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Chapter 1 : Nationalization of oil supplies - Wikipedia

The information presented in this study was drawn from interviews with petroleum officials in petroleum companies, petroleum ministries and unpublished documents such as contracts and focussing on case studies of countries such as Peru, Guatemala and Malaysia.

History[edit] This nationalization reclamation of previously privately owned oil supplies where it has occurred, has been a gradual process. Before the discovery of oil, some Middle Eastern countries such as Iraq , Saudi Arabia , and Kuwait were all poor and underdeveloped. They were desert kingdoms that had few natural resources and were without adequate financial resources to maintain the state. Poor peasants made up a majority of the population. The countries were therefore not able to mine or market their petroleum. The concession agreements made between the oil-producing country and the oil company specified a limited area the company could utilize, lasted a limited amount of time, and required the company to take all the financial and commercial risks as well as pay the host governments surface taxes, royalties , and production taxes. Despite all of this, however, the companies were able to claim any of the oil they mined. In other words, disputes over contract details would be settled by a third party instead of the host country. The only way for host countries to alter their contracts was through nationalization. Most of the countries, with the exception of Venezuela, even signed away their right to tax the companies in exchange for one-time royalty payments. The countries joined together as OPEC and gradually governments took control of oil supplies. Pre-nationalization[edit] Due to the presence of oil, the Middle East has been the center of international tension even before the nationalization of oil supplies. Britain was the first country that took interest in Middle Eastern oil. In , oil was discovered in Persia by the Anglo-Persian oil company under the stimulus of the British government. Britain maintained strategic and military domination of areas of the Middle East outside Turkish control until after World War I when the former Turkish Empire was divided between the British and the Frensch. It turned out that many of the areas controlled by the French had little oil potential. Although oil resources were found in Kuwait, there was not enough demand for oil at the time to develop in this area. Due to war-time oil development, which proved the great potential for oil discovery in the Middle East, there was little hesitation in investing capital in Iran , Iraq , Kuwait , and Saudi Arabia. For example, investment was made on the Suez Canal to ensure that larger tankers could utilize it. There was also an increased construction of oil pipelines. The expansion of infrastructure to produce and transport Middle East oil was mainly under the operation of the seven major international oil companies. In addition, only Mexico and Iran were significant exporters at the time of nationalization. Reasons for nationalization[edit] Exploitation[edit] Proponents of nationalization asserted that the original contracts held between an oil-producing country and an oil company were unfair to the producing country. Yet without the knowledge and skill brought into the country by the international oil companies, the countries would not have been able to even get the oil. Contracts, which could not be altered or ended in advance of the true end date, covered huge expanses of land and lasted for long durations. Nationalist ideas began once producing countries realized that the oil companies were exploiting them. The first country to act was Venezuela, which had the most favorable concession agreement. However, true equal profit sharing was not accomplished until Because oil companies were able to deduct the tax from their income tax , profits acquired by the oil companies did not change significantly and, as a result, the oil companies did not have any major problems with the change imposed by Venezuela. Even with increased oil prices, the companies still held a dominant position over Venezuela. This concept was beneficial to the oil companies because they were the ones who controlled the posted prices. Companies could increase the actual price of oil without changing the posted price, thus avoiding an increase in taxes paid to the producing country. Efforts to find markets led to price cuts. Price cutting was first achieved by shaving profit margins , but soon prices were reduced to levels far lower than posted prices as companies producing oil in the Middle East started to offer crude to independent and state-owned refineries. As a result, some say that countries are more likely to nationalize their oil supplies during times of high oil prices. However, nationalization can come with various costs and it is often questioned why a government would respond to an oil price increase with nationalization rather than by imposing higher taxes. Contract theory provides reasoning against nationalization. Rising nationalism and the emergence of shared group consciousness among developing countries accompanied the end of the formal colonial relationships in the s and s. Shared group consciousness among the oil-exporting countries was expressed through the formation of OPEC, increased contact and communication between countries, and attempts of common action among countries during the s. The structure of the industry, which led to increased nationalistic mentality, was affected by the following important changes: However, as the countries began to develop, their demands for revenue increased. The industry became integrated into a local economy that required strategic control by the host country over pricing and the rate of production. Gradually, foreign investors lost the trust of oil-producing countries to develop resources in the national interest. Oil-producing countries demanded participation in the control of the oil within their country. Increased bargaining power allowed the companies to change their mode of operation. However, between and more than three hundred private firms and fifty state-owned firms entered the industry, drawn by the explosion in oil consumption and substantially diminished barriers to entry. Countries became aware of their options as these companies offered better agreement terms. The bargaining power of producing countries increased as both the country governments and the oil companies became increasingly concerned about the continued access to crude oil. Due to diffusion, attempts at oil nationalization from producing countries, and whether or not these attempts were successful, affected decisions to nationalize oil supplies. The Mexican nationalization proved that although it was possible to accomplish nationalization, it came at the cost of isolation from the international industry, which was dominated by the major companies at the time. The Iranian nationalization also failed due to the lack of cooperation with international oil companies. These two incidences proved to other oil-producing countries that, until the structure of the oil industry changed to rely less upon international oil companies, any attempts to nationalize would be a great risk and would likely be unsuccessful. The development of OPEC provided the medium in which producing countries could communicate and diffusion could occur rapidly. The nationalization of Algerian oil influenced Libya to nationalize British Petroleum in and the rest of its foreign companies by A ripple effect quickly occurred, spreading first to the more- militant oil producers like Iraq and then followed by more-conservative oil producers like Saudi Arabia. Vertical integration was replaced with a dual system where OPEC countries controlled upstream activities such as the production and marketing of crude oil while oil companies controlled downstream activities such as transportation, refining, distribution, and sale of oil products. The temporary fear of an oil shortage during the s helped to hide this consequence. These relations included long-term contracts, discount of official prices, and phase-out clauses. Even more significant, in the major oil companies could rely on 6. In , the Herfindahl index of horizontal integration for the crude oil production industry was and the horizontal integration for the exploration industry was By , it decreased to around for the crude oil production industry and for the exploration industry. This created a further destabilizing factor for OPEC. This decrease was a result of their decreased access to the oil reserves of OPEC countries and, subsequently, the rationalization of their world refining and distribution network to decrease their dependence on OPEC countries. The increase in the refining capacity of OPEC countries that wanted to sell not only crude oil but also refined products further reinforced this trend towards rationalization. The spot market changed in orientation because it started to deal not only with crude oil but also with refined products. The spot market changed in size because as the OPEC market declined the number of spot market transactions increased. The risks involving oil investment increased. To protect against these potential risks, parallel markets such as the forward market developed. As these new markets developed, price control became more difficult for OPEC. In addition, oil was transformed from a strategic product to a commodity. The development of many free markets impacted OPEC in two different ways: A destabilizing effect occurred that made it easier for OPEC members not to respect their own quota if they did not want to. Decreased prices due to free markets made it more profitable for OPEC countries to work together rather than to seek profit individually. In particular, the election of President Rafael Correa , on a resource-nationalism platform, prompted increases in government control and the approval of a windfall profits tax. Recovery began in with the reopening of supply routes to the United Kingdom. The oil was produced by what became the Anglo-Iranian Oil Company , but political difficulties arose with the Iranian government in the postwar period. Negotiations between Anglo-Iranian Oil Company and the government failed and in the oil industry was nationalized. The whole process had left the British a major share in what had been their single most valuable foreign asset. It had stopped the democratic transition in Iran however, leaving its mark for decades to come. The coup is widely believed to have significantly contributed to the Iranian Revolution after which the oil industry would be nationalized again. Iraq[edit] The properties of the majors were nationalized totally in Iraq, in Under these circumstances, NOCs often came forward as alternative suppliers of oil. In spite of United Nations sanctions, has been rebuilding war-damaged oil facilities and export terminals. The emergence of commercial oil production from the region in and thereafter raised the stakes and generated a struggle by the indigenes for control of the oil resources. To meet popular demands for cheaper food during the inflationary period just after the civil war , government created a new state corporation, the National Nigerian Supply Company NNSC. By September , about 50 Shell workers had been kidnapped and released. Nigerian oil production also faces problems with illegal trade of the refined product on the black market. This is undertaken by authorized marketers in collusion with smuggling syndicates. Oil production deferments arising from community disturbances and sabotage was 45mm barrels in and 35mm barrels in The illegal oil economy in such a circumstance may continue to exist for a long time, albeit in curtailed and small scales. Because of favorable geological conditions and the close proximity of oil fields to the coast, Saudi Arabia operations were low cost. American companies therefore heavily valued the oil. Nationalization of oil supplies was achieved in Major oil companies operating in Venezuela have had difficulty with the spreading resource nationalism. After decades of high investment, in the s and s oil taxation of the IOCs international oil companies was significantly increased and oil concessions were not renewed. In the late s, private investment substantially increased, adding 1. Continued shortcomings for PDSVA spurred an effort to eliminate the company, leading to a strike that severely reduced investment and production. This gave to government opportunity to seize control and, as a result, in the last two years the contractual framework of the oil opening has been significantly changed, considerably increasing the government-take and control over private investments. Oil and gas production subsequently weakened while demand increased, and in Argentina recorded the first energy trade deficit since

Chapter 2 : List of oil exploration and production companies - Wikipedia

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