Let ANWR’s Oil Flow to U.S. Customers,” The Heritage Foundation, May 24, 2006.

<sup>96</sup> “National Security Act of 2001,” Alexander’s Gas and Oil Connections, vol. 6, no. 11, June 18, 2001.

<sup>97</sup> Standlee, Oil, Globalization, and the War for the Arctic Refuge, p. 66.

<sup>98</sup> Rutledge, Addicted to Oil, pp. 76-7.

<sup>99</sup> Ibid, p. 76.

<sup>100</sup> Fred Barnes, “The Majority Leader’s War,” The Weekly Standard, December 24, 2001.

In the meantime, the environmental, indigenous (Gwich'in), and religious communities are involved in the battle from the anti-drilling perspective. According to David Standlea, the Alaska Coalition, which is fighting the oil development in the Arctic Refuge, is "an extremely large and complex mix of organisations and interests representing an array of overlapping and diverging philosophical positions, though bound by a common denominator of political purpose and tactics."<sup>101</sup> The fact that over 600 groups make up the Alaska Coalition illustrates the complexity of this group. Today, the Alaska Coalition is one of the most influential alliances of conservation and indigenous groups in the United States.<sup>102</sup> In addition, although they are not part of the Alaska Coalition, Senators Tom Daschle, Joe Lieberman, John Kerry and Richard Gephardt are main Democrat opponents to drilling in the ANWR. In order not to become lost in the plethora of details due to the complexity of this group it is imperative to keep foremost in mind only the major ideological platform inherent in the Alaska Coalition and its supporters. Regardless of other groups, it is important to note that the environmentalists "have been running the campaign, and they have the power" within the Alaska Coalition, while "the Gwich'in have symbolic power."<sup>103</sup> Therefore, the environmentalists and the indigenous activists are taken as representative of the Alaska Coalition's major ideological platform and their arguments are examined below.

This crucial relationship in the Alaskan Coalition between the environmentalists and the Gwich'in Athabascan,<sup>104</sup> was established by the Arctic Refuge campaign due to a convergence of values. Both sides capitalise on the need to save the wildlife, particularly the porcupine caribou herd. While the environmental preservationist community sought the protection of wilderness values, wildlife, and federal public lands, the Gwich'in found an overlap of value with the environmentalists because of wilderness and wildlife, of course, but because of very different reasons. According to David Standlea, the Gwich'in are fighting "for nothing less than cultural survival, which includes subsistence rights to continue to hunt caribou, the animal with which they spiritually identify."<sup>105</sup> Gwich'in, unlike the Inupiat Eskimos of Kaktovik, refused to become co-opted by the oil industry,

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<sup>101</sup> Standlea, *Oil, Globalization, and the War for the Arctic Refuge*, p. xiv.

<sup>102</sup> *Ibid.*, p. 29.

<sup>103</sup> *Ibid.*, p. 103.

<sup>104</sup> For more on the Gwich'in, see Standlea, *Oil, Globalization, and the War for the Arctic Refuge*, Chapter 7.

<sup>105</sup> *Ibid.*, p. 102.

and remained committed to their own lifestyle. While the ANWR is a federally managed area of land contested by oil companies, state and federal government, and environmentalists, to the Gwich'in it is a sacred place, where their caribou give birth and nurse the young in the summer. The Gwich'in call themselves the 'caribou people', and they have a spiritual connection to the caribou, the animal upon which they have depended for subsistence for hundreds of generations. In addition, the land is considered very important to the Gwich'in, as they consider it as their heritage and their way of life.<sup>106</sup>

The environmentalists, who are the major group within the Alaska Coalition, remind us not to forget that ANWR is a wildlife refuge, and that any large-scale exploration and drilling operations in the area could have a serious impact on the wildlife and wilderness in the region. Although drillers are required to file an environmental impact statement, environmentalists believe that such documents are often inadequate and do not provide sufficient information about the impacts that oil and gas exploration and development will have on an area.<sup>107</sup> According to the U.S. government's Fish and Wildlife Service (FWS), ANWR is the country's finest example of an intact, naturally functioning community of arctic and sub-arctic ecosystems, as well as being that largest unit in America's National Wildlife Refuge System. Such a broad spectrum of diverse habitats occurring within a single protected unit is, according to the FWS, "unparalleled in North America, and perhaps in the entire circumpolar north."<sup>108</sup> Indeed, the completeness and proximity of a number of arctic and sub-arctic ecological zones in the ANWR provides for greater plant and animal diversity than in any other similar-sized land area on Alaska's North Slope.<sup>109</sup>

Area 1002 of the ANWR, the area explicitly cited for oil development in Cheney's NEP report, constitutes only 8 percent of the total ANWR area but includes most of the Refuge's coastal plains and foothills. It is a 160 km-long belt of tundra, compressed between the mountains of the Brooks Range and the Beaufort Sea and stretching between 30 and 60 kilometres inland. Nevertheless, Area 1002 is critically important to the

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<sup>106</sup> Ibid, p. 113.

<sup>107</sup> A major opponent of oil drilling in the ANWR is the Natural Resources Defense Council. For more details see their report: *Oil and the Arctic National Wildlife Refuge*, 2002, available <http://www.nrdc.org/land/wilderness/arctic.asp> (November 20, 2005).

<sup>108</sup> US Fish and Wildlife Service, *Potential Impacts of Proposed Oil and Gas Development on the Arctic Refuge's Coastal Plain: Historical Overview and Issues of Concern*, 2002, available <http://www.fws.gov/issues1.html> (November 20, 2005).

<sup>109</sup> Rutledge, *Addicted to Oil*, p. 72.

ecological integrity of the ANWR as a whole. It provides essential habitats for numerous internationally important species such as the 129,000 strong porcupine caribou herd, grizzly bears, arctic fox, wolves, musk oxen, snow gees, and polar bears. In addition, besides snow gees, some 135 other species of birds are known to use the 1002 Area.<sup>110</sup> Many of these species are protected by international treaties and agreements.<sup>111</sup>

Some analysts have argued that Prudhoe Bay area offers a stark example of what drilling would mean to Area 1002. BP-owned and operated Prudhoe Bay oil-producing industrial complex, located approximately 100 km to the west of Area 1002, extends across a 2,500-km<sup>2</sup> region, which is continually expanding as new oilfields are developed. Linking the North Slope oilfields to the port of Valdez, on Alaska's southern coast is the 1,300 km Trans-Alaska Pipeline System (TAPS). According to the National Resources Defense Council (NRDC), a major opponent of oil drilling in the ANWR describes Prudhoe Bay as:

A gargantuan oil complex that has turned 1,000 square miles of fragile tundra into a sprawling industrial zone containing 1,500 miles of roads and pipelines, 1,400 producing wells and 3 jetports ... a landscape defaced by mountains of sewage, sludge, scrap metal, garbage and more than 60 contaminated waste sites that contain – an often leak – acids, lead, pesticides, solvents and diesel fuel.<sup>112</sup>

According to a study of the impact of oil development in the area, during recent years there has been about one spill a day at Prudhoe Bay. The Prudhoe Bay oilfields and TAPS have caused an average of 423 spills annually on the North Slope between 1996 and 2002.<sup>113</sup> In an attempt to ensure renewal of the TAPS rights-of-way, authors of the 2001 NEP claim that ever since the beginning of operations in 1977, only 0.00014 percent of the total amount of more than 13 billion barrels of oil transported from Alaska's North Slope to the Port of Valdez has been spilled.<sup>114</sup> These 0.00014 percent, however, translates to 207 barrels or 28.4 tons of oil spilled per day, every single day. Roughly, 40 different substances from acid to waste oil are spilled during routine operations. In addition,

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<sup>110</sup> Ibid. For more information on biological resources of the 1002 area, see Corn, "Arctic National Wildlife Refuge: Background and Issues."

<sup>111</sup> Corn, Gelb and Baldwin, "Arctic National Wildlife Refuge (ANWR): Controversies for the 109<sup>th</sup> Congress," p. 2.

<sup>112</sup> Natural Resources Defense Council, *Oil and the Arctic National Wildlife Refuge*. Also see Pamela A. Miller, "Broken Promises: The Reality of Big Oil in America's Arctic," Wilderness Society, Washington, D.C., 2003, p. 2.

<sup>113</sup> Miller, "Broken Promises," p. 2.

<sup>114</sup> National Energy Policy, ch. 7, p. 10.

Prudhoe Bay is a major source of air pollution and greenhouse gas emissions.<sup>115</sup> In March 2006, while the Senate was busy passing a 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.<sup>116</sup> In 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.<sup>117</sup> The bottom-line is that oil companies, which are focused on their economic gains, cannot be trusted to protect Alaska's fragile environment.

In fact, the environmentalists argue that the potential for ecological mayhem is even stronger in the ANWR. This is because studies carried out by the USGS have indicated that unlike Prudhoe Bay, where one massive super-giant field was discovered, it is more likely that oil in the ANWR is scattered across the coastal plain in more than 30 smaller deposits, in complex geological formations.<sup>118</sup> Consequently, development in the 1002 Area would probably require a large number of small production sites spread all across the Refuge landscape, requiring a vast network of roads and pipelines that would fragment the animal habitats and cause major disturbance to the wildlife.<sup>119</sup> The general categories of environmental damage that would be the likely consequences of oil exploration, development and production in the ANWR coastal plain have been listed in detail by the FWS, and their study shows that the area's wildlife would suffer the most damaging effects.<sup>120</sup>

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<sup>115</sup> The oil industry on Alaska's North Slope annually emits approximately 56,427 tons of oxides of nitrogen, which contributes to smog and acid rain and North Slope oil facilities release roughly 24,000-114,000 tons of methane, a greenhouse gas. Pamela A. Miller, *The Impact of Oil Development on Prudhoe Bay*, <http://arcticcircle.uconn.edu/ANWR/arcticconnections.htm> (November 20, 2005).

<sup>116</sup> See Nathan Thornburgh, "A Crude Warning," *Time*, March 27, 2006, p. 35.

<sup>117</sup> "Oil Reaches High after BP Closure," *BBC News*, August 7, 2006, <http://news.bbc.co.uk/2/hi/business/5251458.stm>, [August 9, 2006]; "The Wages of Addiction," *The Economist*, August 12, 2006, p. 32. Also see "Mind the Gap," *Petroleum Economist*, no. 2, 2006, p. 4.

<sup>118</sup> US Fish and Wildlife Service, *Potential Impacts of Proposed Oil and Gas Development on the Arctic Refuge's Coastal Plain*.

<sup>119</sup> Rutledge, *Addicted to Oil*, p. 73.

<sup>120</sup> They include: "Blocking, deflecting or disturbing wildlife; loss of subsistence hunting opportunities; increased predation by arctic fox, gulls and ravens on nesting birds due to introduction of garbage; alteration of natural drainage patterns causing changes in vegetation; deposition of alkaline dust on tundra along roads, altering vegetation over a much larger area than the actual width of road; local pollutant haze and acid rain from nitrogen oxides, methane and particulate emissions; and contamination of soil and water from fuel and oil spills." US Fish and Wildlife Service, *Potential Impacts of Proposed Oil and Gas Development on the Arctic Refuge's Coastal Plain*.

Bargaining for opening the ANWR for drilling has been an ongoing affair in American politics in recent years.<sup>121</sup> The U.S. House of Representatives (Congress) repeatedly approved drilling in the Refuge, usually as part of broad energy legislation, but the Senate has been unable to overcome Democrat-lead filibusters, which if initiated, later require 60 percent of senators to vote in favour of drilling.<sup>122</sup> This has occurred in both March 2002 and March 2003.<sup>123</sup> In March 2004, the Congress passed its budget resolution for 2005 with no mention of oil and gas revenues from the Arctic Refuge. However, in November 2004, Republicans gained four seats in the Senate, expanding their majority to 55. ANWR drilling advocates predicted that their increased strength in the Senate would help to open the Refuge to oil development. Indeed, their predictions were correct, as in March 2005, the Senate inserted into the budget revenue provision that anticipated oil lease sales in ANWR. A Democrat-led attempt to strip the provision from the budget measure fell short by 49 votes to 51, and therefore this provision became immune to a Democrat filibuster. The budget document became a vehicle for authorising ANWR oil drilling.<sup>124</sup> In lobbying for opening up ANWR for drilling in March 2005, President Bush stressed what he called benefits to opening up drilling in the ANWR, arguing that cracking into the oil field would increase domestic supply while doing negligible damage to the sanctuary. Bush said, “Developing a small section of ANWR would not only create new jobs but would reduce our dependence on foreign oil by up to a million barrels a day.”<sup>125</sup>

However, the Energy Policy Act of 2005, a statute that was passed by Congress on 29 July, and signed into law on 8 August, did not include the provision from the original bill, which called for drilling for oil in the ANWR, and which was approved by Congress on 21 April 2005. This provision was removed by the House-Senate conference committee. Moreover, the ANWR provision was removed from the 2006 budget during the reconciliation process, due to a letter signed by Democrats from the Congress, stating they would

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<sup>121</sup> For more detail, see Barbara T. Lieland (ed.), *Arctic National Wildlife Refuge (ANWR): Review, Controversies and Legislation* (New York: Nova Science Publishers, 2006).

<sup>122</sup> Filibuster is an informal term for any attempt to block or delay Senate action on a bill or other matter by debating it at length, by offering numerous procedural motions, or by any other delaying or obstructive actions. United States Senate, “Senate Glossary,” [http://www.senate.gov/pagelayout/reference/b\\_three\\_sections\\_with\\_teasers/glossary.htm](http://www.senate.gov/pagelayout/reference/b_three_sections_with_teasers/glossary.htm), [March 20, 2007].

<sup>123</sup> See Liz Ruskin, “Gas Line Added to Energy Bill, No ANWR,” *Anchorage Daily News*, March 27, 2003; and Liz Ruskin, “Narrow Vote Keeps ANWR Out of Senate’s Budget Bill,” *Anchorage Daily News*, March 20, 2003.

<sup>124</sup> “Senate Split on Alaska Drilling,” *Fox News*, March 15, 2005.

<sup>125</sup> Quoted in Sharon Kehnemui Liss, “Bush Pushes Energy Plan,” *Fox News*, March 10, 2005.

oppose any version of the budget that had Arctic Refuge drilling in it.<sup>126</sup> On 15 December 2005, Senator Ted Stevens (R-Alaska) attached Arctic Refuge drilling language to the annual defence appropriation bill. However, a bipartisan group of Senators led a successful filibustering of the bill on 21 December 2005, and the language was subsequently removed from the bill. In March 2006, the Senate narrowly (by 51 votes to 49) passed a budget amendment in support of opening the ANWR to drilling. A 2007 budget resolution included assumptions of revenue from drilling the Arctic Refuge.<sup>127</sup> However, as in 2002 and 2003, the budget resolution had fallen a few votes short of the 60 needed to block a Democrat-led filibuster.<sup>128</sup> Yet a new proposal to open ANWR for drilling was launched by Richard Pombo (R-California), the chairman of the House Resources Committee on 26 May 2006, which followed H.R. 5429 “the American-Made Energy and Good Jobs Act” that was passed by the Congress a day earlier. While these attempts were aimed at opening the ANWR to development, they were later blocked by the Senate.<sup>129</sup>

Most recently, it became very likely that the Republicans will have to put the ANWR issue on hold for a while, since in November 2006 mid-term elections, both Congress and Senate became controlled by the Democrats, majority of who oppose drilling in Alaska.<sup>130</sup> However, drilling proponents are certainly not going to give up, which is evident in the fact that President Bush inserted oil drilling on the coastal plain of the Arctic National Wildlife Refuge into the \$2.9 trillion budget proposal for fiscal 2008, unveiled on 5 February 2007.<sup>131</sup> His move will likely amount to little more than wishful thinking, since

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<sup>126</sup> “House Drops Arctic Drilling From Bill,” *Washington Post*, November 10, 2005.

<sup>127</sup> See Corn, Gelb and Baldwin, “Arctic National Wildlife Refuge (ANWR): Controversies for the 109<sup>th</sup> Congress.”

<sup>128</sup> Liz Ruskin, “Another Bill Seeks to Open ANWR,” *Anchorage Daily News*, May 23, 2006.

<sup>129</sup> Liz Ruskin, “House OKs, ANWR Bill Symbolic,” *Anchorage Daily News*, May 26, 2006.

<sup>130</sup> See Richard Mauer and Lisa Demer, “Alaska Delegates Prepare for New Status in Congress,” *Anchorage Daily News*, November 10, 2006; and Rose Ragsdale, “Meet Alaska 2007: ANWR Drilling Hopes Dim in New Congress,” *Petroleum News*, January 21, 2007. While the Democrats are certainly not immune from money pandering from the oil companies, they pale in comparison to Republicans for the percentages received (2000: 78%-22; 2002: 80%-20%; and 2004: 82%-18% in favor of the Republicans). Standlea, *Oil, Globalization, and the War for the Arctic Refuge*, p. 64.

<sup>131</sup> Rose Ragsdale, “Despite Democratic-led Congress, White House Tenders Controversial Petroleum Development Provision in Fiscal 2008 Budget Proposal,” *Petroleum News*, February 11, 2007. Moreover, it has been suggested that for Arctic Power, new leadership in Congress means more work. Longtime pro-ANWR lobbyist Roger Herrera said that “Arctic Power’s been around for the past 13 years, and if you look at the record, you will see that record generally has been quite favorable. They’ve helped to pass ANWR legislation through both chambers of Congress on multiple occasions ... For them to suddenly throw all that away just because of a change of regime in Washington, D.C., and walk away from the issue, doesn’t make much sense to me. I think they will stick around.” Cited in Ragsdale, “Meet Alaska 2007.”



opening the ANWR for exploration, or passing of any budgets which include ANWR drilling provisions, is now unlikely, especially with the change in power in Congress.<sup>132</sup>

### Outcome

Drilling in the ANWR has not yet commenced. Between late 2001 and the November 2006 mid-term election, the pro-drilling coalition exerted enormous amount of pressure and it appeared that it was just a matter of time before the ANWR would be open for drilling. As in their bargaining against oil companies and their allies over construction of the Alaskan oil pipeline in the early 1970s, the environmentalist-led Alaska Coalition appeared to be on the losing side of the bargain. It seemed probable that they would not be able to compete with big business interests aligned with the Bush administration and the Alaskan government, who attracted a lot of public support for increasing domestic supplies after 11 September 2001 terrorist attacks and at times of almost record-high oil prices. However, since after the November 2006 mid-term elections Democrats, majority of who oppose ANWR drilling, gained control of both Congress and Senate, drilling in the ANWR is not likely to commence in the next few years, but the 'game' is far from over.

### Analyses and Conclusions

Explicitly citing the need to enhance America's "energy independence," a strategic security objective, George W. Bush and Dick Cheney tried in their early days in office to push a bill through Congress that would open a part of the ANWR to oil drilling. In Congress, supporters of the administration's policies say the country needs ANWR oil to be energy independent and to fight 'the pinch at the pump', and drilling advocates claim that ANWR would reduce America's dependence on foreign producers.<sup>133</sup> In support of Bush and Cheney's plan, Charli Coon of The Heritage Foundation argued, "drilling in the ANWR will not threaten that natural preserve and will increase U.S. energy independence."<sup>134</sup>

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<sup>132</sup> Robert McMahon, "The 110<sup>th</sup> Congress – Democrats and Energy Security," Council on Foreign Relations, Background, January 16, 2007.

<sup>133</sup> For example, see Barnes, "NOCs and U.S. Foreign Policy," p. 27.

<sup>134</sup> Coon, "Tapping Oil Reserves In A Small Part of ANWR."

Although the White House may genuinely want more domestic oil production in order to secure oil supplies, administration officials should know well that U.S. energy independence, as least in the short term, is a fantasy.<sup>135</sup> The U.S. oil supply has long lost ground to demand. The United States is a ‘mature’ oil producer: while it consumes 25 percent of the world’s oil, after a century’s heavy production, it now possesses only 2.4 percent of the world’s total oil reserves.<sup>136</sup> Its domestic oil production peaked in 1970, and has been declining steadily ever since. In 2005, it constituted only 60 percent of what it was at its peak, and it covered for only 33 percent of its total oil consumption, allowing the remainder to be covered by increasing imports (see Table 5.1). Many oil industry experts have argued that opening the ANWR for drilling will not solve America’s oil import dependence. For example, Paul Roberts argues, “opening the Arctic to drilling will make little difference.”<sup>137</sup> Kenneth S. Deffeyes claims that even if ANWR is opened for drilling, “U.S. oil production will continue to decline.”<sup>138</sup> Similarly, Roger Blanchard claims that “a decline in U.S. oil production and an increase in imports will occur even if ANWR is opened to oil development” and thus “oil production from ANWR will not solve the problem of high U.S. dependence on oil imports.”<sup>139</sup>

The Bush and Cheney plan outraged the environmentalists because they believed that it would inevitably spoil a pristine wilderness and destroy a habitat for wildlife. Yet the proponents of drilling redoubled their efforts after September 11, arguing that the case for Alaskan oil was only strengthened. The Alaskan proposal has been based on the false premise that America could ever get closer to energy independence. However, not all the oil trapped in Alaska, for that matter, in all protected lands in the country, would provide energy independence, as U.S. oil imports will grow substantially in the future even if the U.S. exploits the last of its untapped regions.<sup>140</sup>

Therefore, the highest influence on the outcome of ANWR bargaining comes from American domestic bargaining theatre, as it is both Congress and Senate approvals which

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<sup>135</sup> Roberts, *The End of Oil*, p. 299.

<sup>136</sup> BP Statistical Review of World Energy 2006.

<sup>137</sup> Roberts, *The End of Oil*, p. 299.

<sup>138</sup> Deffeyes, *Beyond Oil*, p. 182.

<sup>139</sup> Blanchard, *The Future of Global Oil Production*, p. 48.

<sup>140</sup> *Ibid.*, p. 53.

the President needs in order to go ahead with the drilling. Although ANWR has passed the House about 10 times, this was to no avail since it did not get the Senate approval, as after Democrat-led filibusters, legislation to open ANWR to drilling required 60 votes. Due to this state of affairs, America's strategic security concerns, the false perception of 'energy independence' if oil from ANWR is brought online in future, plays only a secondary role in determining the potential outcome. Further, high oil prices, albeit not crucial factors influencing the intensity of this particular bargaining case, at their current levels make exploration and production in the ANWR economical. Thus, they increase the interest of the State of Alaska and oil companies, who would profit the most. By drilling in Alaska, IOCs would improve their weak international position (see Chapter 3 and 4) which makes them desperate to get hold of any new reserves.

#### Relationship with Hypotheses

The case study of bargaining for rights to drill in the ANWR has direct relevance to two of the hypotheses set in Chapter 2. The second hypothesis is not supported. Since the interests of American IOCs were not aligned with the entire U.S. Government (the White House, the Congress, and the Senate), thus the support of only a segment of the U.S. Government (the White House and the Senate until November 2006) in bargaining for drilling rights in the ANWR did not result in bargaining success against other actors. Moreover, evidence presented in this case study is supportive of hypothesis four. Although U.S. government's oil supply security is perceived as threatened when bargaining with other actors, the U.S. government did not emerge victorious from ANWR bargaining due to disunity between the White House and the Senate on one side, and the Congress on the other side. While the Congress supported Chevron in its bargaining with CNOOC in the previous case study, mainly due to the perceived threat to the oil supply security, the same perception was not enough for the Congress to support drilling in the ANWR. For further discussion, refer to Chapter 7.