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Reciprocal Influence of the Countries Appealing to the Resource Nationalism Policy

This paper examines the cases of resource nationalism policies in such oil producing countries as Iran, Iraq, Libya, Mexico, Venezuela, and Saudi Arabia. All these countries were encouraged to adopt the resource nationalism policy due to various considerations; this article particularly reviews these factors behind resource nationalism. In this respect the article is divided into three parts. The first part explores the case of Venezuela to adopt resource nationalism policy based on economic factors of the resource nationalism policy, and particularly the correlation between the increase of oil prices and the increase of resource nationalism cases and the importance of oil as a strategic resource for the oil-producing countries. The second part reviews reciprocal influence of the countries experiencing a switch to resource nationalism such as OPEC countries; it examines whether such countries, while appealing to the resource nationalism policy, influence each other or refer (explicitly or implicitly) to each other as setting precedents. The third part of the article examines such political factors as regime change, which usually has a direct influence on the policy of a country towards foreign companies involved in its economy (many regime change cases ended with the total nationalization of an industry; for instance, Venezuela in 1976, Iran in 1979), and political ideology.

Key words: Resource Nationalism, political stability, regime change, political ideology, OPEC.

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Ресурс ұлтшылдығы саясатына бетбұрыс жасаған мемлекеттердің өзара ықпалы

Осы мақалада ресурс ұлтшылдығы саясатын жүзеге асырған мұнай өндіруші елдерді қарастырады: Иран, Ирак, Ливия, Мексика, Венесуэла және Сауд Арабиясы сияқты елдер болып табылады. Осы елдер әртүрлі себептерге байланысты ресурс ұлтшылдығы саясатын жүзеге асырып қоймай, сондай-ақ одан тыс факторларды қарастырды. Мақала үш бөлімнен тұрады. Бірінші бөлім Венесуэла мысалын қарастыра отырып, ресурс ұлтшылдығы саясатының экономикалық әсерін сараптайды, сондай-ақ мұнай бағасының өсуі мен ресурс ұлтшылдық саясатын қолдану аясын талқылайды және де мұнай шығарушы ел ретіндегі мұнайдың стратегиялық ресурс көзі ретінде қарастырады. Екінші бөлім ОПЕК елдерінің ресурс ұлтшылдық саясатын жүзеге асырудың өзара ықпалын қарастырады. Үшінші бөлім саяси факторларды қарастыра отырып, елдегі саяси режимнің ауысуы және саяси идеологияның ықпалын қарастырады, яғни бұл үрдіс елдегі шет ел компанияларына әсер етіп толықтай ұлттандыруға дейін баратыны сөзсіз (Венесуэла 1976 ж., Иран 1979 ж.).

Түйін сөздер: ресурс ұлтшылдығы, саяси тұрақтылық, режимнің ауысуы, саяси идеология, ОПЕК.

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Взаимное влияние Государств обращающиеся к применению политики Ресурсного Национализма

Данная статья рассматривает примеры политики ресурсного национализма в таких странах-производителях нефти, как Иран, Ирак, Ливия, Мексика, Венесуэла и Саудовская Аравия. Все эти страны применили политику ресурсного национализма из-за различных соображений; также, статья рассматривает факторы, которые являются помимо политики ресурсного национализма. В связи с этим статья разделена на три части. Первая часть рассматривает пример Венесуэлы, по принятию политики ресурсного национализма, основанные на экономические факторы политики ресурсного национализма, и взаимосвязи между увеличением цен на нефть и увеличением случаев ресурсного национализма, также значимости нефти в качестве стратегического ресурса для стран производителей нефти. Вторая часть рассматривает взаимное

влияние стран ОПЕК; обращаясь к политике национализма ресурса. Третья часть статьи рассматривает такие политические факторы, как изменение режима, которое обычно имеет непосредственное влияние на политику страны к иностранным компаниям, вовлеченным в ее экономику (много случаев изменения режима, законченных полной национализацией промышленности; например, Венесуэла в 1976, Иран в 1979), и политической идеологии.

Ключевые слова: ресурсный национализм, политическая стабильность, смена режима, политическая идеология, ОПЕК.

Introduction of 50/50 split of profits in Venezuela and spread of the 50/50 regime

By examining different resource nationalism cases we can note that sometimes a country experiencing increased resource nationalism can influence other countries' decision to appeal to such policy; sometimes these countries can refer (implicitly or explicitly) to each other as setting precedents. For instance, Venezuela was the first country which during the 1940s introduced the 50/50 regime of the split of profits; after that many other oil-producing countries resorted to the same regime.

After the nationalization of oil in Mexico, Venezuelan government began to put pressure for higher taxes on the oil concessionaries. The new Hydrocarbon Law of 1943 had an objective to reach the 50/50 split of profits between the companies and the government; however, because of the increase of international oil prices, the 1943 law resulted in a profit split less favourable for the government than 50/50. Believing that the total oil revenues of the state should amount to 50 percent of the total oil revenues Venezuelan government took further actions. In 1947 the new decree-law raised income tax rates from a maximum of 9.5 percent to 26 percent, it was thought that this step would ensure total revenue for the government of at least 50 percent; however, rising oil prices again resulted in a shortfall of payments below the 50 percent mark. After that the government decided to remedy the situation once and for all, and in November 1948 amended the Income Tax law to provide for an additional tax (*Impuesto Adicional*), which could be set at whatever amount was needed to bring tax payments by any company to a minimum of 50 percent of its pre-tax profits. [1]

Therefore, in 1948 Venezuela became the first state to introduce the 50/50 split of profits system, and this fact, according to Francesco Parra, made the introduction of 50/50 in the Middle East only a matter of time. [1, 16] In Saudi Arabia since 1949

the government started making demands on the Arabian-American Oil Company (at that time all four shareholders of Aramco were American oil companies: Exxon, Mobil, Socal, and Texaco) for loans and contributions to a Saudi welfare fund. These demands were accompanied by the threats of closing down the whole Aramco operation. Saudi Arabia also began claiming the establishment of the 50/50 regime, and in November 1950 King Ibn Saud issued a royal decree imposing an income tax of up to 20 percent; however, the proposed tax, together with royalties and other payments did not reach the 50/50 split of profits; that is why in December 1950 a second royal decree was issued by the Saudi Government, which imposed an additional income tax on companies engaging in the production of hydrocarbons in the Kingdom (Aramco was the only one). Aramco agreed to submit to both decrees, and that was the way how the 50/50 split was reached in the country. Apart from several differences, the whole process was «the replication of the Venezuelan pattern in Saudi Arabia» [1, 19]. Next year the same 50/50 split of profits agreement was signed and came into effect in Kuwait; in 1952 the government of Iraq and the Iraq Petroleum Company signed similar agreement reaching 50/50 regime.

Thus, we can see how the Venezuelan example of the establishment of the 50/50 regime of the split of profits directly influenced other oil-producing countries, which later introduced the same 50/50 regimes to the companies exploiting their oil fields. In his book *The Paradox of Plenty: Oil-boom and Petro-States* Terry Lynn Karl openly designates Perez Alfonzo (then Minister of Development of Venezuela) as a person who «encouraged Saudi Arabia, Kuwait, and Iraq to adopt the fifty-fifty agreement» which was then «the first example of cooperation among producer countries» [2]. Summarizing this part we can say that the oil companies had no alternative but to accept the increase of taxes, as higher payments were, according to Francesco Parra, «inevitable after adoption of 50/50 in Venezuela» [1, 17].

Oil-producing countries in the OPEC: the Tehran and Libyan Agreements

Next case of the reciprocal influence of the countries appealing to the resource nationalism policy is related to the part of the history of the Organization of the Petroleum Exporting Countries (OPEC). It was the moment when the reciprocal influence of the oil-producing countries turned out to be the reciprocal actions of these countries.

The statute of OPEC was signed in 1960 and came into effect in January 1961; however, during the 1960s the organization was rather passive than active. The early years of OPEC were «a resounding failure» and the organization «seemed to have been well and truly emasculated»; however, among the achievements during this period Parra marks the sense of commonality among the members of OPEC [1, 106].

By 1970 the members of OPEC tended to have mainly bilateral negotiations separately with each company involved in the oil industries of these countries. The companies insisted on such separate talks in order to avoid contributing to the unity of the organization. However, in January 1971 the OPEC participants from the Gulf (Iran, Iraq and Saudi Arabia) initiated negotiations with a group of major oil companies exploiting their oil fields; at the same time, the companies had been warned that they were to reach a regional price agreement with all Persian Gulf countries. The companies complied with this condition and the talks started; the negotiation process finished within a few days with the signing of the Tehran Agreement of 1971. The Tehran Agreement provided for an increase of the split of profits to 55 percent, increase of posted prices of 35 to 40 US cents per barrel and an annual increase of 5 cents per barrel until 1975, as well as compensation for inflation and the fall in the purchasing power of the dollar [3]. The signing of the Tehran Agreement had a direct influence on other OPEC members which were not involved in the Tehran negotiations, particularly Venezuela and Libya. In March 1971 «as a consequence of the Tehran agreement», Venezuela raised its tax-reference prices by an average of about 58 US cents per barrel [1, 132]. After the Tehran Agreement was signed by the sides of the talks, Libya initiated similar negotiations with the group of oil companies in Tripoli. The talks ended on April 2 1971 with the signing of the Tripoli Agreement which provided for an increase of 90 US cents per barrel, an annual

increase of 5 cents per barrel in the postings and a further annual increase of 2.5 percent to compensate for inflation and the fall in the purchasing power of dollar [1, 132].

Thus, we can also see another example of reciprocal influence of the countries appealing to the resource nationalism policy. When the Gulf members of OPEC initiated the Tehran talks, they did not just influence or encourage each other but also coordinated joint actions during the meetings. The Tehran Agreement substantially increased oil price and tax rates, its signing then had a direct effect on other members of OPEC Venezuela and Libya, which (one unilaterally, another through the negotiations) as the Gulf members of OPEC also raised the prices for oil and the taxes paid by the foreign oil companies.

Therefore, the resource nationalism policy in one country can influence other countries to initiate similar actions of resource nationalism. Stephen Kobrin in the article «Diffusion as an Explanation of Oil Nationalization: Or the Domino Effect Rides Again» even notes that successful resource nationalism steps in one country can produce a demonstration or «domino effect», which would stimulate other countries to take similar actions [4]. Other countries can learn from the experience of one and there is, indeed, direct reciprocal influence of the states appealing to the resource nationalism policy.

Political Ideology. Political Ideology is another factor which can influence the emergence of the resource nationalism policy in a country. As the term «ideology» does not have a single meaning; it is often used without a certain definition in various senses; therefore, for this paper I will use the definition suggested by George I. Blanksten in his paper «Ideology and Nation-Building in the Contemporary World», where the ideology is defined as «a system of ideas justifying or attacking a given social or political order» [5].

From history we can see that often cases of resource nationalism take place against the background of different ideologies: nationalism, socialism, anti-colonialism, anti-imperialism. For instance, the increasingly influential nationalists in Iraq in the 1950s were accusing foreign oil companies of exploiting natural resources of the country for their own benefit and of neglecting Iraqi interests [6]. In 1958 after these nationalists had conducted coup d'état; having seized power in the country they continued to criticize oil

companies operating in the country and started taking measures aimed at weakening the positions of the foreign oil companies in the Iraqi economy. The new government had a clear anti-imperialistic and pro-socialistic character (it even included two Communist ministers at that time) [7] and, after the period of forced increasing posted prices for crude and tax rates for the oil companies, it proceeded with the total nationalization of the oil sector in 1973. In Libya new revolutionary authorities having pro-socialistic and anti-imperialistic ideas in 1973 also nationalized 51 percent of the assets of all foreign oil companies. Taken measures, from an ideological view, symbolized the determination of the new regime to liberate Libya from imperialistic influences [8]. Therefore, foreign companies exploiting the oil-fields in such countries as Iraq and Libya were perceived as remainders of the colonial regime when their economies had been exploited only as resource adjuncts of the metropolises. Thus, the anti-imperialistic and nationalistic character of Iraqi and Libyan governments predetermined their policies towards Western oil companies, which gradually led to the nationalization of the oil industry in the countries.

There is an opinion that ideology (such as was used in Iraq) is usually employed by the populist group wishing to gain the popularity among the people and come to power in a country. Robert Strausz-Hupe and Stefan T. Possony even distinguish «ideology as a drive» which dominates the minds not only of the followers but also of the leaders; and «ideology as a tool» which is used only for enlisting greater support of the followers; in this case, the leaders do not themselves believe in the ideology propagated by them [9]. I myself share the opinion that ideology can be used as a tool of achieving certain goals, and I completely agree with the division presented by Strausz-Hupe and Possony. However, it is really hard to distinguish one motivation from another, as we never can know for sure whether the leaders believe in what they proclaim or not.

I do not exclude that the use of ideology for justification of the resource nationalism policy is a common practice. At the same time, when the ideology encourages a state to adopt resource nationalism, it does not really matter whether it is a «drive» ideology or ideology used «as a tool», as it is already the factor which influences the government and society to take certain actions. Even when the state uses such ideology in order to enlist support of

the society or merely to justify their policy before foreign companies and foreign countries, it is still the factor which allows this state to use the resource nationalism policy. Such authors as Ronald Bruce St John even think that both ideologies are not mutually exclusive and, for instance, the ideology of the Libyan government under the rule of Qadhafi (which used socialistic, anti-colonial and anti-imperialistic «rhetoric» while taking the actions of resource nationalism against foreign oil companies) is both a drive and a tool [8, 471].

Conclusion. Thus, this literature review sets the theoretical framework for this topic; the existing literature identifies a number of mechanisms behind resource nationalism; it gives us basic information on the variety of factors, which could prompt oil-producing countries to appeal to the resource nationalism policy. These factors could be divided into economic factors, political factors and reciprocal influence of the countries appealing to the resource nationalism policy. Importance of oil for the oil-producing states could be the reason which drives the governments in their wish to increase the control over their energy sectors. High oil price is another factor for a country to adopt resource nationalism and increase the benefits coming from the energy sector. Among the political factors we can distinguish regime change and ideology. There is a direct connection between the change of the ruling elites and the change of the policy pursued by the country, including the resource nationalism policy. At the same time, ideology (both as a drive and as a tool) can be another factor which prompts the country to adopt resource nationalism. The reviewed cases also show that the resource nationalism measures taken by one country can be the factor which influences other countries to take similar steps, which creates reciprocal influence between these countries.

Thus, ideology is another political factor which encourages and allows the state to appeal to the policy of resource nationalism. It should be noted that ideology is not a single factor which encourages the governments to adopt resource nationalism; often, it is combined with other economic and political factors. However, there is a clear link between the ideology shared by the authorities and the policy followed by them. And if the ideology prevailing in the country justifies the actions of resource nationalism against oil companies, it is believed that such actions are likely to happen.

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