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## ABSTRACT

### THE MULTINATIONAL CORPORATION :

#### A STUDY IN THE POLITICAL ECONOMY OF POWER

NEIL GORDON MACDONALD RENWICK

This study focuses on the question of how far multinational corporations lie beyond the regulatory control of nation-states. In what sense are these corporations autonomous organisations whose rules and practice exist independent of State control? This is a political rather than economic question, for concepts such as power, control or independence are fundamentally political in nature. The thesis analyses four leading interpretations of the multinationals and their relations with States, the actual characteristics of both 'actors' and the role of oil multinationals in the international oil industry in relation to 'host' and 'home' governments.

Much of the debate over multinationals centres upon their unique character. Organised on the basis of productive capital in a number of countries, that is, subsidiaries linked to centralised managerial, technical and financial resources, it is argued that these companies exercise global flexibility with which the States -tied to their borders- cannot compete. 'Global Reach' is therefore claimed to allow multinationals to ignore national regulations and interests.

This analysis, however, suggests that the multinational-State relationship takes place within the framework of national regulations and international supervisory bodies that effectively form the 'rules' for the multinationals and the boundaries for bargaining. The multinational forms an important and integral part of the prevailing system that is largely reflective of State-interests, rather than a major challenge to the authority of the States.

THE MULTINATIONAL CORPORATION :  
A STUDY IN THE POLITICAL ECONOMY OF POWER

By

NEIL GORDON MACDONALD RENWICK

submitted  
for the degree  
of

MASTER OF ARTS

in the

UNIVERSITY OF DURHAM

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1981

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TO MY MOTHER

Without whose support this work  
could not have been undertaken.

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Durham University  
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## CHAPTER I

### INTRODUCTION

This study is concerned with the question of how far multinational corporations lie beyond the regulatory control of nation-states. In that sense are the multinationals autonomous institutions whose rules and practice exist independent of State control? It must be stressed that this is a political and not an economic question for concepts such as control, power, or independence are fundamentally political in nature.

This area of study is clearly important when regarded in the context of the continuing debate within the field of international politics as to the proper emphasis to be attached to non-state organisations, and for the evaluation of the contribution made to the field by theories such as that which argues for a 'transactional' approach to the study of international relations.<sup>1</sup>

Multinationals are, however, controversial subjects in their own right, arousing widespread interest as well as strong passions. Critical arguments are wide-ranging. Some claim that these corporations consistently abuse their power by intervening in the internal political affairs of States in order to protect their position against internal political opposition. For supporting evidence such claimants point to newspaper headlines of corruption involving multinationals and events such as the overthrow of the Chilean government with the aid of multinationals. More critical still are arguments that identify the multinationals as the main forces behind 'imperialist' foreign policies of developed home States. The expansion of America's role in world affairs following the Second World War at the same time as American



multinationals experienced their most rapid growth is used to support this argument. A more critical argument still is that which believes the multinationals to represent new organisations that dominate and exploit all States and which are evolving into institutions that will supercede the States.<sup>2</sup>

Alternative arguments that follow more moderate perspectives of the multinationals fall into two distinct positions. The first argues that the multinationals are largely controlled by home State regulations, but that there is no correlation between government and corporation. The second is that which agrees that the multinationals are moving beyond State restrictions but argues that this development will overcome the 'divisiveness' of economic nationalism.<sup>3</sup>

Controversy over multinationals stems largely from the distinctive character of these firms. It is, perhaps, understandable why so much of the literature about the multinationals emphasises the significance of economic factors, for these corporations have experienced a meteoric rise in their economic position during the post-war years. By 1971 the total 'book value' of these corporations was \$165 billion, adding some \$500 billion to the value of the international economy (almost one fifth of the world's GNP). The top ten multinationals alone accounted for \$3 billion, more than the GNP of eighty States.<sup>4</sup> The consequence of this rapid economic development was, in the view of one observer, to leave the multinationals "visible in the 1950's and conspicuous by the end of the 1960's."<sup>5</sup>

Initial reactions to the emergence of these corporations among statesmen were generally favourable, although cautious, based upon their pragmatic appraisals of their countries needs. To the Western European and Developing States alike the multinationals provided new sources of capital and offered employment, expertise, and economic growth. Yet, by the mid-1960's governments had openly begun "counting the costs"<sup>6</sup> of multinational corporations. The desire for a re-assertion of national identities, the belief that these corporations might not after all prove able to fulfil the aspirations of national societies, and concern over mounting national dependence upon multinationals, has now led to increasing scepticism, suspicion and hostility towards these firms. Such reactions are not prevalent in all countries, nor with uniform intensity in those where they do exist.

The reaction to the multinationals is closely related to the fact that the overwhelming majority of these corporations are of American origin with their parent companies located in the United States. In 1950 the total 'book value' of American multinationals was \$12 billion and by 1960 was \$33 billion and in the same decade the number of American multinational subsidiaries more than tripled from 7,000 to 23,000. By 1974 the 'book value' of these firms had risen to \$100 billion.<sup>7</sup> In the same period America established itself as the 'leader of the Free World', a posture that did not preclude intervention in the internal affairs of States in 'defence' of 'freedom' in the face of the perceived threat from communism. Concern therefore, grew in many States that the strong economic position of American multinationals in these countries could be used by America for political ends.

The multinational, however, is not only of American origin, a 'merger-movement' - largely sponsored by governments - in Western Europe in the 1960's has provided a basis for a 'European riposte' and more recently still are signs that Japanese corporations are adopting the multinational structure. The multinational phenomenon is thus a progeny of the developed world with all the home States being heavily industrialised.<sup>8</sup> Attention has increasingly been paid to this point and to the role of multinationals in the relationship between developed and under-developed areas of the world.<sup>9</sup>

The crucial characteristic of the multinational that distinguishes it as worthy of so much attention and study is its possession of unique features when compared to previous international entrepreneurial activities. In a world built upon trade and investment, the presence of national and international barriers erected on the basis of national economic interest provides factors of uncertainty for firms engaged in international transactions. To limit the possible disruption to world-wide investments from these barriers and reduce the risk factor involved, corporations have adopted strategies of international diversification to increase their flexibility and most importantly, to reach beyond national and regional barriers by establishing subsidiaries that operate within States. The linking of these subsidiaries to a global corporative perspective and organisation, guided by parent companies overseas, does engender national concern about outside manipulation of domestic conditions by forces over which government is unable to exercise direct control. It is upon this possible compromising of national authority that much of the debate

concerning multinational corporations centres.

The analysis of the multinationals relationship with the nation-state involves questions of power and conflicts of interest. The concept of power is open to analytical debate on the grounds of its conceptual and empirical ambiguities, but for the purpose of this study power will be used to mean both the capacity and the process of influencing the behaviour of others to act or refrain from acting so that the interests of the influencer are followed. This is not a theoretical distinction, rather it follows a common sense notion of power as it relates to an assessment of performance. There are formidable conceptual and analytic problems in refining power so that it has an adequate theoretical function in explanatory argument. Power in the context of this study is a relational concept - there is no evidence that supports the proposition that the multinational is able to exercise absolute control over the activities of these corporations. The distribution of power is closely bound up with the conflicts involved stemming from respective rationales of State and corporation. Power relates to the notions of control and dependency. No State in contemporary international society can be said to be independent in the absolute sense of the term, the era of nuclear weaponry, the 'penetrated State' and 'economic interdependency', precludes such assertions. The inability of national governments to satisfy the economic aspirations of their peoples creates pressures that push governments into relationships determined by economic interdependency. Such relationships pose political dilemmas for governments. Clearly the rationale of the State is its 'national interest' as

perceived by government. 'National interest' is however, open to a variety of meanings and is often used as a vague 'catch-all'.<sup>10</sup> One way of avoiding this problematic term is to substitute 'objectives' for 'interests'.<sup>11</sup> One of the 'core' national objectives is undoubtedly that of maintaining the economic welfare of the population and in seeking to fulfil this objective governments look to outside organisations such as the multinationals to supply goods or services that they themselves cannot. This economic need, however, produces a political backlash in that interdependence has consequences for the 'core' national objective of maintaining a monopoly of authority within the State in the hands of government. Against the background of such objectives it is clear why multinationals that straddle a number of States and are subject to competing national pressures are open to suspicion and distrust. The list of national complaints against the multinationals is lengthy.

Governments argue that their attempts at national investment and resource planning are rendered meaningless by the decisions made by these firms, often thousands of miles away, according to their global strategies irrespective of national goals. The same argument is expressed in relation to pay, prices, employment or budgetary planning. The decision of the Ford Motor Company's subsidiary in Britain to award its workforce a pay increase that exceeded government pay guidelines in the late 1970's, may well have been a contributory factor in the eventual failure of the government to achieve re-election in 1979. Trade unions in Britain and America complain with frustration that jobs are lost by multinational decisions to invest in low-cost countries

as 'export-platforms', and more are then lost when the products are marketed in the developed States undercutting domestically-produced equivalents.<sup>12</sup> On the other hand, organisations in host States make claims against the multinationals of exploitation of the indigenous workforce through the payment of low wages. In this respect, the claims made in recent years against multinationals operating in South Africa are some of the most sensitive.<sup>13</sup>

It is, however, misleading to ignore the distinctions that exist between States. This study makes the distinction between the developed States and the developing States and also between home and host States. Distinctions of size, national, economic, political and military resources or status, in general usage do not determine the degree of influence exerted by government upon a multinational in direct proportion. Influence is determined by a number of additional factors that differ from country to country. The extent to which a government desires what the multinational has to offer, the particular historical development of the country and the awareness of the experiences of other countries in their dealings with multinationals, personalities such as charismatic leaders, the domestic political complexion of parties and 'political culture', the political will of the government to fully pursue its goals and the nature of the regional and global pressures involved, together contribute to complex interactions that enable a government to exercise power over multinational corporations. Perhaps the lowest common denominator in a discussion of the rationale of the State is that it seeks simply to maximise its gains and minimise its losses.

If the rationale of the State (here identified with government) is the fulfilment of objectives conceived of in purely national terms, the *raison d'être* of the multinational corporation is fundamentally that of profit maximisation. The strategy of international diversification employed by these firms is believed to provide an ability to direct capital and other resources to those areas in which profit can best be achieved. Such fluidity of operations implies that the corporations are in a position to avoid governments that introduce new conditions that are regarded by the firms as adversely affecting their profit margins, or those countries where changes in political conditions threaten to endanger the position of the firm. At the heart of the multinational concept lies a desire for market stability and the reduction of risks to investment. By becoming heavily involved in all 'stages' of production the influence that the corporation is capable of exerting is increased, costs are reduced and stability is increased. Although debate continues over the exact nature of multinational expansion, over the question whether it is defensive in nature aimed at protecting established markets, or aggressive aimed at capturing new markets, the effect of the strategy has been to enable corporations to generally benefit from comparative advantages to be found among countries. Manufacturers especially have grasped this feature of multinationalism. The Ford Motor Company in Europe, for example, is organised in such a way that vehicle components are produced in different parts of Europe before being assembled in strategically sited factories and then marketed throughout the Western European region.

The concomitant features of the multinational strategy; world-wide structures, planning and resource movement place a priority upon most



multinationals, although certainly not all, to hold the international ring between nationally-based subsidiaries or affiliates. Returning to the central question of this study, tension and doubt concerning the multinational features of subsidiaries remain among national politicians. In effect, the worries expressed by government officials about the multinationals can be regarded as the age-old question of loyalty. Do the subsidiaries owe ultimate loyalty to the requirements of the governments in which they operate or to the parent company? This is a stark choice that many company executives might claim does not exist since the unique nature of the multinational allows it to serve both. At a time when national governments have harnessed the forces of the State into an unparelled degree of centralised planning and management, the idea that the multinational subsidiary serves two masters creates obvious concern and raises questions as to the compatibility of national and corporative interests.

Before discussing the question of compatibility of interest, mention must first be made of the diversity in the different types of multinational to be found. In the thousands of such corporations, the spectrum of size ranges from those household names that operate in excess of eighty countries, such as the Royal Dutch-Shell Group of Companies, to those who operate in only two. The operations of these enterprises are equally broad in nature, there are the long-established companies that deal in oil, copper, tin, bauxite and other minerals, others deal in diamonds and precious metals, others in primary produce such as fruit, and still others in the manufacturing of motor vehicles or computers. The structures and flexibility of these firms vary according to the nature of their business. Petroleum companies or

copper producers are tied to where nature has decreed that these mineral deposits are to be found. Manufacturers, on the other hand, are less tied to one area since factories can generally be established anywhere and in a relatively short time. In theory at least, the latter companies have a greater propensity to be 'foot-loose giants' than the former. However, the point must be made that once large-scale investment has been undertaken by a company it is highly unlikely that it will significantly redirect its operations unless it is felt absolutely necessary for survival. Attitudes of governments towards these corporations vary according to their operations, although there will be those that are hostile to all multinationals just as there are those that are friendly. Extractive multinationals are perhaps the most 'conspicuous' of multinationals and as such have received a great deal of attention from governments as the case study considered later reveals. Yet the very fact that these corporations were tied to particular countries for their supplies ultimately strengthened the bargaining position of the governments towards them. The possibility that manufacturing firms might 'go elsewhere' may have engendered a more low-key approach by host governments towards their activities. The EEC's desire to stimulate cross-border enterprises, tempered by fears of abuses by such firms has resulted not in strident anti-monopoly legislation but rather a code of behaviour to which multinationals in particular are expected to adhere. Differences apart, however, it would appear that the multinational corporations share a desire for profitability and for the elimination of risk and its replacement by a "surprise-free world".<sup>14</sup>

Despite the size, scope, and unique strategy of the multinational, it

is difficult to avoid the evidence that the multinational does exist in a world organised by and for the nation-states. The laws that govern the transactions between countries, and the norms of behaviour involved, are those established by the States themselves. The question raised by the growth of multinationals is to what extent these corporations are establishing their own 'rules' for international transactions and disregarding the framework established by national governments? The massive increase in national planning in the post-war years would seem to suggest that the multinationals are very much limited in their choice of actions. As the understanding of the multinational form of business has grown within governments, taxation laws, labour laws, competition, trade and investment restrictions have been astutely imposed upon these firms creating a widespread network of national controls on these corporations. These controls have been reinforced by important related developments. Governments have generally been increasingly willing to intervene in their societies. Pressure has been successfully exerted upon the multinationals to involve newly-established government-backed companies in their operations through joint ventures, consortiums, or by means of shared ownership agreements. National pressures are enhanced by the emergence of multilateral cooperation between similarly placed governments. Regional groupings, producer 'cartels', consumer groupings, have all provided international forums in which national pressures upon multinationals can be coordinated and mutual assistance sought and provided. The United Nations, stimulated by the concern of member countries about the role of these corporations, has published a code of conduct to govern the behaviour of these firms. The multinationals can,

as an individual person may do, simply ignore the law. Unlike a case of individual disregard for law, the international situation is not governed by one law or reinforced by a single authority. As has been noted above there is at least a potentiality for conflict based upon the respective rationale of the State and of the multinational. The question, however, must be asked in this study how far this potential for conflict is actually realised?

Although the multinational phenomenon might have been studied here in the context of theories of integration, cybernetics, or transnationalism, four arguments in particular appear to offer hypotheses in answer to the questions posed in this study. These arguments are characterised as the Neo-Imperialist, Neo-Mercantilist, Sovereignty-at-Bay, and Global Reach interpretations.<sup>15</sup> This study seeks to relate these arguments to the available evidence and evaluate the strength of their explanations.

The interpretations as a whole argue that the multinationals are largely beyond the control of the nation-states. The neo-imperialist interpretation is itself divided between those who argue that the multinational represents an economic organisation operating on a purely international level of capital that ignores political structures and views these corporations as the latest stage of exploitative and preying capitalism, and those that argue that they represent the agents of the capitalist countries to exploit other economic territories. The former view therefore conceives of these forms as being independent of all countries, whilst the latter retains the view that, as the main economic concentration in the home State, the multinational requires

the home government to pursue 'imperialist' policies on their behalf. The neo-mercantilists also argue that there is a relationship between home governments and multinationals, but views this relationship in terms of national political, rather than purely economic, power. The corporation is therefore not completely independent from the influence of the home States' interests, although this view also believes that the home country becomes dependent upon these firms which allows the latter increasing autonomy. For the 'sovereignty' and global reach arguments the multinational is seen as gradually escaping the political framework of nation-states and becoming increasingly autonomous. However, as the discussion earlier highlights, the ability of governments to intervene and regulate these firms suggests that a realistic conclusion must lean towards the view which regards the multinationals as being tied into the international environment of nation-states.

These interpretations stress the degree of autonomy that they do largely because of their analysis of power and its distribution between multinational and nation-state. Without exception the interpretations conceive of power as capacity to influence through their economic position. Even the neo-mercantilists argue that national power rests heavily upon economic capacity. The emphasis upon the economic indices of turnover, profit, or the number of countries of operation of these corporations, by these interpretations and the attempt to use these in a direct comparison with countries leads in consequence to the assertion that power is asymmetrically distributed in favour of the multinational. Power and influence, however, are concerned not only with measurable capabilities but with unquantifiable intangibles such as personalities or political will as noted earlier. Moreover, the successive rounds of bargaining between multinationals and governments leading to significant advantages accruing to the latter, especially in the oil industry,

indicate the reciprocal nature of power in these relationships.

The assumption of asymmetrical power is closely entwined with a related belief that there is an inherent and irreconcilable conflict of interests between the State and the multinational corporation. To the neo-imperialists the multinationals form mechanisms for the accumulation of capital and as such propagate the international division of labour between the capitalist ownership and the workers, whether this is regarded in terms of people or of States. Furthermore, the debate within this interpretation between the international and national levels of analysis is directly related to a theoretical debate concerning a conflict between an emergent international economy and the established national economic units. The neo-mercantilists argue that conflict is present between multinational and host government since there is argued to be a harmony of interest between enterprise and home government. As the main instrument for the enhancement of national power and influence, the multinational thereby represents the leading contemporary focus for the conflict between those countries that dominate and those that are dominated. As in the previous interpretations, the sovereignty-at-bay view is of the multinational as an economic unit. This view argues that these corporations, by acting as the means by which national economies are drawn into a single world economy, places them temporarily in conflict with governments. Once a world economy is achieved the disharmony of national economic self-interest will be removed. This same development is identified by the global reach argument but is regarded with pessimism. The philosophy and organisation of the multinational, summed up as "one worldism",<sup>16</sup> is believed to be in direct conflict with the immobile,

territorially-bound nation-state. However, the three aspects of these arguments concerning conflict; that the multinational is breaking down national borders; that conflict is inevitable; and that conflict is irreconcilable; are not supported by evidence. The preceeding discussion of power and autonomy has suggested that the multinationals remain very much a part of the nation-state framework. It cannot simply be assumed that because multinationals operate in a number of countries that it inevitably follows that they are in conflict with these countries. Tensions and conflicts of interest do exist, but the large number of mutually accepted agreements that result from bargaining such as those in the oil industry, do not support the view that conflicts are either inevitable or irreconcilable.

In order to aid evaluation of these arguments surrounding the multinationals relationships with the nation-states, a case study of the international oil industry is included in this work. The oil multinationals offer advantages to students of the multinational phenomenon. Information and statistical evidence is more readily available for these enterprises than for others, mainly as a result of the increased research following the oil crisis of 1973-74. As the earliest and largest of multinationals, the 'oil majors' form an obvious grouping dealing in a commodity that features large in national deliberations. This is not a comparative study, but by examining the character of these corporations and the issues involved it may prove to enhance understanding of the problems and arguments at the centre of the debate on these firms. The inclusion of a case study is, therefore, in part an attempt to ask whether the interpretations looked at in chapter two stand up to empirical enquiry. This is not an exercise

in 'scientific testing' for such lies beyond the terms of reference for this study. Indeed these interpretations do not lend themselves to such testing being largely historical exercises of a loose and generalised nature with only the neo-imperialist interpretation presenting itself as a general theoretical study.

In the following chapter, the main elements in these respective interpretations are analysed and discussed. Chapter three forms a detailed analysis of the multinationals and the nation-states. Chapters four and five constitute the case study. An overall perspective of the international oil industry is followed by a detailed study of the oil multinationals and their relationships with various governments during the early years of the 1970's. The concluding chapter draws together the arguments raised throughout the study, discusses their relevancy to available evidence, and attempts to establish what is the relationship of the multinational corporation to the nation-state.



## CHAPTER 2

### THE INTERPRETATIONS

Neo-imperialism, as part of the wider theoretical body that is marxism, argues that socio-political relationships and historical change derive principally from the material bases of society.

"For marxism imperialism is not a political or ideological phenomena but expresses the imperative necessities of advanced capitalism.<sup>1</sup> "Neo-imperialists accept as a basic premise a fundamental importance for the 'means of production' in their analysis of human affairs:

"Marxism traces the dynamic of social activity and historical development to its roots in the production and reproduction of the means of existence. It is on the material base, itself continually changing as men establish greater powers of control over their environment, that the superstructure of culture, institutions, laws and political systems arises. While these superstructural forces may and do assume an autonomy of their own and react upon the material base they are, in the last analysis, referable to it." <sup>2</sup>

In this interpretation therefore, the multinational - as the largest and most international of capitalist enterprises - is the direct consequence of the capitalist mode of production in which an insatiable search for profit, and international division of labour and a world network of dependent and exploitative relationships are the essential characteristics. This interpretation is therefore an attempt to explain the multinational in the wider context of a general theory of capitalism.

Although an early stage in the discussion, it is important to pin-point four analytical problems with this interpretation that inhibit it almost

from the outset. Firstly, by attempting to explain multinationals by means of a general theory, the question arises as to the extent to which the phenomena to be explained is manipulated simply to substantiate the overall theory. Whilst not necessarily deliberate, it may be that the criteria used for explanation are predetermined by the pre-existing theory and consequently produce explanation that fits favourably into the overall analysis.

Secondly, much analytical circularity may be responsible for the overemphasis upon economic determination in the nature and role of the multinational. In the previous chapter the point has been highlighted that the significance of the multinational is not economic but political. Neo-imperialism confuses its explanation by incorrectly equating economic strength with political power, and, by assuming this, concluding that the power and role of the multinational can be quantified, its behaviour and effects described and predicted by the mechanics of economic forces. This interpretation is talking about 'imperialism' - in other words - control. But control is more than economic might, it involves concepts such as sovereignty and autonomy, emotional and psychological factors, and questions of subjugation and rule. These cannot be quantified or reduced to economic relationships and to do so is to follow a barren explanatory path.

Thirdly, the neo-imperialist argument is formulated in absolute terms. It is argued that multinational economic strength provides an overwhelming leverage with which it forces States to accept conditions they might otherwise reject. However, as chapter three below indicates, the interpretations as a whole mistake multinational appearance for

reality. It is clear from the evidence looked at throughout this study that the multinationals are not as strong in their economic, organisational, or motivational characteristics as these arguments assume, nor in practice do these firms exercise such a dominating leverage in the contemporary system.<sup>3</sup> The claim, moreover, that the multinationals manipulate national entities is surely of political significance rather than economic, for the limitation of national authority - national sovereignty - is by its very nature a political question involving relationships of far greater complexity than the simply drawn equations of the neo-imperialists. Intensive bargaining, such as that of the oil industry, characterises the multinationals relations with States, each actor seeking to maximise its benefits but ultimately willing to seek compromise in order to maintain access to the resources it desires from the other;<sup>4</sup> therefore, it is not uncommon to see a continuing dialogue between multinationals and States even after the dramatic step of nationalisation has been enacted by the State.<sup>5</sup> It is in this willingness to resolve competing goals and interests that the political nature of the relationship between multinationals and States lies; both in the multinationals relationship to individual States and also in its position 'in-between' States competing interests.<sup>6</sup>

Fourthly, whilst it is clearly possible to argue that there are competing interests within the multinational-State relations, it is misleading to assert - as this interpretation does - that the relations are inherently, inevitably, and irreconcilably conflictual. This claim stems largely from an assumed conception of the capitalist system as

being founded upon economic contradictions and driven by a historical development of periodic conflict that is tantamount to a 'law' of human development and relations.<sup>7</sup> However, specific to the multinationals, where conflict has occurred it has resulted from particular circumstances rather than any inherent propensity for conflict. In virtually all the cases of high tension between the actors there has been eventual agreement and stability achieved, largely as a result of multinational acquiescence to State demands in the face of mounting pressure and collective state bargaining positions. Together these analytical problems amount to an insurmountable barrier to complete and persuasive explanation, as the more detailed discussion below reveals.

Standing firmly in the intellectual tradition of writers such as Marx and Lenin are the 'State-capitalist' and 'Super-capitalist' arguments that constitute the two main contemporary neo-imperialist lines of thought. The former argues that the multinational is the instrument of the developed capitalist States, exploiting the resources and cheap labour to be found in the less-developed States, thereby ensuring the continued survival of what Lenin called "parasitic or decaying capitalism." The latter view argues that the multinational has left behind its 'home' State ties and acts independently in the international system, a new phenomenon of capitalist development, creating all states into dependencies and exploiting them for its own aggrandisement. The difference in the level of analysis reflects the former's emphasis upon the 'national' development of capital and the latter's emphasis upon the 'internationalisation' of capital.<sup>8</sup> To begin with, however, it is

important to review the Marx-Lenin tradition that forms the basis of all the later writings before moving onto discussion of contemporary arguments.

Marx argued that the productive forces released by the capitalist mode of production could not be contained within the confines of the advanced capitalist States. Marx did not develop a theory of imperialism but three aspects of his thought have become central to neo-imperialism. Firstly, Marx asserted that capitalism is an inherently expansionist system:

"The conditions of bourgeois society are too narrow to comprise the wealth created by them. And how does the bourgeoisie get over these crises? On the one hand, by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by more thorough exploitation of the old one's." <sup>9</sup>

The capitalist enterprise, be it the 19th century firm or the multinational, is believed to be forced abroad by the economic necessity of overcoming a tendency for the rate of profit to fall.<sup>10</sup> To break out of an inevitable slide into stagnation the enterprise expands abroad, mainly to less-developed countries, to exploit the cheap labour, raw materials, and market, thus producing a higher profit and continued growth.

This first point, however, highlights a problem that runs throughout this interpretation, namely the assumption of too high a level of systematic rationality. In attempting to explain using 'scientific' methodology, Marx deliverately created an abstraction: 'pure capitalism'. The perfect 'closed system' of total re-investment simply does not exist.

There are too many immeasurables for such a system to be compared to 'reality' or for a strict law of declining profit to be advocated. Capitalism as a productive 'form' and as a systematic ideology has been replaced in many areas of the world and is under threat in others. Even in the historical birthplace of capitalism, 'mixed-economies' and 'welfare-state' societies reflect the weakening in the stridency of 'laissez-faire' ideology. In terms of the multinational expansionism in the marxian sense does not exist. Multinationals are growing in size and scope and profits are reaching new levels,<sup>11</sup> but such trends hide the uncertain basis of these firms growth. The multinationals are, if anything, dependent upon the continued goodwill of the States in allowing them to operate within their territories. It is claimed that these firms make themselves indispensable, but the rise in the strength and scope of the obsolescing bargain lessens the force of this claim. In some industries multinationals have been reduced to contractors, pressured into unwanted joint-ventures with State companies, or simply expropriated.<sup>12</sup> For some the pressure has forced them to withdraw rather than try to 'fight-it-out' with the State.<sup>13</sup> There is a great difficulty therefore in trying to project Marx's idea of capitalist expansionism into the contemporary system, although as we shall see this has not stopped others from trying.

Marx's second point is related to the present-day claim that multinationals are by nature monopolistic and oligopolistic. Marx argued that the early period of capitalism characterised by a high degree of

competition, would be replaced by a consolidation of capital and a lower level of competition. By rationalising production, technological advance, and mergers, a small number of firms are left in the market. Monopoly capitalism is therefore established leaving economic (and thus political) power in the hands of a few. Multinationals with massive 'R & D' expenditures, high technological levels and relatively small numbers,<sup>14</sup> are believed to be the ultimate evidence of Marx's theory. However, there is little evidence to suggest that these multinationals are able to sustain any level of cooperation for any length of time, competition and self-interest constantly 'breaking-out'.<sup>15</sup> Moreover, multinationals do not exercise total control over their respective industries; the rise of independent firms and of State-owned companies have provided alternatives to the multinationals and significantly undermine the ability of such firms to exercise cartel power over States.<sup>16</sup>

Thirdly, Marx argued that capitalist society is divided into a ruling bourgeois class owning the means of production, and a proletarian mass exploited by the former. In the international system this meant that wealth and poverty became polarised between rich and poor countries. Translated into the contemporary international system, it is argued that a capitalist 'metropolis' attracts economic surplus (profits) drawn from less-developed ('periphery') States through the medium of actors such as the multinationals.<sup>17</sup> 'The law of the class struggle' thus concludes that rich (developed) States exploit poor (less-developed) States by means of the dependent relations created by the multinationals.

Apart from doubts as to what 'class' actually is, greater doubts must be expressed over its usefulness in explaining multinationals. Marx's concept is too simplistic to offer convincing explanation. The abstracted view of two homogeneous class blocs, mutually antagonistic and irreconcilable, veils the complexities of international relations. Where, for instance, does this theory place the Arab states with their immense wealth, military power, but underdeveloped industrial infra-structures? Conflict, of course, does occur, but it is not inevitable. United Nations programmes, regional organisational initiatives, and reviews such as the 'Brandt Report', indicate attempts to increase cooperation and understanding between rich and poor in the world.<sup>18</sup> The discussion of 'dependencia' models below,<sup>19</sup> indicates that such relationships are rarely the 'zero-sum' situations posited by the interpretation.

Marx was not attempting to offer a specific explanation of imperialism, and his arguments may therefore be claimed to form merely a backcloth to today's arguments. But since these three elements have been subsumed into contemporary thought, it is important to note that the flaws evident above are carried through to modern theories.

Lenin took up the concept of monopoly capitalism and placed it at the centre of his own study, and it is Lenin who can be accredited with the development of the first full theory of economic imperialism. Imperialism represented for Lenin "the monopoly stage of capitalism",<sup>20</sup> itself being the highest and final stage to be reached by capitalism. Not only had capitalist concentration reached its highest point in the international cartels of the period, but it was characterised by a new feature:



"Under the old capitalism, when free competition prevailed, the export of 'goods' was the most typical feature. Under modern capitalism, when monopolies prevail, the export of 'capital' has become the typical feature." 21

At the heart of this new stage of development is the international cartel:

"Monopolistic capitalistic combines-cartels, syndicates, trusts-divide among themselves, first of all, the whole internal market of a country, and impose their control, more or less completely, upon the industry of that country. But under capitalism the home market is inevitably bound up with the foreign market. Capitalism long ago created a world market. As the export of capital increased, and as the foreign and colonial relations and the 'spheres of influence' of the big monopolist combines expanded, things 'naturally' gravitated towards the foundation of international cartels." 22

The competition between the large capitalist cartels makes it an inescapable imperative, in Lenin's view, for home states to secure the areas of overseas trade for their 'own' firms and prevent them falling into the hands of competitors. Capitalist competitive investment to extend control is claimed to necessitate the extension of political control in the form of empire, thus forming "...a solid basis for imperialist oppression and the exploitation of most of the countries and nations of the world; a solid basis for the capitalist parasitism of wealthy States."<sup>23</sup> Political and military conflict inevitably ensues from such competition; Lenin's 'Law of Uneven Development' allows for nothing else.<sup>24</sup>

Described by one critic as a "work of negligible intellectual quality but vast political consequence",<sup>25</sup> Lenin's work is criticised on a number of points. First, the relationship between the economic and

political-military motivations behind 'WWI' are not proved. The economic advantages to be gained from such conflict were small whilst the strategic and political gains are obvious during a period of renaissance for German power.<sup>26</sup> Second, the question of monopoly for today's system is unlikely to receive the answer that Lenin gave for the multinationals do not represent the forces of total control posited in this view. Moreover, Lenin's faith in the role played by 'finance capital',<sup>27</sup> must be countered by the fact that multinationals are very largely self-financing organisations free of many ties to Banks. The evidence that the majority of multinational investment goes not to less-developed States but to the developed States appears to be in direct contradiction to Lenin's argument.<sup>28</sup>

Finally, the post-Second World War period has seen the primacy of the principle of 'national self-determination' and the broadly voluntary dismantlement of the formal empires through the decolonisation process. When this process began to gather pace the Marx-Lenin thesis appeared dead; how could capitalism expand as this view argues it must to survive? What is the role of the international monopoly-cartel or multinational - without the formal presence and protection of their 'home' States?

The challenge has been taken up by the State-capitalist and super-capitalist arguments referred to above. To deal first with the State-capitalist school; two sub-views exist; the Neo-Leninist

which accepts the Marx-Lenin tradition but regards the multinational as the instrument of capitalist states to exploit overseas economic advantages in an 'informal' framework of multinational 'empire'; and what may be called the 'Americanisationalist' which argues that both the tradition and the neo-leninists are correct in their analyses but that rather than the multinationals acting as the instruments of all developed States they are actually the agents of only one, the largest capitalist country - The United States.

Again these arguments accept that economic forces act as the major dynamics in the international system, and the thesis that the significance of the multinational is economic rather than political. Neo-Leninist writers such as Maurice Dobb, Richard Wolff, and Tom Kemp implicitly accept the central ideas of economic determinism, capital concentration and the class nature of the international system.<sup>29</sup> However, the rapid dismantling of formal empires necessitated adjustments to the overall explanation. Multinationals thus became the cornerstones of this interpretation; by creating and distributing large amounts of investment the multinationals are conceived as spinning all-embracing webs of dependent and exploitative relations these enterprises are the principal means, in this view, by which the old formal empires were simply replaced by informal 'invisible' means of control.

Imperialism, in this view, is fundamentally economic, being defined as:

"...a relation between two countries or areas involving the creation of super-profit for the benefit of one of them, either by means of some form of monopolistically regulated trade between them, or by an investment of capital by one of them in the other at a higher rate of profit than that prevailing in the former." 30.

Moreover, multinationals are claimed to still drag their 'home' States overseas with them, through the extension of 'informal' spheres of political influence. Thus:

"...modern capitalist imperialism comprises a complex of private corporate policies, supplemented by induced government support, seeking to develop secure sources of raw materials and food, secure markets for manufactures, and secure outlets for both portfolio and direct capitalist investment." 31

But from the evidence available, 'home' government support - when really needed by the multinationals, has been distinctly lacking and when given has been singularly ineffectual, weak, and largely counter-productive.<sup>32</sup> 'Home' government confidence in the multinational has been undermined by the success of the renegotiation of the position of multinationals in 'host' States central to the obsolescing bargain. The questions of 'loyalty' raised by events in the oil industry during the 'seventies', especially among 'american' multinationals and the US government, bear witness to the uncertainty and instability felt in 'home' countries over the role played by these enterprises and the repercussions for their own situation.<sup>33</sup>

Neo-imperialists further claim that State conflicts have now been superseded by a world competition among multinationals, tying up the newly emerging States as effectively as the old empires had once done:

"While not relaxing the economic stranglehold over these territories and sectors where the extraction of surplus value, and its realisation, can take place smoothly and on an expanded scale, major tactical changes have been made in the political field, there has been withdrawal from untenable positions. Political power has been passed to the nascent bourgeois and new independent states have come into existence. If we look, however, at the activities of the big extraterritorial companies in these areas, they are as important as ever. New private investment takes place as, and when, expedient. Government aid goes in the prop up the economies of unviable states which have been brought into existence as the result of 'decolonisation'....

.....The new states, whose rulers in fact are hostages for the continued presence of the monopolistic concerns

which they cannot do without. show little possibility of being able to generate their own supplies of capital on a scale adequate to build up balanced industrial economies. Their dependence on the world market grows rather than diminishes and economic independence is a mirage." 34.

The problem with this view is that whilst the multinationals are very important actors, their investments have been increasingly regulated by States. Of course foreign investment takes place only where expedient; few successful businessmen invest in unfavourable conditions. Investment presumably continues to flow into these countries because multinationals still feel that their returns will merit it. There is little to stop governments from renegotiating the operating conditions once the multinational has been enticed into entry, as the Arab oil States have discovered to their benefit. With the acquisition of statehood comes also the right to refuse access. This right has been used sparingly since it is more useful as a bargaining counter and its implementation is more a sign that bargaining has failed.

States are not hostages. With better bank balances, greater knowledge and technical expertise gained through 'participation' agreements, collective organisations and bargaining positions, it is incorrect to claim either that these countries do not possess substantial bargaining power or that they are unable to do without the multinationals. The overall picture of the government multinational relationship indicates a greater degree of balance than is accepted by this interpretation. The accepted desire for the obvious benefits that the

multinationals can offer is balanced against the dangers of lost sovereignty and exploitation, but also against the multinationals desire for access and its awareness that its terms of entry will be under pressure once investment begins to flow. The majority of bargains appear to reflect this pragmatic understanding of each actors position and interests.<sup>35</sup> Bargaining takes place within the overall context of the nation-states system, but the bargaining itself takes place on the basis of a realistic appraisal of mutual advantages rather than from a position of absolute control.

For the Americanisationalists the multinational<sup>is</sup> predominantly the agent of America. As the largest and most advanced of capitalist States, America is said to be the ideal environment for the emergence of such firms. and the fact that America remains the 'home' for the vast majority of multinationals is regarded as supporting<sup>t</sup> and conclusive proof for this assertion. Apologists however, differ as to whether this expansion from one base is uniting capitalism internationally or whether it is leading to rivalry among capitalist States.

'Super-imperialists' argue that America is the "organiser of world capitalism, preserving its unity in the face of Socialism".<sup>37</sup> American hegemony is claimed to be dividing the international system between the capitalist rich and the under-developed poor.<sup>38</sup> The flows of direct investment suggest that there is a high level of multinational activity in the developed countries and that American investment in Western Europe is very large.<sup>31</sup> But to argue that this constituted capitalist unity under American hegemony is misleading. Self-interest promotes as much competition as cooperation among these countries,

and French, Italian and Japanese dirigiste policies are being more moderately followed by other Western European States.<sup>40</sup> Furthermore, when it comes to the crunch - as in the 1973-74 oil crisis - unity was superficial, if that. Confusion and suspicion mitigated against American attempts to mold the 'capitalist West' into a coordinated and united group under its leadership.<sup>41</sup>

Harold Magdoff argues, however, that American encouragement for multinationals stems from the desire to tie in the developing countries to its global defence against the spread of socialism and the influence of the Soviet Union:

"...there is a close parallel between on the one hand, the aggressive United States foreign policy aimed at controlling (directly or indirectly) as much of the globe as possible, and on the other hand, an energetic international expansionist policy of United States business." <sup>42</sup>

Thus the Cold War; CIA involvement in Guatemala; and the involvement in Vietnam are all claimed to be explainable in terms of a defence of economic interest. Domestically, the government-business relationship is said to be evidenced by the corporate taxation exemptions, executive relief provisions, and anti-expropriation acts such as the Hickenlooper Amendment.<sup>43</sup>

Two aspects are central to this argument; first, that US foreign policy and multinational business interests coincide, and second, that there is a domestic American class interest that cuts across government and business.

American business and foreign policy objectives and interests do occasionally coincide such as in the overthrow of Mossadeq in Iran;

the embargo on Cuba; or the pressurising of the Allende government in Chile that led to its eventual fall. But to extend this to an almost iron law of inevitability is quite wrong. Vietnam was a disaster for American business as well as its military; the Libyan challenge to the oil companies brought a feeble response from the American government; and the oil crisis found the largely pro-Arab multinationals in direct contradiction to American pro-Israeli foreign policy.<sup>44</sup> Thus such broad generalisations have no place in the analysis of multinational-foreign policy relationships.

The interpretation as a whole, but the State-capitalist view in particular, assumes that the government of a State is merely the representative of the ruling economic class. This assumption stems mainly from Marx's claim that: "The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie." Thus the assertion that the multinationals represent the largest concentrations of capital in society and therefore of political power, leads to the conclusion that government merely reflects their interests and goals. The discussion in chapter four below highlights the problems of such a claim. The oil 'shuttle' to government cannot be 'proved' to constitute a mechanism for the expression of class consciousness, it may only be assumed.<sup>45</sup> In addition, the significance of the 'post-industrial' society that is said by some to be emerging may have far reaching implications for the already weak and unconvincing concept of class.<sup>46</sup> Overall, there is little supporting evidence for the super-imperialism argument.



But what of imperial rivalry? Is such disunity that exists being translated into such a high level of tension? For writers such as Ernest Mandel American investment threatens the independence of Europe and it is to meet this threat that European industry is now rising to challenge North America.<sup>47</sup> However, there is little evidence to support the view that there is an intense battle taking place between the capitalist States to control each other's economic territory. American investment is being challenged in Europe and European investment is slowly crossing the Atlantic to America, but these trends are as yet in their earliest stages and in no respect constitute an imperial rivalry.<sup>48</sup>

The central theme of the State-capitalist argument is that multinationals are the agents of nationally-structured capital. The foregoing discussion suggests that this line of thought is fundamentally weak. Firstly, the multinationals clearly do not control the States (host) whether for their own purposes or for those of their 'home' States. The obsolescing bargain is too strong and significant a movement, especially in the 'host' States, for the 'zero-sum' argument to continue to carry any real force. In some situations it may be that the multinationals gain greater benefits than the State, but this does not remove the fact that States have the sovereign right to access nor does it allow for such a broad generalisation to be made regarding the multinationals role in the international system as one of domination. Secondly, the multinationals, whilst forming significantly large actors in their respective industries and in national economies, are by no means monopolies. Alternatives exist in the form of State champions and 'independents'. Moreover, the oil industry suggests that for multinationals to operate a significant control over governments, they

must form an absolute monopoly over their particular sector, to fail to do so is to be liable to being undermined.<sup>49</sup> Thirdly, there is little evidence to support the view that 'home' governments inevitably, and in all cases, support the multinationals. The point rests upon the question of class rule. The studies of the oil industry below show that such linkages cannot be proved; the failure of this view to state that class-consciousness is an assertion rather than a fact again distorts its explanation. Fourthly, argument is confused over the stress being placed upon the national and international levels of analysis. From the time of Lenin there has appeared to be a contradiction between the claim that capitalist monopolies are at the same time nationally orientated and dominant whilst also constituting the central units of a world market based upon a new extra-territorial capital. The problem is left unresolved by later writings.

The emphasis of the State-capitalists upon economic determinants is mistaken; the significance of the multinational lies with the bargaining process and the fairly balanced distribution of benefits that emerge from it. The reconciling of competing (not conflicting) goals on the realistic basis of a mutual awareness that each actor benefits from such a dialogue, is the essence of the political importance of the multinational. be it in the context of bilateral or multilateral relations.<sup>50</sup>

'Super-capitalist' arguments claim that capital is now entirely internationalised and that this remains the only valid level of

explanation.<sup>51</sup> In this view the multinational is a new phenomenon in the development of capitalism; it is an autonomous actor exploiting all countries for its own designs. But by elevating capital to this new level through multinational productive investments, a territorial non-coincidence is said to be produced between the new capitalist form and the traditional State units.<sup>52</sup> 'Critical rivalry' results from the tension between the two capitalist forms as the States become increasingly subordinate to the multinationals. The emergent relationship is likened to that of 'manager-client':<sup>54</sup>

"To these giant accumulating companies, national governments - even quite powerful governments of developed countries which once had imperial power are but client states, granted concessions of capital investment only on condition of good behaviour; e.g. tax allowances, state aid, credit guarantees, trade union laws, and so on. These companies ... are the new empires. While the very largest of the nation-states the USA, the EEC as the new superstate, Japan, perhaps still the UK are regarded as providing basic protection in a competitive world, the companies are quite opportunistic in this regard and prepared to switch bases where it is to their advantage to do so. The challenge that these companies pose to the democratic choices of the peoples in rich and poor countries alike, as to their common rates and paths of economic growth, brings together the common interests of both." <sup>55</sup>

The multinational is thus envisaged as increasing its ability to decide independently how, where, and when to act, irrespective of national considerations. On the other hand, the State is regarded as losing its sovereign independence in its relations with the multinationals; its field of choice has been severely narrowed by the growth of these enterprises and the development of the State is claimed to be open to the whims and fancies of multinational decision-makers beyond the boundaries of that state.

However, Bill Warren, whilst arguing within the confines of the neo-imperialist interpretation, provides a salient critique of the Super-capitalist argument.<sup>56</sup> Warren argues that the position of the State is now greater rather than weaker than it once was. The increased involvement of multinationals in States has created uncertainty and instability. To redress a perceived imbalance governments have been forced to take an active role in their societies to re-assert their positions of sovereign authority with regard to the multinationals. Warren is essentially talking of economic relations rather than overtly political inter-actions. However, in order to re-assert their economic positions governments have undertaken processes of renegotiation and bargaining that are of political importance, not just in themselves, but because the whole issue being dealt with is that of national sovereignty.

Super-capitalism, like the other neo-imperialist arguments, suffers from its dogmatism. By boldly asserting the multinational to be of a supra-national character, by asserting the primacy of economics to the exclusion of all other factors, and by assuming that national independence is more than a normative abstraction<sup>57</sup> this view is led inextricably toward vague predictions of the future world that bear little relation to the reality of the obsolescing bargain in the contemporary system, a future wherein...

"...a regime of North Atlantic Multinational corporations would tend to produce a hierarchical division of labour between geographical regions corresponding to the vertical division of labour within the firm. It would tend to centralise high-level decision-making occupations in a few key cities in the advanced countries, surrounded

by a number of regional subcapitals, and confine the rest of the world to low levels of activity and income, i.e. to the status of towns and villages in a new Imperial system." 58

The focus in the Super-capitalist view has thus moved considerably towards the effects of imperialism rather than its causes, and in this shift is reflective of the neo-imperialist interpretation as a whole. Most obvious has been the emergence of 'Dependencia' arguments and studies that identify an international economy in which an underdeveloped 'periphery' of States are dependent upon an advanced capitalist 'core'.<sup>59</sup> A.G. Franks' 'Law of Capitalist Development' argues that underdevelopment is not a traditional state of affairs, nor a stage of development to be passed through, but the inevitable product of the internal contradictions of the world system of capitalist development.<sup>60</sup> The expropriation of profits by the few from the many; the polarisation of wealth and poverty; and a perpetuation of dependency in poor countries through the re-creation of capitalist contradictions in these States by multinationals, thus produces a world in which:

"The capitalist system arises like a central star which exploits an entire system of satellites which in their turn exploit those lower down the system. Within the underdeveloped countries, therefore, we find a system of internal exploitation linked to the international system." 61.

The obsolescent bargaining of recent years would seem to contradict this view. The pressure upon multinationals to limit their operations, disclose information, re-invest profits and allow State participation, or ultimately face expropriation, is less evidence of

'satellitisation' than of the exercise of sovereign authority.<sup>62</sup>

The neo-imperialist interpretation involves core assumptions about the way that the international system should be ordered. Absolute independence and equality are normative values that pervade these arguments. But these values are inferred rather than explicit, shadows rather than substance, and hinted at by the use of terminology such as 'dependence' and 'exploitation'. These are not objective terms and are rarely defined. What then do these terms really mean in the context of this interpretation?

One theoretician has ventured to define dependence as a 'conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others.'<sup>63</sup> In this respect then there can be no independent State since all States are influenced by the developments of others! What is really being argued is that some States are being exploited by others. In other words, there is an implicit conception of 'injustice' in this argument that is tantamount to a subjective value judgement since it is neither explicit nor 'proved'. R. Jenkins makes the staggering claim that "The world is inherently exploitative".<sup>64</sup> In order to support these claims the arguments fall back upon the relative safety of economic equations, for what these theoreticians utilise is the concept of "unequal exchange"<sup>65</sup> in which there is a discrepancy in the value of things exchanged in favour of the advanced States.<sup>66</sup> There are terrible difficulties in trying to objectively define what is fair, can any level of inequality or imbalance be said to be fair? Even

in these purely economic constructs it is impossible to draw the 'terms of trade' in measurable ways. There is more involved than economics; for centuries philosophers have tried to clarify means by which State influence in the international system may be evaluated.

By insisting that the significance of the multinational is economic, the interpretation distorts its analysis. Monocausality avoids complexity, and the political and relative nature of the multinationals role in the international system. 'Rule' (imperialism) cannot be confined to the sterility of the economic forces and systematic rationality of this argument, for, in the words of one writer:

"...for the utilitarian psychology which unites Marxism with the classical political economy, the broad instinctive life of man remains like a river underground, not so much unheard as unexplored. In the daily life of societies it constantly bursts to the surface and leaves little in the history of the simple patterns of our theories".<sup>67</sup>

Economies are important to the Neo-Mercantilist interpretation also. Unlike the previous arguments, however, this view does not attempt to explain within the context of a general theory relying instead upon historicist approaches. The neo-mercantilist argument rests upon four main points. First, economic interests - including multinationals - are subordinate tools for State foreign policy; the economic and politico-military requirements being synonymous with the 'national interest' as perceived by government. Second, the expansion of multinationals during the post-war period is an inseparable part of the extension of 'home' State spheres of influence throughout the world. Third, international instability resulting from a relative decline in American hegemonical rule is leading to

a re-assertion of national self-interested behaviour wherein the multinationals are increasingly under pressure from 'hosts'. Fourth, the utilisation of multinationals as the instruments of national policy and of national self-interest reflect the belief that the fundamental nature of the international system is anarchic and is driven by the realities of State power. In essence the neo-mercantilists argument focuses upon:

"...the system of nationalistic regulation of economies which is designed to advance a particular states economic, political, and military power in competition with rivals." 68

The importance of economic interests such as the multinationals to the national interest is rationalised by this interpretation upon four assertions:<sup>69</sup> (1) Wealth is a crucial means to power, for defensive or aggressive purposes; (2) power is an essential means to wealth; (3) wealth and power are each the proper ends of national policy; (4) there is a long-term harmony between these ends. The overall relationship between economics and politics is therefore defined as one of "mutually-supporting objectives, each capable of being used as a means to the attainment of the other." 70

The assumption of a direct correlation between multinational spread and 'home' country political expansion is a central point that needs to be proved by this interpretation. What is the real nature of the relationship (if any) between economics and politics? This interpretation is largely directed at America as the 'home' of so many multinationals. and it is in the American context that the following discussion centres.



Like Britain before it, America is regarded as systematically ordering the post-war world in order to assert its economic, military and political hegemony over as much of the globe as possible in the face of a rising Soviet Union. Multinationals, aided by American political expansionism, found international conditions favourable and their growth was rapid during this period and obstacles few. In turn, these enterprises both carried American values and interests overseas and provided an economic bulwark against socialism:

"American political and military supremacy after World War Two was a necessary precondition for the predominant position of American multinationals in the world economy. But the reciprocal of this is also true; corporate expansionism in turn became a support of America's international and military position." 71.

'Pax Americana' is said to have stemmed from the extension of American support to Western Europe following the war, thus creating the 'necessary' conditions for multinational growth in this area, the 'sufficient' conditions involving not only technological advance, but 'home' State policy support, liberalistic ideology, and domestic political consent in America.

Crucial to this assertion of 'home' State support and direction of multinationals is the relationship between business and government. Robert Gilpin argues that, in general, "there has tended to be a natural harmony of interests between American political and business leadership."<sup>72</sup> Three aspects of multinational growth are cited in support of Gilpin's argument. First, multinationals, by transferring American technology and capitalist tradition overseas are seen as playing leading roles in furthering the liberal politico-economic order. Second, American growth is said to be sustained by cheap and available raw material and energy supplies. Third, the multinationals

contribution to the American balance of payments is argued to provide funds for the financing of American financial and diplomatic commitments.

The extent to which the multinationals are able to disseminate the 'American dream' to 'host' countries is, however, limited. The presence of the multinationals has more often than not proved the focus for xenophobic reactions. In many of the less-developed States they represent affluence and materialism that is often out of keeping with the general conditions to be found in these countries. Moreover, these enterprises are used as rallying points for the venting of political unrest and have in some cases provided the excuse for a new regime to take power.<sup>73</sup> Western Europe has also undergone a questioning of the multinationals threat to 'European' values. The reaction against 'La Defi Americain' focused attention upon the socio-cultural implications of the multinationals. Multinationals deliberately foster a low profile in many States to avoid such reactions and in many instances try to establish a nationally-orientated colour to their operations in order to generate local goodwill;<sup>74</sup> the scope for expounding the virtues of American values is therefore limited.

The multinationals ~~by~~ selling their goods in the American market have been instrumental in promoting American growth. The supplies of oil since the beginning of the century have been of particular significance as domestic American production has declined and consumption grown. However, with the emergence of various producer 'cartels', it is likely that any special advantages America once had will be lessened or lost entirely.

The multinationals do 'repatriate' significant levels of their earnings to America.<sup>75</sup> However, the ever tighter controls being imposed upon the multinationals by 'host' governments, forcing the re-investment of profits, high tax payments, and royalty or license returns, means that less funds find their way back to America. Moreover, it is extremely difficult to draw a direct link between multinational earnings and American foreign venture financing. Such moneys as are required can easily be drawn from domestic sources and it is speculation to suggest otherwise.

Neo-mercantilists continue to argue that America's position is inevitably in decline and that the role of the multinational is to counter the "historic tendency for the diffusion of knowledge and technique to undermine the centre's industrial supremacy."<sup>76</sup> If this is the case then the crisis for America is acute with the multinationals position overseas under pressure from obsolescent bargaining. The multinationals in this context are thus in a paradoxical position; as the main means by which knowledge and technology is transmitted to 'host' States they are thus the major factors in the decline of their 'home' State which in turn is becoming increasingly dependent upon these very enterprises! The underlying rationale for this interpretation's conception of an American decline rests on a conception of international anarchy.

With almost Hobbesian logic the neo-mercantilists conceive of the international system as one of inherent conflict mitigated by the presence of a dominant hegemonic power that orders the system on the

basis of dependent relationships it has created. This view sees the strong dominating the weak, rich dominating the poor. Power is believed to be sought not merely for military or ideological motives, but for its own sake. R. Hammond argues that at the heart of multinational expansion lies "the good old game of power politics."<sup>77</sup> The rise and fall of America is seen as being consistent with the central dynamic of international relations, namely the inter-action between ascending and descending states:

"In the short run, the distribution of power and the nature of the political system are major determinants of the framework within which wealth is produced and distributed. In the long run, however, shifts in economic efficiency and in the location of economic activity tend to undermine and transform the existing political system. This political transformation in turn gives rise to changes in economic relations that reflect the interests of the politically ascendent state in the system." <sup>78</sup>

With the decline of America it is claimed that a renewed conflict and competition over the distribution of the world's resources and power will characterise the system;<sup>79</sup> states becoming increasingly involved in "the struggle for the world product".<sup>80</sup>

The problem with this interpretation lies with its failure to establish conclusively the link which it assumes between economics and politics, that is the correlation between American business and foreign policy drives. To some observers,<sup>81</sup> the example cited by neo-mercantilists<sup>82</sup> in support of their argument, the Cold War, does not hold up to generalisation. During this period the interests of multinationals and government coincided, the expansion of Socialism being regarded as a threat to both; "The 'high politics' of America's national security were the 'high politics' of America's international business as well; the two track approach to politics and economics was built on a single road-bed."<sup>83</sup> But the post-Cold War period,

the events of the 'oil crisis', and the broad challenge to the multinationals-government consensus among domestic American opinion, suggests that such agreement on interests is neither inevitable nor 'on-going'.<sup>84</sup> The misunderstanding of the 'home' State-multinational relationship, as well as the refusal to acknowledge the presence of ordering elements in the international system-law, standards of morality, conflict resolution mechanisms - together undermine this interpretation's explanation of multinational status and role.

The 'Sovereignty-at-Bay' interpretation<sup>85</sup> regards the multinational as being a distinct and independent actor in its own right. It is primarily an economic actor, its organisational flexibility enabling it to expand and consequently to restrict the freedom of States within the international system. This view argues that this development of multinationals is essentially for the benefit of all since it offers the best chance of achieving the liberalistic dream of:

"...a great republic of world commerce, in which national boundaries would cease to have any great economic importance and the web of trade would bind all the people of the world in the prosperity of peace." 86

Economic drive again forms the central feature of interpretation. The supposition of "parento optimum" dynamics in the international economic system is believed to have stimulated multinational expansion.<sup>87</sup> The organisation of the multinational- uniquely structuring productive capital on a global financial and executive base - has allowed these firms to take advantage of technological and market changes, and to promote their independence from the restrictiveness

of nation -states. The objectives of the multinational are the 'mutually-reinforcing goals of increased profitability and a reduction of unpredictability. The argument utilises the 'product-cycle' theory which claims that expansion is explained as a defensive necessity; the firms merely protecting their established markets and products from new competitive conditions.<sup>88</sup> The multinational growth of the post-war period is thus regarded as being divorced from the arena of international political relations; the multinational is thus said to be an autonomous actor, dealing only at 'arms length' with States:

"...the multinational represents the separation of economics from politics in the interest of promoting world peace and development." <sup>89</sup>

It is therefore the trans-national economic nature of the multinational character that is claimed to circumscribe nation-state sovereignty.

The prescriptive argument apart - this thesis is not concerned with the moral questions - how far does this interpretation actually offer a realistic answer to the central question of the extent to which multinationals are independent actors?

Like the previous interpretations looked at above, this argument rejects the political focus for that of the economic. But the arguments of multinational autonomy and economic interdependence once again avoid the importance of the fact that what they are also talking about is nation-state sovereignty. They are talking about 'control' of States and peoples. They are in fact talking about politics not economics and, as been evident throughout this chapter, the central element in this political significance is the diplomatic or bargaining process between actors. The bargaining, moreover, during the post-war period has seen

the role of the multinational increasingly regulated by governments rather than State subordination to these firms.<sup>90</sup>

This 're-affirmation' of State sovereignty has been largely built upon multinational structural weakness and national determination in bargaining. As will be seen below,<sup>91</sup> the multinationals - be they copper enterprises in Chile, oil companies in India, or motor manufacturers in Britain - are very much tied structurally to the nation-states. It is this inherent weakness that has been exploited by many States, individually and collectively, to successfully re-negotiate their positions with regard to the multinationals.

At the risk of repetition, State bargaining has advanced on four fronts; which together cast serious doubts on the argument that multinationals force their own conditions upon governments as a result of a controlling position. Firstly, in the extractive industries, especially oil, the multinational has in most cases been reduced to the status of contractor in the 'host' States.<sup>92</sup> Secondly, higher taxation levels; investment requirements; price-setting and market guarantees; and participation agreements have meant that multinationals have lost many of their 'traditional' functions to the States and also opened them up to national involvement in their subsidiaries. Thirdly, the cooperation among governments at both the regional and global levels to produce rigorous multilateral codes of conduct, has reinforced the collective bargaining positions of many countries and added to the pressure upon multinationals to conform to State-produced standards of behaviour since these codes

represent 'norms' against which their actions can be judged. Lastly, both developed and developing States have established 'national champions' to take over many of the roles played by multinationals in their territories, or to enter into joint ventures, or simply to compete with them.

This national reaction is acknowledged by some apologists of this interpretation, but argue that this is to be expected as a result of the underlying changes. To reduce tension during this change-over of power, it may be necessary to establish some form of international regulatory body to 'hold the ring' until the new more harmonious relationships are established fully:

"The basic asymmetry between multinational enterprises and national governments might be tolerated up to a point, but beyond that point there is a need to redress the balance. When this occurs, the response is bound to have some of the elements of the world corporation concept; accountability to some body, charged with weighing the activities of the multinational enterprise against a set of social yardsticks that are multinational in scope." 93

The most obvious body for this purpose would seem to be the United Nations. However, so far this body has managed to establish a general code of 'rules' and a centre for the study of trans-national actors. More significant have been the regional, producer, and consumer organisations in pressing for multinational regulation.<sup>94</sup> This has not prevented States abusing these collective positions to gain individual advantages, and for some observers such a world body is excessively optimistic:



"The resulting struggle among nations to tilt in their direction the distribution of benefits generated by the multinationals suggests a potential for fragmentation and disintegration, not the cooperation and harmony of the 'sovereign-at-bay' thesis." 95

The interpretation would therefore appear to distort the role played by the multinational in the international system, granting it an over-stated degree of autonomy and strength and under-estimating the position of the nation-states.

Like the 'sovereignty-at-bay' argument, the 'Global Reach' interpretation claims that the sovereignty of States is restricted by the overwhelming economic strength of the multinationals. Unlike the preceding view, however, this interpretation concludes that:

"...if global corporations do not undergo profound changes in their goals or strategies, or are not effectively controlled, they will contrive to act as disturbers of the peace on a global scale." 96

Pessimistically portraying the multinational-State relationship as "The Coming Clash",<sup>97</sup> it is argued that multinationals constitute a malign and dangerous force in international affairs. Only by instituting a widely-based regulatory system with enforcement powers, and a substantial and irreversible shift in the re-distribution of the world's resources towards the lower sixty per cent of the world's population will the international system be restored to balance and equality.

The argument is again posed in economic terms: "The driving force

behind global oligopoly competition is the necessity to grow in order to maintain or increase market shares."<sup>98</sup> Organisational structure, in other words flexibility, is believed to have propelled these enterprises into a position of autonomy and control in the system. But, to return to a point made throughout this chapter, the multinational is not a homogeneous actor. Although it may provide a unique flexibility for growth, it also provides an inherent weakness by opening the firm to a multiplicity of State pressures. Tied to the national regulatory structures, multinationals require continued governmental agreement for their operations, and the conditions under which they continue are 'thrashed out' in the political process of bargaining and renegotiation.

However, global reach theorists argue that the crucial difference in bargaining positions that results in multinational control is that of philosophical outlook and ideology; the enterprise is a consciously anti-geopolitical actor in direct contradiction to the "irrelevant nationalism" of territorially inflexible States.<sup>99</sup> This argument follows from the previous misconception of the structure of the multinational, but, furthermore, also stems from an unwillingness to acknowledge the full implications of the obsolescing bargain.

Richard Barnett and Ronald Muller noted this bargaining trend in their chapter entitled "The Power of the Poor",<sup>100</sup> but argue that problems of enforcement of laws, information gathering, and the establishment of counter-organisations, handicap State attempts to capitalise on the changing balance of bargaining relations. These are certainly

problems for governments, but the example of the oil industry and the extractive sector in general appears to suggest that these are not so insurmountable as Barnett and Muller claim. These apologists cite the case of Brazil to support their overall argument, but as Peter Gabriel remarks:

"A prediction that Brazil will continue to favour the foreign investor once he has fulfilled his promise (i.e. brought his technology and know-how), even while all countries around her are successfully wrestling ever more favourable terms from him, has to be founded on faith rather than historical precedent or current example." 101

The difficulty with this interpretation is that it assumes that both the economic dynamic and the asymmetry of the firms relationship with the State are universally accepted, and that consequently "the burning political issue concerns the use of that power. Is the global corporation in the business of exploitation or development?"<sup>102</sup> This question is fraught with value-judgements and moral debate and as such lies outside the brief of this discussion, but such debate rests upon the central question as to whether this interpretation offers convincing explanation of the multinationals status and role?

The actors are drawn in this view with sharply conflicting goals:

"Global companies have used their great levers of power-finance capital, technology, organisational skills, and mass communications - to create a 'Global Shopping Centre' in which the hungry of the world are invited to buy expensive snacks and a 'Global Factory' in which there are fewer and fewer jobs. The world managers vision of 'One World' turns out to be two distinct worlds - one featuring rising affluence for a small transactional middle class and the other escalating misery for the great bulk of the human family. The dictates of profit and the dictates of survival are in clear conflict." 103

The available evidence, however, suggests that where the multinationals have attempted to use leverage against governments, they have been largely unsuccessful.<sup>104</sup> The diplomatic relationship between the actors is one in which an awareness of mutual interest is influential in producing compromise and eventual agreement, rather than one of irreconcilable conflict. For this interpretation the multinational threatens the whole of the established international structure:

"It is not just, or even mainly, a question of whether international companies can circumvent particular laws and regulations. It is that the whole framework of thought and action is founded on the sixteenth-century concept of the sovereign state. Outside that framework the whole substance of social and political history has been built for the better part of four hundred years. In this sixteenth-century framework, the international corporation is an outsider." 105.

The test of the legitimacy of the multinational for this interpretation is its relationship with the underdeveloped countries. It is argued that the multinationals maintain a position of control through their monopoly of knowledge.<sup>106</sup> The multinationals do possess a number of factors that enhance their position with regard to knowledge. Firstly, the massive expenditure on 'R&D' by these forms is well beyond the capabilities of most States. Secondly, these enterprises have long-established organisational experience. Thirdly, they have highly-developed information-gathering networks. Lastly, their management teams are experienced and expert.

However, it must also be noted that the threshold of knowledge have been failing in recent decades. This has further aided the obsolescent

bargaining of many governments. States have been strengthened by a number of developments in this context. The State educational programmes as they reach maturity are beginning to bear fruit in the form of highly educated and knowledgeable citizens. Many will have been sponsored to Western universities by their government or by multinationals own educational scholarships. Moreover, governments have learnt from the experience they have gained through the participation and joint ventures they have entered into with the multinationals. In addition, there have been alternative sources for these States to acquire knowledge, namely the increasing number of independent firms and the countries such as the Soviet Union. Lastly, these States have undertaken to cooperate amongst themselves to share their expertise and knowledge to their mutual advantage.<sup>107</sup>

The desire for rapid and substantial change in the international condition leads this interpretation into an over-estimate of the status of the multinational enterprise. It is accredited with absolute power, absolute monopoly on knowledge, and absolute control over states. The relative and political significance of the role of the multinational is missed altogether.

In all these interpretations independence is equated directly with power; the more powerful an actor the more independent it is believed to be. For these arguments, power is economic strength. According to Klaus Knorr, power can be regarded in two ways. First, as 'putative' power (the 'capacity' to influence others); and second, as 'actualised'

power (the 'exercise' of that capacity.<sup>108</sup> But if power constitutes the influencing of one actor by another in order to change its policy in favour of the influencer, then this is surely a political concept since it involves the element of 'control' and if politics is defined as the resolution of "who gets what, when, and how,"<sup>109</sup> then the question posed as a result of the above discussion is who controls the distribution of bargaining advantages - the States or (as the interpretations claim) the multinationals?

For these arguments reviewed above, multinationals exert overwhelming actualised power through their global networks of dependent States. Underpinning this assertion is the belief, clarified by Knorr, that there is an asymmetry of putative power within the bargaining process (which gives rise to claims of 'injustice') in favour of the multinationals. However, these interpretations have been seen to overstate the strength of the multinational in their arguments above, and to understate the significance of the obsolescing bargain. The multinationals do not appear to control the governments with which they deal, their relationship reflects, largely, a balanced influence in which there is a mutual respect for what each needs and each can offer.<sup>110</sup> In the international system as a whole the context for such bargaining is that of the sovereignty of States, and with the ultimate right of access may lie the basis of decisive bargaining power.

The greatest difficulty with these interpretations is that power cannot be conclusively quantified, especially when removed from the abstractions of economic determinants. By attempting to explain the

multinationals in this way the arguments avoid the importance of the diplomatic, negotiating, role of these firms. The full practical difficulties of translating these theories into analytical tools can be seen in the case study of the oil industry in chapters four and five below.

CHAPTER 3  
THE ACTORS.

This chapter asks three questions with regard to the actors. First, do the multinationals possess a distinctive, clearly definable, and separate identity? Second, if such an identity exists, how far does it provide multinationals with autonomy? Third, what can be concluded about the roles and status of the actors in the international system and the pattern of relations between them?

If the definition of politics as the resolution of competing interests is correct,<sup>1</sup> then multinational identity may stem from the extent to which these enterprises determine the distribution of world resources within the competing interests of the nation-states system. This role may be of a bilateral or multilateral nature, that is, a multinational may be bargaining with a single State or acting as broker between a number of States. The extent to which multinational autonomy is built upon such a role is, as the previous chapter indicates, open to interpretation but nevertheless appears to largely depend upon the respective bargaining abilities of the actors.

It may be that, as some claim, multinationals origins are traceable to the Fuggers of 15th century Europe. It is more accurate, however, to date their beginnings at the advent of the determined founders of these enterprises, men like Henry Deterding of Royal Dutch Shell, Sosthenes Behn ('The Buccaneer') of ITT, or William Hesketh Lever of Unilever in the early decades of the 20th century.<sup>2</sup>



One fairly neutral and generalised definition of the multinational is as:

"...a cluster of corporations of different nationalities that are joined together by a parent company through bonds of common ownership, that respond to common strategy, and that draw on a common pool of financial and human resources."<sup>3</sup>

The problem with such a universal definition is that it masks the fact that these enterprises do not all conform to any one particular 'type' or confine their activities to any one industry or sector. Multinationals are involved in extractive industries such as copper mining, manufacturing from cars to computers, and in primary commodities. Many have diversified into new areas; oil multinationals have recently extended their range of ownership to department stores, property holdings, and other energy sectors like coal. However, the interpretations looked at earlier argue that irrespective of these differences the basic nature of the multinational remains the same and that this inherent character provides an overwhelming dominant bargaining power with which to control States. To evaluate how credible this argument is, the following discussion focuses upon the economic, organisational, and motivational characteristics of the multinational, and then reviews the multinationals status in the context of the nation-states system.

The multinational is said firstly to be characterised by its size. As table 1 suggests, these corporations have very large turnovers indeed and in general operate in a large number of countries. The significance of size is claimed to be two-fold: firstly, the absolute size of these corporations is often larger than many of the States with

which they deal. With the assumption that 'might is right', these firms are claimed to possess the absolute capacity to thus control governments. Secondly, the international diversification or 'multi-nationality' of these firms is argued to provide a wider set of options for investment, production, or sales, and therefore a greater flexibility in their bargaining with governments.

The multinationals are very big organisations; to the United Nations in 1973 there was sufficient evidence that "...for most practical purposes, those with less than \$100 million in sales can be ignored."<sup>4</sup> Although criticised as an arbitrary concept,<sup>5</sup> size is significant. A revealing American census in 1966 showed that although there were 3 400 multinationals operating from the US, only 298 accounted for 55% of total assets and 66% of sales by overseas subsidiaries.<sup>6</sup> However, the equation size equals power equals control is a mistaken one. Corporations the size of Exxon or Ford cannot be easily ignored by any government, and as a result the multinationals can obviously exert pressure; but the obsolescing bargain indicates that the size of these enterprises has not prevented smaller States from restricting them or even expropriating ~~them~~. An example is Peru's nationalisation of Exxon's subsidiary that left the multinational with a long struggle for compensation.

Although the correlation between size and diversification is subject to debate,<sup>7</sup> the crucial question is essentially the political one of how much bargaining influence does multinationalism provide?

TABLE I

The Estimated Value Products of the World's Largest Firms in 1973, indicating -

- (a) the number of countries in which their subsidiaries are located
- (b) the approximate percentage of their total production undertaken overseas.

Company	Country of re- gistration.	Value product (£'000m)	(a)	(b)
American Telephone & Telegraph	USA	17.4	na	5
General Motors	USA	8.1	21	24
Exxon (Esso)	USA	5.7	25	81
Royal Dutch-Shell Group	Netherlands-UK	5.4	43	70
Ford Motor Co	USA	5.0	30	36
ITT	USA	4.2	40	60
Sears Roebuck	USA	4.1	na	40
IBM	USA	3.8	80	36
Unilever	Netherlands-UK	3.8	31	70
Philips	Netherlands	3.7	29	67
General Electric	USA	3.6	32	15
General Telephone & Electronics	USA	3.1	na	15
Texaco	USA	3.1	30	65
Siemens	FRG	2.8	52	17
Chrysler	USA	2.6	26	22
Mobil Oil	USA	2.5	62	45
US Steel	USA	2.3	na	60
ICI	UK	2.3	46	42
Gulf Oil	USA	2.3	61	75
Hitachi	JAP	2.2	na	0
Mitsubishi Heavy Industries	JAP	2.2	na	10
Volkswagen	FRG	2.0	12	25
Standard Oil of California	USA	2.0	26	46

Source: Adapted from Buckley P.J. and Casson M.; 'The Future of the Multinational Enterprise'; Macmillan Press; (1976); pp. 12-13.

If multinationalism means anything at all in respect of bargaining, the 'flexibility' of a wide diversification is of most significance when initial entry negotiations take place or in times of 'confrontation' with particular States. Such advantage is evident in the early concession rounds of the oil industry, or in the 1971 Libyan dispute.<sup>8</sup> However, such 'power' is qualified by events. Once the multinational has made its initial investment, it is open to 'renegotiation' and 'hostage' bargaining by the States. The Middle Eastern oil concession framework has been wiped away by the 'host' States; in Libya the multinationals were forced to concede to government demands and indeed BP found its operations nationalised.<sup>9</sup> Moreover, the emergence of collective bargaining groupings among States has reduced the possibility of using 'divide-and-rule' tactics. The multinationals therefore are distinctive in their size and scope of operations, (see Table II) but to claim that they are autonomous as a result is incorrect. Paradoxically, the bigger these firms are the more they need the relative security of the States system, for the bigger they are the more visible, the more feared, and the more vulnerable to restriction they become.

Concern is also expressed in a belief that oligopolistic<sup>10</sup> control results from the fact that a small number of multinational enterprises are seen to dominate their respective industries. Table I provides some support for this argument. Taking three of the most important 'commanding heights of industry'—motor manufacture, petroleum, and electronics—of the 25 firms portrayed, five are leading car makers,

six of the seven oil 'majors' are present, and eight are prominent electronics firms. Power is said to stem from several sources of oligopolist advantage; readily available capital, a highly-skilled management and workforce, high research and development expenditure, raw material access, advertising, distribution, and marketing networks and knowledge.<sup>11</sup> These features are not unique to the multinationals, internationally-structured firms also possess them. What is distinct about the multinationals is that they appear to possess 'all' of them.<sup>12</sup>

Oligopolist power, however, ultimately requires co-ordinated cartel-like behaviour by the multinationals. Most crucially this means the avoidance of harmful, destabilising, competition and unity in the face of a common threat such as national pressure for regulation. The problem for this view is that such competition does exist and that there is evidence to show that the 'multi-nationals' do not totally dominate the market. In the oil industry, the 'Red Line Agreement' of 1928 collapsed as self-interest overcame common cause, a theme that has continued into the seventies with the majors inability to successfully unit during the 1971 Libyan dispute despite a joint co-ordinating committee being established.<sup>13</sup>

The significant factor in this inability to achieve lasting multinational cartels is that these companies are not alone; others are available to States, and moreover are being chosen in preference to the multinationals. Free from the taint of multinationalism, willing to offer terms that under-cut multinationals since they are free from the worry of compromising their operations elsewhere ('leapfrogging'), these firms

have expanded in number, size, and confidence during the post-war period.<sup>14</sup> The most famous of these is probably ENI (the Italian national oil company)<sup>15</sup> but a whole spectrum of private and public independent contracting companies provide viable alternatives to multinationals for states.

The global organisational structure of the multinational is believed to form a powerful bargaining lever against the states. Subsidiaries are claimed to respond to a global strategy formulated by the parent which ignores the particular interests of States in which they operate. Money, managers, and materials are said by critics to move around the globe without reference to the national interests of States.<sup>16</sup>

This argument is oversimplistic in its portrayal of the multinational structure; no major differentiation is made among their structures. These corporations are complex actors, often structured upon a highly

TABLE II

Variations in International Diversification of Multinational Enterprises by Nationality of Parent, 1968-69.

Nationality of Parent	Number of Parents	Percentage of parents with affiliates in			
		1 country	2-9 countries	10-19 countries	over 20 countries
United States	2,468	50	38	9	3
United Kingdom	1,692	43	48	6	3
Belgium-Lux.	253	58	37	4	1
France	538	39	51	8	2
West Germany	954	47	47	5	1
Netherlands	268	34	56	7	3
Switzerland	447	47	45	6	1
Sweden	255	36	51	9	3
Denmark	128	42	54	3	1
Italy	120	47.5	45	2.5	5

Source: UN Department of Economic and Social Affairs, "Multinational Corporations in World Development", Appendix: Table 4. Reprinted in P.J. Buckley and M. Casson, "The Future of the Multinational Enterprise" (1976) Macmillan, p.14.

devolved authoritative system:

"Firms are often compared to ships. Well, Unilever is not a ship, it is a fleet - several different fleets, several hundred subsidiary companies - and the ships many different sizes, doing all kinds of different things, all over the place." 17

Multinationals do not all operate on the same organisational basis. The numerous variations largely fall into two very broad groups, the centralised and the decentralised.<sup>18</sup> The former is the type of structure that is envisaged by most critics of the multinational. It is said to entail close control over policy formulation and implementation, highly co-ordinated global management, and corporate unity in the direction and goals of its development. It is said to be further characterised by high intra-company trading and hostility towards national demands for joint ventures or participation. The problem with this conception is that there appear to be few multinationals that have retained this structure into the contemporary period. Associated mainly with the extractive multinationals in their vertically-integrated form, this structure has been superseded by looser groupings of the decentralised type, in which the subsidiaries operate almost as 'national' companies, joint ventures are more possible, and yet common corporate resources are still drawn upon.<sup>19</sup>

This change in organisation reflects the realities of changing State relationships and events. The tensions arising from the centralised structure led, in countries such as the oil-producing states, to increasing calls for nationalisation and to the obsolescing bargaining of the 'seventies'. With the national inroads into the multinational

structure, the extractive corporations adapted to their new operating conditions with new structures. Paradoxically, these developments further emphasised the lack of autonomy among the multinationals from the nation-states system. The interpretations regard these structures as the bonds of informal control over States, and in terms of economic growth these structures probably provide distinct advantages, but in terms of the political question of control the decentralised structure emphasises the limitations upon multinational independence in its response to national requirements. Ultimately, without such adaptation and continued access to the States, the multinationals' foundations would be severely undermined.

Multinational financial strategy is also claimed by critics to be unrelated to the best interests of the states system. The international mobilisation of capital, transfer-pricing, intra-firm trading, and asset-liability management, are all emphasised to support this argument. Whilst these practices persist, their level remains low with the advent of interventionist governments at a national level and inter-governmental cooperation at the international level.<sup>20</sup> Financial disclosures, tax and investment regulation, and the inter-relationships sponsored between governments and enterprises through joint ventures, all restrict the financial flexibility of many multinationals to exert a dominating pressure upon States.

The question remains as to the motivation of the multinationals. It is reasonable to assume that what the executives of multinationals have in common is their belief that "there is a need to plan, organise, and



manage on a global scale."<sup>21</sup> This need, in turn, may well rest upon a desire for stability in the operating conditions. This stability can of course be achieved either through control or by the establishment of 'modus vivendi'. It is in this context that the multinationals adaptation to the States pressure is significant, as the obsolescing bargain represents a renegotiation of conditions on the basis of mutual gain, a symbiotic balance of interests.<sup>22</sup>

Multinationals are clearly not independent actors as a result of their inherent characteristics, the status of these corporations being significantly related to the character of the States.

In three centuries the States have established themselves as the predominant actors in the international system: international law is made by and for States, international morality stems from national definition, and international organisations are rooted in their national membership. This position has been built upon three fundamental concepts; territoriality, legitimacy, and sovereignty, which together govern the behaviour and relations in the 'society of States'.<sup>23</sup>

In the rational liberalism of the 17th century, States-like individuals found their rationale in the belief that they should be allowed an independent freedom of action to determine their own affairs. But, in a world where a balance of nuclear terror reigns, where space-travel is just another headline, and where international communications, trade, and tourism have reached new levels of intensity, whatever reality the idea of independent action may have had has been clearly eroded and the boundaries of State interests become blurred.

Yet, States have not only maintained their status in the system, but their numbers have grown in the 20th century. However, just as individuals in the domestic analogy could not escape the attentions of each other, so too the actors in the international sphere. As the volumes of current literature testify, the States cannot ignore each other, nor the growth of the new multinational actors. Multinationals may 'bend the rules' to gain advantages, they may portray themselves as the replacements for the States, but the trends of recent years indicated by the new bargains that have been struck<sup>24</sup> suggest that it has been the multinationals that have had to adapt to the States system and the existing order.

Territoriality, may be said to form the practical basis for State independence. In most cases, States have well-defined and generally-recognised boundaries in which their control is regarded as paramount by other States. It is a reciprocal acceptance of the limits of authority. The States are immobile, rooted to the very areas that provide them with international status. Territory provides security, but occasionally also for tension which spills over into open conflict. However, unlike the interpretations looked at in the previous chapter, conflict does not appear to be an inherent part of the system. From an admittedly quasi-Lockian standpoint,<sup>25</sup> the territoriality concept seems to provide one of the fundamental and commonly-shared principles in the system, responding to a general sense of self-interest wherein States are made aware of the boundaries of acceptable behaviour.

At first sight the multinationals do not appear to conform to this 'traditional' territorial basis. Operating productive or service

outlets throughout the world, these corporations have no obvious territorial base<sup>and are</sup> described by some as "footloose giants" overseeing "invisible empires",<sup>26</sup> mobile, flexible, and constantly in motion. Their capital, employment, and product flows are of an almost viscous nature. Multinationals would seem to differ from States in their breadth of perspective; the former concerned with the global and the latter with the national, atomistic view.

The picture, however, is more complex. States are increasingly more 'penetrated' than they once were. Religious organisations, military alliances, worker migrations, as well as the multinationals are bringing the concept of territoriality into question. It may be that penetration challenges the image of a 'gemeinschaft' international community, supporting the analyses of the interpretations and Stanley Hoffman's view that : "It is one of Rousseau's deepest insights...that interdependence breeds not accommodation and harmony, but suspicion and incompatibility"<sup>27</sup> Power and the balance may provide the basis for an ordered world ('gesellschaft') society, and in this scheme of things the multinational role is as a new source of power and of conflict. Whether the 'realist' philosophy is strengthened in its belief that the international system is characterised by the "perpetual and restless desire for power"<sup>28</sup> remains open to debate. If the multinationals role is guided by such power concerns then the history of their development during the 'seventies' is clearly one of failure as can be seen elsewhere in this study.<sup>29</sup> The re-affirmation of the States position with regard to the operating conditions of multinationals within their boundaries has checked whatever drive to autonomy these enterprises may have been engaged in.

The sheer size of the multinational and the uncertainty that surrounds it means that tensions arise as a result. Doubts over the correlation between economic and political aspects of the nation-state, are centred upon the multinationals part in the 'technotronic revolution'<sup>30</sup> and whether the State has the capacity to cope. Apologists of the 'Functionalist', 'neo-functionalist' and 'transactionalist' schools of thought argue the traditional State concept is challenged by new actors such as multinationals, and that the territorial boundaries of States must change to accommodate economic development.<sup>31</sup>

All these views, however, assume that the multinationals are indeed 'multi-national' in the sense of being supra-national enterprises. But the multinational, whilst a distinctive actor, is part of an international system that is overwhelmingly molded by the nation-states. There are no "stateless islands"<sup>32</sup> on the contemporary world scene; parents and subsidiaries are registered and bound by the jurisdiction of their respective 'home' and 'host' States. Specifically, it is evident from the case study below that the largest of multinationals - the oil majors - ultimately have to take account of the territorial integrity of the states in which they operate.<sup>33</sup> Thus, returning again to the central question of autonomy, it is difficult to support the argument that the multinationals represent new territorial forms that are independent of outdated States; rather these firms have become reinforcing elements in the States system as they are increasingly regulated by national controls.

Throughout this study the term 'nation-state' has been used. This term implies the acceptance of a direct correlation between the

boundaries of State and nation. Nation is a notoriously difficult and elusive concept to define;<sup>34</sup> it can be conceived in many different ways; historically, economically, linguistically, geographically, politically or religiously. It may be any one of these or a combination.<sup>35</sup> The problem with this conception of the nation-state is that in many cases State and nation do not nearly coincide. Modern State boundaries are largely the result of the power struggles of past centuries. Significant in the 20th century has been the emergence of the former colonial territories as sovereign States in their own right. For many of these States, colonial boundaries have been retained often in contradiction to traditional tribal patterns.<sup>36</sup> The question that is of interest here is whether or not the multinationals are any more unified than the States, and equally, whether they are any stronger as a result of State internal divisions? In other words are they any more independent?

The problem for the multinationals territorial spread are very much reflected in their membership or workforce. For the most part, multinationals draw upon local nationals to man their subsidiaries. Membership is therefore heterogeneous. The companies may try to stimulate non-national, company-wide loyalty among its employees, but in so doing conflicts with its original purpose in employing the local people, namely to reduce the 'foreignness' of their operations and lessen tensions. Moreover, as the discussion of the oil majors below highlights, those in most of the crucial decision-making roles at the managerial level of these enterprises are nationals of the State in which the parent is registered, in this case the United States or

Britain.<sup>37</sup> Thus the organisation of the multinational carries with it the consequences of its origins, its very operational breadth stimulating forces of fragmentation. These enterprises are thus at least as diverse as some States and, moreover, in some ways the States possess more cohesiveness than the multinationals. Contemporary State cohesion stems from an identification with a traditional geographical area or historical awareness, that reinforces an association with particular social or political systems.

Territorial authority is often justified by the claim that popular consent confers legitimacy. Multinationals and States alike claim their positions are legitimised by their ability to fulfill the expectations of their respective constituencies. For multinationals, the gaining of the mantle of legitimacy is vital. Under pressure from many sides to provide a convincing rationale for their important position in the international system, their survival in the States system is threatened:

"The flak will get thicker. If we don't justify our existences before those who can affect and perhaps control our destinies, then we shall at least get pieces shot out of us, if we don't get shot down altogether." 38

The legitimacy of the State has been said to be based upon its claim to fulfill the expectations of:

"...some universal expected level of economic welfare, a certain political and social autonomy for the nation, and a degree of national political status." 37

The goals of national political status and autonomy have become entwined with the national pursuit of economic welfare as a result of increased trading, larger markets, and accelerated demand as well

as higher expectations as a result of rising incomes. In response to the need to secure their goals the State has become increasingly interventionist.<sup>40</sup> Multinational growth has resulted in their becoming the focus for intense national debate over their legitimacy as sources of welfare development. To support their position it may be that the multinationals need to challenge the States on the basis of their claim that they are more efficient and effective in allocating resources.

On the other hand, it is clear that the actual benefit to States of multinational involvement is questioned.<sup>41</sup> Welfare growth is claimed to be hindered by disruptive capital flows, 'R&D' expenditure, advertising practices, and market manipulations. Such criticisms are fraught with emotive language, but the point being made is essentially that governments are unable to act as free agents to achieve their welfare goals as a result of multinational interference which infringes upon State authority. As we have already seen above it is the developing countries that are portrayed as the litmus test for multinational legitimacy.<sup>42</sup> Concerns voiced about the lack of substantial growth in these countries, the rising problem of 'marginal men', and the belief that the rich States are getting richer and the poor poorer, together form a powerful backdrop to national doubts about the multinational enterprise.<sup>43</sup>

Yet, whilst this general context of suspicion prevails, there is evidence to suggest that many States are coming to terms with the multinational problem and finding practical answers that both fulfill their needs and also allow the multinationals a continued role in their

societies. As the demands of Chile upon the major copper enterprises in the early 'seventies', the code of practice established by the International Bauxite Agreement, and the pressures upon the oil majors all indicate, governments are able to raise the threshold of access to their territories. The corporation-State relationship is therefore far from being universally 'zero-sum'; information and knowledge is being increasingly shared, joint ventures undertaken, local nationals employed, 'participation' extended, and higher taxation and royalty levels agreed. The position of the multinationals thus appears as a paradox: the more dependent the States become upon them and the greater their importance in the system, the greater the suspicion and hostility toward them. In order to gain more legitimacy the multinationals are thus forced to fall back upon the States, identifying their subsidiaries with local markets and peoples and reinforcing their position within a State-centric system.

Anxiety over multinationals is directly linked to the concept of sovereignty. Sovereignty has been of practical importance ever since the Treaty of Westphalia (1648) embodied the idea into the physical reality of a world of States.<sup>44</sup> For Alan James, sovereignty is like marriage, it is absolute, one either is or is not sovereign.<sup>45</sup> This is true of the Westphalian declaration in that it offers a tautology: only sovereign States can make treaties, but only treaties can make States sovereign. However, sovereignty is in fact a relative concept. "The concept of the sovereign State has implied both supremacy within and equality of status without."<sup>46</sup> The significance of sovereignty lies in any discrepancy between the absolute nature of the 'de jure' concept and the practical realities of international life, that is,



the 'de facto' level of authority and equality enjoyed by a State. It is within the context of these two aspects of sovereignty that the debate over the multinational is held. In other words, how far do the multinationals limit the practical sovereignty of States and thereby leave the concept as a mere legal abstraction without any grounding in reality?

The extent to which a multinational affects the authority of a State depends very much upon the type of State, the nature of the multinationals operations and the period in which the relationship exists. The problem is thus complex and in many respects defies generalisations such as those of the interpretations looked at earlier. In all States there is a constant appraisal of the balance between costs and benefits arising from their relations with the multinationals, just as there is such a process being undertaken within the corporations. In offering a discussion of the factors involved in such national deliberations, two points must be made. First, the discussion is not concerned with the moral question of whether the multinationals ought to be involved in these countries, nor even whether the multinationals provide more costs or benefits to States. What is of interest here are the factors in the evaluation of a State's relationship with the multinationals. Second, the danger of such a discussion - necessarily limited by space - is that a rational debate is assumed to take place when of course individuals prejudices and interests, emotional factors, or political needs may all influence and distort the balance of the argument. Moreover, such a generalised picture does not mean that these factors either all appear at the same time or are applicable to all States.

In the 'home' States<sup>47</sup> the debate focuses upon three factors, whether the multinationals are 'good ambassadors'; whether they contribute anything to the 'home' treasuries; whether these enterprises act as agents for the home States interests and what influence they have upon the foreign policy of these States.

The home countries are very much the 'advanced' nations of the economic world and are also the countries wherein the majority of multinational parents are registered.<sup>48</sup> The size, scope, technical achievement, and dynamic expansion of these firms are regarded by their supporters as representing the best of the 'home' State economic, social, and political systems. Their success is regarded as raising home State status and prestige.<sup>49</sup> However, opposite views are expressed from many 'pressure' groups; - youth organisations, consumer groups, and political critics - all express doubts that aggressive marketing techniques, management that displays ruthless 'social darwinian' type behaviour, power concentrations in the hands of the few, and continuing bribery and corruption scandals, do anything but tarnish the image of the home States.<sup>50</sup>

Secondly, there is debate of the multinationals and the 'home' State balance of payments. In America supporters of these firms argue that repatriated earnings and taxes enrich the State,<sup>51</sup> but in other 'home' countries such as Britain and Sweden trade unions claim that the multinationals transfer jobs to areas in which wage levels are lower. In America one group has claimed that 900,000 jobs have been so 'exported' between 1965 and 1971.<sup>52</sup>

Thirdly, multinationals are accredited with the world-wide acquisition of much needed resources for these countries, such as oil, copper, and electronic components. Critics argue that these have been gained at the expense of 'home' State foreign policy, the vast scope of these operations requiring the protection and active support of the government. By drawing the home States into conflicts with other States, or by allowing themselves to be used by other States, these firms are working against the best interests of the 'home' States.<sup>53</sup>

The balance of factors is therefore economic in content, but it is equally clear that the significance of the debate is political; does the multinational enhance or weaken the sovereignty of the State? The implications of the reference to multinationals affect upon foreign policy is significant and is largely dealt with further below, but it is important to note here that the role of the multinational as a 'go-between', as an international bargaining actor open to varying national pressures is recognised. In terms of how this balance is resolved by the respective 'home' governments, it may be sufficient to note the muted changes made in Britain and America, and the proposal of the American government to de-regulate the oil industry.<sup>54</sup> The confidence is there that these firms are quite easily directed into the path of the 'national interest'; in other western countries this confidence is less evident and some measure of regulation has been introduced.<sup>55</sup>

The situation is complicated for the 'home' States by the fact that they are also the main 'host' States.<sup>56</sup> Moreover, in speaking of 'host' States it is important to make a distinction between those

States such as the oil-producing countries that are escaping the 'developing nation' tag and those that are not.<sup>57</sup>

The advantages said to accrue to a country by playing 'host' are again economic in nature. By introducing the multinational to the economy it is believed that new sources of capital are tapped for expansion. Such investment may be directed into areas of greatest need, such as those of high unemployment.<sup>58</sup> The presence of producers such as these, exporting much of their goods, may mean more foreign exchange and taxable income for the State. For all these States the presence of these firms reflects a hope for national growth and development. In effect the economic need is that of the political one; enhance the States practical sovereignty. But in order to get what they want the States have to bargain, they have to balance their enticements with their fears of losing control over the giants that they invite in. The type of fears held by the 'host' States may well reflect the differing natures of the multinationals operations. Over half of multinational investment in the less-developed countries is in extractive industry, whilst in the developed countries over half is in manufacturing.<sup>59</sup>

Multinationals operating in the extractive industries have often been accused of 'stealing' the resources of the hosts without regard for their future. This suspicion is given added impetus by the fact that these forms often work in 'enclave' conditions within these countries. Where this has been the case, such as Abadan in Iran, Alcan in Guyana, Shell-BP in Nigeria (during the civil war), feelings of estrangement

and alienation from the 'foreign' enterprise have grown up or been accentuated.<sup>60</sup> Additionally, since the product is invariably exported to the developed ('home') States, and that top management is also from these States, and that production is geared to consumer demands, the conclusions are drawn in the host States that the benefits must also accrue to the home 'countries'. Real or not, these fears have entered the psychological milieu that provides a common perspective among many 'host' governments, from which to establish regulations for multinational behaviour.

Concern over the manufacturing multinationals is more muted than for the extractive industries, yet in countries such as France and Italy national policy has been significantly governed by the fears that multinationals will come to dominate their economies, limiting entrepreneurship, and exercising a crucial influence over national economic and social development.<sup>61</sup> Of even more concern is the specific fear that certain advanced and profitable areas will be dominated by these firms. One-third of Canadian industry is controlled by foreign direct investment; 60% of all manufacturing and 65% of mining and smelting are in foreign hands. 13% of British manufacturing is multinational owned. In Belgium, over half of the petroleum sector is held by foreign direct investment, and in Mexico in 1970, 100% of the rubber industry and 75% of the chemical and tobacco sectors were foreign owned through multinationals. Most of these investment is American with US companies representing 80% of investment in Canada and 70% in Britain.<sup>62</sup> In this context it is 'technological dependence' that worries the States.<sup>63</sup> Oil products, computers, electronics, and motor manufacture are all clearly vital industrial sectors to the

developed countries and the presence of multinationals in this field can cause unease,<sup>64</sup> and tension.

The arguments against the multinational position in 'host' States are sometimes placed in a broader context of a threat to the cultural identity of these States. In the less-developed countries this has been characterised as 'coca-colonialism', and in the developed countries as 'La Defi American'. In Canada mounting frustration and anxiety over the high levels of US direct investment has resulted in a more strident stance against the 'elephant neighbour', and culminating in a government programme to nationalise the American dominated oil industry in Canada.<sup>65</sup> Ultimately, where the costs are felt to be too high for the State it has the ability to restrict access. As some observers have concluded, "If multinational firms were purely exploitive in their activities, they would be denied access to most countries."<sup>66</sup>

The questions of how the inter-state relationships are affected by the multinationals presence in the international system remains. Firstly, and perhaps most obviously, the multinational represents a meeting place for national jurisdictions.<sup>67</sup> With the parent registered in the 'home' State and the subsidiaries in the 'host', the basic condition for possible tension between different national authorities is evident. Such tension may arise when one of the States involved wishes to extend national jurisdictional decisions to the parts of the multinational enterprise outside the territorial boundaries of that State, and raising the problem of infringement upon the sovereign authority of another State. There are few examples of such tension arising from the multinationals, and even fewer of any significance. However, those that have occurred have usually involved the United States. Through the two

principal policies of Antitrust and Denial, implemented by the US, serious questions have been raised within host countries over the role of the multinational and the threat to the sovereignty of these States as a result.

From the Alcoa case in 1945, the ICI case of 1951, to the Continental Ore case of 1962,<sup>68</sup> American jurisdictional perspective has added the weight of precedent to the guiding legal principle that:

"...any State may impose liabilities...for conduct outside its boundaries that has consequences within its borders that the State reprehends." 69

The problem of antitrust is largely associated with US-Western Europe relations. The best known of these cases is probably that of the BP merger with Standard Oil in 1968 that came as something of a shock to the US.<sup>70</sup> The basis of the differences may rest in the attitudes towards competition; to the Americans competition is a 'per se' good, whilst to the Europeans it is not.<sup>71</sup> However, the similarity in the European Communities antitrust articles and the American legislation; the continuing dialogue between the governments involved through forums such as the OECD; and the establishment of agreements between countries such as that of West Germany and America for antitrust consultation, has led one writer to conclude optimistically that:

"In this important field of antitrust, I am therefore inclined to feel that the international firm presents no real threat to community between nations." 72

The Denial policies may be more problematic. The 'Trading with the Enemy Act' (1917) and 'Export Control Act' (1949) form the basis for American trade embargoes upon unacceptable States. The American

attempt to persuade France to decrease from atomic weapon production in the mid-sixties was blatantly pursued by the prohibition of advanced technology to France. In 1964, the American subsidiary-IBM France was banned from selling computers to the French government. The problem is that national prestige and self-interest are so clearly involved in such instances. Again it is mainly the developed countries that are involved and as such this reflects the difficulties of the relations between the 'home' States.

The competition between 'home' governments to further the prospects of 'their' multinationals may lead to tensions. The emergence of State-sponsored companies such as CFP in France, BL in Britain, ENI in Italy, have led these countries to promote the international interests of their proteges. Viewed within the context of the debate over whether Europe should follow the "Atlanticist" path or the "Gaullist", the encouragement of these firms may occasionally touch off resentments.<sup>73</sup> However, these tensions must not be overstressed for there is little evidence to suggest that State relations are complicated to any great degree by the presence of the multinationals in the context of the problems just discussed.

In both the developed and developing States, the desire to satisfy rising domestic aspirations through material growth has produced competition among some countries for the direct investment of multinationals:

"There is a little game which consists of a multinational company doing the rounds of all the European countries to find out which will offer the most advantageous conditions for a given implantation." <sup>74</sup>



This point is of course tied up with the multinationals ability to use its investment flexibility to its best advantage that was discussed above.<sup>75</sup> The enticements of tax holidays, loans, guarantees on the limits of government controls and on labour stimulate 'begger-thy-neighbour' behaviour and provide the opportunity for the multinationals to play one government off against another.<sup>76</sup> Of course, it is difficult not to assume that both governments and multinationals alike are ignorant of the possibility of a consequent re-negotiation of conditions once the investment has been made, as has been the case in the extractive sectors. Moreover, the establishment of groups of countries with common bargaining offers has reduced the lee-way for the companies in some areas.

The underlying significance of these problems or tensions is that of national autonomy or sovereignty and how the multinationals infringe upon it or complicate its workings. It is difficult to argue in the light of so few supporting examples, that the multinationals act as significant complicating actors in the relations between States. In some cases they do cause problems and tensions among the States, but in the main they appear to reflect the pre-existing tensions in the system that stem from national interests:

"...it is not so much a case of MNC's colliding with governments, as it is a case of governments colliding with governments." 77

For some the multinationals represent "agents of change, socially, economically, and culturally."<sup>78</sup> In other words, the multinationals can create a world without divisions and conflicts. The particular perspectives of States, governed by pride and prestige, can be replaced

by the uniting agent of the multinational. However, the development of national policies to restrict the operations of the multinational, the declaration of international codes of conduct, and the fact that the multinationals very structures are nationally-orientated, raises great doubts about the validity of such claims. It may be that the development of producer cartels, consumer groupings, and collective bargaining organisations, will indirectly sponsor wider political co-operation between governments and reduce international tensions. However, the history of the EEC and the ACM is not encouraging in this respect, <sup>and</sup> even the OPEC group has had to work hard to prevent its disintegration in the period following its great advances in the early 'seventies'.<sup>79</sup> It therefore appears unlikely that the nation-State will find itself replaced by multinationals or that new political structures will arise as a consequence of their presence.

In that the multinationals constitute diplomatic mechanisms, acting as a bargaining fulcrum between the competing pressures of States, then it may be argued forcibly that they represent important means by which inter-State demands can be expressed and in some measure resolved. The relationship between the actors is thus symbiotic in nature; a mutual recognition that each has something that the other desires. Bargaining, taking place within this overall context, establishes the working basis for the relations between enterprise and nation-State in the international system. To see how this is acted out in practice, a case study of the oil industry is included in the following chapters.

## CHAPTER 4

### THE ACTORS IN THE INTERNATIONAL OIL SYSTEM

Three groups of actors form the nucleus of the oil industry: the oil multinationals, the home States and the host States. As the previous chapter has shown, the use of such terms can hide the many complexities among and between the actors. In the oil industry there is little that can be said to be straightforward. Oil company is not a synonym for oil multinational. Three main types of company co-exist: State-owned companies, American independents, and the oil multinationals. The States involved are no simpler to categorise; home States are also hosts and are also both consumers and producers, host States may be producers only or consumers only or both, and may also be home to State companies aspiring to multinational status. Generalisations and conclusions must therefore be made with caution and qualification in the light of the variations and distinctions in the international oil system.

The real focus for attention for this study is the seven largest oil companies, the oil multinationals, also known as 'The Majors' or the 'Seven Sisters'. This 'elite' group together account for 56% of world production and more than 51% of all sales.<sup>1</sup> These companies possess massive turnovers, are vertically-integrated, and are private. Five are American-based: Exxon, Texaco, Gulf, Standard Oil of California (SoCal), and two are British-based: British Petroleum (BP) and Royal Dutch-Shell.<sup>2</sup> These firms have expanded rapidly throughout the twentieth century to cover every continent of the world with their vast networks of operations. By investing into all 'stages' of the oil industry—exploration, production, transportation, distribution,

refining and marketing—these firms are in the position to heavily influence the flow of oil throughout the world. The emergence of the oil multinationals, especially after World War Two, has coincided with the political pressures arising from nationalism in general, but from the drive to national self-determination in the former colonial territories in particular. In these latter areas, the oil multinationals, as leading enterprises of the former colonial powers, are portrayed as the agents of neo-colonialism and form the focus for nationalistic hostility and demagogic rhetoric. Suspicion and antagonism regarding the multinationals has been further fostered by the propensity of the companies to compete in one area whilst colluding in another:

"Each linked to all the others through a web of joint ventures and concessions across the globe, from Alaska to Kuwait; sharing now with one partner, now with another, in different permutations. It was this strange cavorting of the sisters, competing one moment and conniving the next, which had made them such an enduring subject of suspicion and investigation by politicians, economists, and nationalist leaders." 3

The oil multinationals have been the subject of debate for decades. Charged with transmitting the worst features of capitalism, of instigating wars and revolts, and with causing friction between States, the multinationals are said to infringe the sovereign authority of States. In their defence, supporters of these firms argue that it is the failure of the States to agree on common needs and aims that complicates international relations and the role of the multinational. At the centre of debate lies the nature of the enterprise itself. As the discussion in Chapter 3 has shown, the character of the multinational is claimed by many to enable it to manipulate States. To recapitulate, five

features are singled out for scrutiny; size, oligopolistic behaviour, structure, financial organisation and ownership patterns. These, it is argued, form a global flexibility that proves crucial when bargaining with States that do not possess such a freedom of movement.<sup>4</sup>

By almost every statistic the oil multinationals are enormous concerns. Table III suggests something of the size of these companies - the number of countries in which they operate, the vast numbers of employees across the globe, the large size of their revenues and returns on their investment, all factors that indicate that these are no ordinary firms. Size is equated by all the interpretations that have been looked at in this study with independence. The larger the enterprise the more autonomous it is claimed to be. Frequent comparisons are drawn between the size of these firms and the GNP of many States. International control is said to be exercised through the 'purse-strings' power of financial flows and domination of the crucial stages of the industry. This is believed to be reinforced by an oligopolistic pattern of behaviour among the majors that, for some at least, constitute a "private government of oil".<sup>5</sup> Sharing a common interest in maximised profits and market stability, linked through joint ventures, and often with close personal contacts, these firms are believed to act as an unofficial cartel. The famous 'As Is' agreement of 1928, the 'Oil Committee' of the Second World War, and the London Policy Group (LPG) of 1971, as well as the unwillingness of majors to take advantage of a fellow major when it is challenged by a State such as BP in Iran in 1951 and in Libya in 1971, are all regarded as examples of the willingness of the majors to curtail their competition to maximise their position with regard to State pressures. The majors are regarded as

being closely inter-related in many more subtle ways:

"Giant companies share a community of interests guarded through patents, banking ties, common capital underwriting and accounting services, interlocking directorships through a third firm, bidding understandings in relation to public lands, recognised territorial prerogatives, crude oil and product exchange arrangements, and price-fixing." 6

Some evidence would seem to support these arguments. The American majors are largely linked to a small number of banks, the most prominent of which being the Chase Manhattan, and also with certain law firms<sup>such</sup> as that of the long-standing oil company lawyer John McCloy.<sup>7</sup> Additionally, the pricing of crude oil by the majors during the post-war period on the basis of 'Mexican Gulf Freight Charges' that artificially raised the price of Middle East produced oil is highlighted in this context.

However, it should be noted that none of these cases were successful for very long. They were either curtailed by government pressure such as was the case of the LPG, or by the intervention of independent companies such as Standard of Indiana's entry into the Middle East in

TABLE III: THE SEVEN MAJOR OIL COMPANIES, 1973

		Average Net Assets £m	Net Income £m	Rate of Return on Assets. %
Exxon	US	12,993	2,443	18.8
Royal Dutch-Shell	Neth/UK	9,852	1,780	17.3
Texaco	US	7,583	1,292	17.0
Gulf	US	5,489	800	14.6
Mobil	US	5,430	849	15.6
SoCal	US	5,513	844	15.3
BP	UK	4,439	760	13.8

Source: Christopher Tugendhat and Adrian Hamilton, Oil: The Biggest Business, London, Eyre Methuen, 1975. p.4.

the 1950's, or even by the outbreak of competitive forces within the cartel as in the 'As Is' agreement wherein competition for new concession areas and the limitations of the agreement proved too much for a lasting understanding. Moreover, the emergence of more forceful leadership in the host States and of a collective organisation (OPEC), has seen the control of pricing wrested from the multinationals. The consequence of this development is that the majors are now criticised for passing on producer price rises to the consumers and taking advantage by amassing large profits; Exxon's profits, for example, rose from \$2.4 billion (net) in 1973 to \$3.1 in 1974 (gross).<sup>8</sup> Such control is, as can be seen from the foregoing discussion, said to stem from the size and diversification of the multinational. However, if the relationship between the actors is looked at from the other end, it is also possible that it is a failure of political 'will' on behalf of the governments involved that may have allowed such situations to develop. This debate reflects different perceptions of the oil majors relations with their home States, in other words, the extent to which these two actors work together in the international sphere, a point discussed in detail below.

To return to the central theme of this discussion; how independent are the oil multinationals as a result of their inherent characteristics? Certainly the ability to draw upon a diversified sourcing of crude oil reduces the dependence of the majors on a small number of producers whose security of supply is uncertain as a result of political factors. Shortfalls of crude can be made up from other sources thus undermining

to some extent the force of threats to withhold supplies. Venezuelan crude has covered for production loss during the Arab-Israeli conflicts of 1956, 1967 and 1973; Libya covered for falls during the 1973-74 embargo; and Gulf States have covered for the falls caused by the Iranian revolution and Iran-Iraq war in 1978-80. This ability to 'go elsewhere' has been reinforced by the 'sisters' willingness to work together in moments of crisis to share-out available crude supplies as in 1956, 1967 and 1973-74.

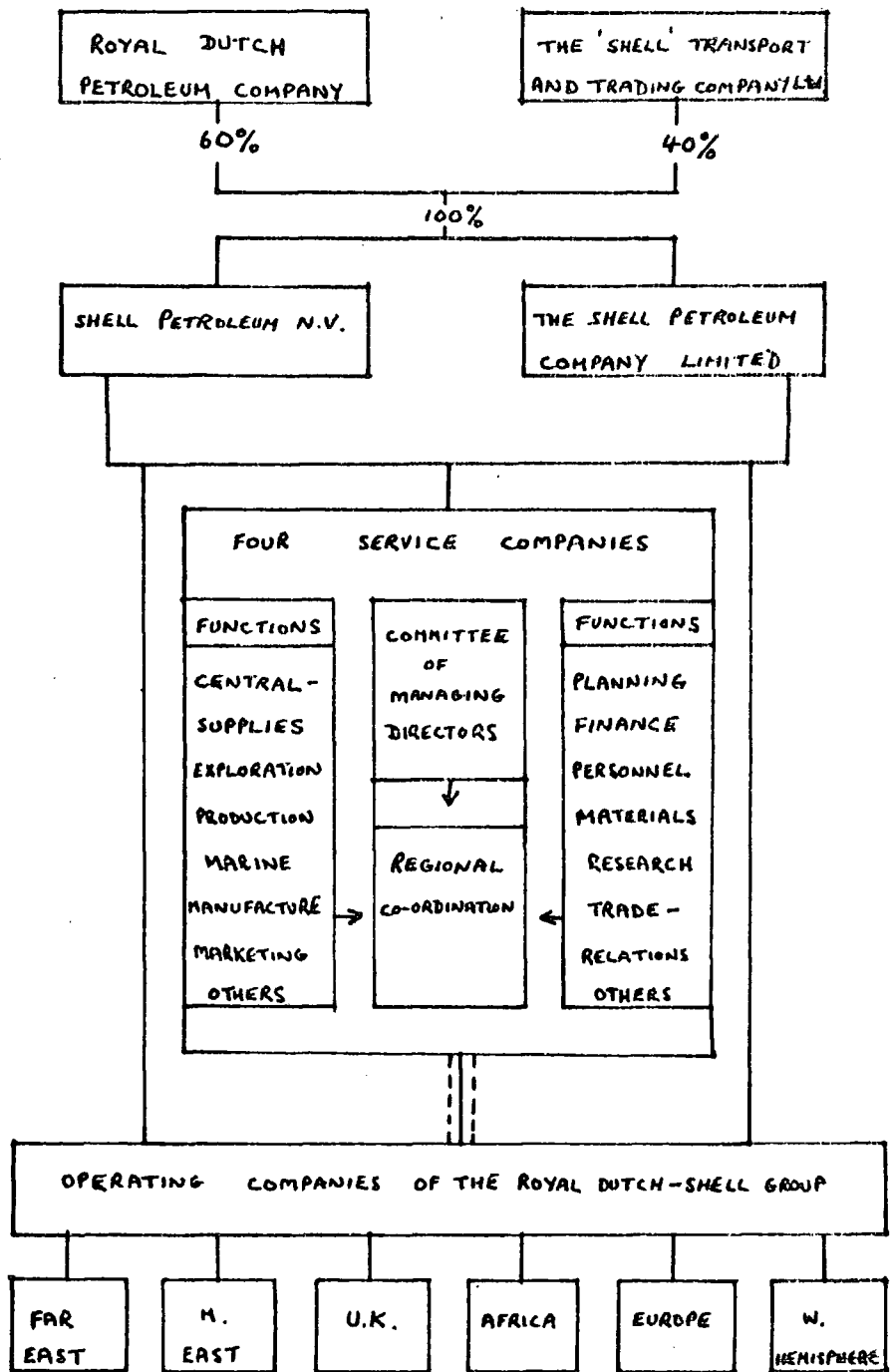
Examples of multinational operational flexibility being used to coerce stubborn hosts are few; the early concession rounds, the Iranian crisis of 1954, Iraq in 1968, and Libya in 1971-72. Two main factors account for this rarity. First, host governments have had alternatives to the majors, the rapid growth in the number of independents and the ever-present Soviet Union, has widened the field for hosts seeking to widen the range of concessionaires. The purchasing of Libyan crude by 'mystery' firms inflated prices during BP's dispute with that country over its nationalisation. The Arabian Oil Company (Japan) stepped in to offtake oil during the Libyan dispute and ENI under Enrico Mattei (who considered it a duty to undermine the domination of the majors) stepped into Iraq during IPC's dispute with that State. Second, the emergence of OPEC as an effective producer cartel has left little room for manoeuvre for the multinationals to actually go elsewhere, or to play one State off against another. Oil multinationals are composed of parent companies and 'outlying' subsidiaries and affiliates, linked together by international organisational, financial, and managerial networks. As well as providing flexibility, these structures also



lay the multinationals open to the legal and the administrative requirements of the many States in which they operate. Such pressures can be national such as those governing concessions like the Venezuelan Awards of 1922; the 1955 Libyan Law; the 1936 Venezuelan Labour Law; profit-sharing agreements<sup>t</sup> among producer States in the 1950's ; and the joint venture requirements such as the Iranian Oil Act of July 1957 or finally, nationalisation laws such Iraq's Law 80 of 1961. In home States, monopoly or anti-trust laws may be used to threaten the oil majors to change particular policies. This subsidiaries and parents alike can be influenced in their behaviour by the regulatory environment of the State in which they are domiciled. International cooperation by governments, wether of a formal or informal nature, can reinforce these national pressures. Information-sharing, collective price or supply demands, or the articulation of common political aims, can be effective influences upon the majors as the OAPEC and OPEC activities discussed in Chapter 5 shows. These structural aspects of the majors do not therefore appear to provide a decisive element of independence from the States.

The multinationals, however, are claimed to exercise control by means of their predominance in the business 'in-between', in other words, of transport, distribution, and sales. There are two aspects to this argument. First, the vertical integration of the multinational and second, its horizontal integration. For critics, both amount to the same thing, an attempt to monopolise the industry and control international conditions. Up to 1973 the majors were responsible for 80% of world crude oil production, over 70% of refining capacity, and 50%

FIGURE I: The Royal Dutch-Shell Group of Companies.



Key: ————— Shareholding Relationship.  
===== Co-ordination, Advice, Service.

Source: Christopher Tugendhat: 'The Multinationals'. (London, Penguin edin 1977) p.115

of tanker capacity, (more when chartered tankers are also considered).<sup>9</sup> Since 1974 these figures have changed drastically, largely as a result of nationalisations, <sup>and</sup> as was noted earlier, control over production has fallen to 56%, refining capacity to 44%, and product sales were 51% in 1976.

The importance of the role played by the majors in these areas cannot be ignored or underestimated. However, how far do the majors exercise control as a result of this position? During the late 1950's when the surplus of crude oil was depressing prices, the majors sought to cut the posted-price upon which producers revenues were also calculated. Already hit by production cuts, the effect of lower prices would have been severe for the States. Majors, on the other hand, could look forward to increasing profits by reducing the surplus and buying at cost at a time of stabilising prices. Only by a hurried collective approach by the States were posted-prices able to be maintained in 1960. In the 'seventies' such 'manipulation' by majors is said to have occurred with a reduction in majors' supplies to independents, and to have deliberately been used to create an oil shortage in the US during the winter of 1972 in order to raise prices.<sup>10</sup>

Yet, during the 'seventies' the host governments have taken control of the production in their areas, regulating output and prices, and reducing the role of the majors in their States to contractors. At present oil producers still largely depend upon the majors for the export and marketing of their oil. However, the instances of auctions in time of shortages, sales to independents, and direct government-to-government sales may well be significant factors in the relative

decline in the majors' overall position in the international oil system during the past decade. This development has been reinforced by initiatives taken by the OAPEC group, such as the establishment of its own independent tanker fleet (AMPTC) in the 1960's. In addition, joint-marketing arrangements such as that between Brazilian and Iraqi State oil companies may prove to be a popular option for governments.<sup>11</sup>

As host State takeovers of production stages and of marketing shares are squeezing the vertically-integrated company, critics argue that horizontal integration is now being used by the majors to maintain their position in the field of energy. By investing in coal, shale oil and nuclear energy, the majors are looking to become 'energy corporations'. It is worth noting, however, that in some countries the majors are late entrants into the fields of coal and nuclear energy. In Britain and France State monopolies in these two areas clearly restrict any expansion by the majors. In American, however, there remains large scope for such development. The interpretation of the limits of such development, however, often rests upon an assumption of the major-home government relationship as will be seen from the discussion of this point below. What then does this suggest for the central question of multinational autonomy? The 'traditional' vertical integration of the multinationals in some States has come under a great deal of pressure and in some places lost altogether. The opportunities for expanding into new areas of the energy industry appear restricted. In effect the structures of the multinationals have been overtaken by events. The continued role of the majors appears therefore to rest upon a State willingness to allow access to its crude in return for their access to the international networks and the stability offered

by the majors in the oil system. The multinationals again appear to be part of the wider States system, although a very important part.

The financial organisation of the oil multinational is open to deep suspicion among governments and secrecy among the multinationals.

Discussion again turns on the question of control. World-wide outlets guided by parental overview is claimed to allow investment and profits to be directed to the most profitable areas irrespective of particular national requirements or interests. Thus the wealth of the majors is said by one observer to flow "in giant waves from one country to another."<sup>12</sup> Moreover, the costs involved in the oil industry are so immense that it is argued that States have no choice but to depend upon the multinationals and thus to accept their terms.

The popular image of the multinationals is one of massive profits gained at the consumers or producers' expense. To a large extent this machiavellian image is a 'hang-over' from the earliest days of the industry and J.D. Rockefeller's Standard Oil Trust. High profits are still very much in evidence, as Table III shows. In 1973, BP's net profits were \$760 million, an increase of 332% in one year.<sup>13</sup> Following the success of host bargaining in Arab and OPEC States, the point at which majors profits were maximised was moved 'downstream' as the chairman of Mobil explained in 1974:

"For a long time our foreign profits were on crude oil because our taxes in the Middle East were so low. Now these profits are going to have to shift downstream for the simple reason that the Middle East governments now control prices and our profits on crude."<sup>14</sup>

Multinational strength, argued by the interpretations, also obviously

implies State weakness. Some States lack foreign exchange, investment capital, or financial reserves<sup>and</sup> these countries are said to be unable to bargain on equal terms with the majors, as was the case in India during the early stages of its oil industry's development indicated by the discussion later in the chapter. In Western Europe, the post-war period is said to have provided ideal conditions for American majors to expand whilst the States were still weak from conflict.<sup>15</sup> Even America is regarded by some to be dependent upon the majors.

Yet this argument is flawed by what it ignores. The majors might have massive turnovers, but they also have massive commitments for which these revenues must be used, particularly as these firms search for oil in areas of greater difficulty and costliness (and usually in politically stable areas). Despite the State takeovers of recent years the majors are still involved as contractors in the upstream operations, usually providing the 'risk capital' and technical expertise. Moreover, multinational capital in the oil industry is largely ~~into~~ 'fixed assets', leaving the firms open to obsolescent bargaining by States, leaving few opportunities for financial 'manipulation' by the firms.

States are often stronger than the interpretations allow for. The oil producers have increased their revenues to enormous levels, especially following the 'oil crisis' of 1973, as Table IV shows. If as the interpretations claim, wealth really does mean autonomy, then these States must be some of the most independent in the world. The position of the majors has certainly been eroded by these hosts: from the

early '50-50' profit-sharing agreements, the abolishing of royalty expensing, and the pricing and production terms, the financial position of these States has changed dramatically. Individual national initiatives have been reinforced by the OAPEC establishment of the Arab Petroleum Investment Company. Additional finance has also been available to States through the Eurocurrency market, the World Bank, AID, and Soviet Union 'credits'.

TABLE IV: OIL REVENUES OF THE PRODUCER STATES, SELECTED YEARS (million of Dollars)

Country	1965	1970	1972	1973	1974 <sup>(a)</sup>
Saudi Arabia	655	1,200	3,107	4,900	19,400
Iran	522	1,136	2,380	3,900	14,900
Venezuela	1,135	1,406	1,948	2,800	10,000
Libya	371	1,295	1,598	2,200	8,000
Kuwait	671	895	1,657	2,100	7,900
Nigeria	na	411	1,174	2,000	7,000
Iraq	375	521	575	1,500	5,900
Abu Dhabi	33	233	551	1,000	4,800
Algeria	na	325	700	1,000	3,700
Indonesia	na	239	555	800	2,100
Qatar	69	122	255	400	1,200
Others (b)	16	150	222	550	1,700
Total	3,847	7,933	14,722	23,150	86,600

(a) World Bank estimate. (b) Excl. N. American/Communist States.

Source: Petroleum Economist, May 1974. Repr. J.S. Szyliowicz & B.E. O'Neill, The Energy Crisis and US Foreign Policy, Preager, 1975. p.85.

Furthermore, countries such as India have endeavoured to establish State-owned refineries to lessen their dependence upon outside companies. Majors do possess great wealth, and they can and do attempt to use to gain favourable operating conditions, especially through the threat of de-investment (as in Libya in 1972) or transfer-pricing (as in Japan in 1973), but in most cases the government has been able to effect

sufficient counter-veiling power to limit the majors' strategy. New governments have come to power in many host countries in the post-war period which have been willing to press home their sovereign rights, highlighting the practical weaknesses of the majors, and substantially changing the existing bargains and the political balance.

The last characteristic of the oil multinational that may have some bearing upon the crucial question of autonomy is that of ownership. In other words, what level of accountability do these firms display with regard to their stockholding constituencies? Such a discussion has to be largely speculative since insufficient evidence is available to support any firm conclusions. Everyday management of oil multinationals is obviously complex and for this reason alone can be said to be 'separated' from the accountability of stockholders or specialist 'watchdog' government agencies. Only the most general of discussions is often possible,<sup>16</sup> and only the 'biggest' of decisions examined during annual meetings—takeovers, dividends, or controversial issues like operations in South Africa or accusations of political bribery. One can point to illegal payments to President Park of South Korea, to the US Finance Committee, and to President Nixon's re-election campaign fund as evidence of oil major political subterfuge aimed at gaining future leverage on government or 'favours at court'.<sup>17</sup> Yet, one can also point to legal requirements of annual reporting and auditing, of representatives of the people to investigate, and of stockholders to question top executives to explain their decision and actions at any time. That at least is the theory, in practice such accountability can be seen only to scratch the surface. It is difficult to draw firm conclusions about the extent of stockholders' interests, whether they are dividends only or also political issues. Moreover,



as the 'Church Committee' found to its members' frustration, astute company executives are diplomatically expert in <sup>not</sup> giving any real information away.<sup>18</sup> However, the amount of independence that accrues to the multinationals as a result of this weak accountability is dubious. In the light of the other features of greater importance, wherein it is clear that the majors are largely limited by States' regulations, it is unlikely that the majors derive any more autonomy from a weakening of their links of accountability.

The oil multinationals are, however, undoubtedly distinct actors in the international system. Their size and scope as well as the importance attached to oil by States sets them apart from any other company or organisation. Structural and financial characteristics offer the majors some bargaining flexibility to 'go elsewhere' if needs be. This obviously must put the firms in a strong position with regard to the immobility of the States. The early concession rounds and the recent 'buy-back' agreements can be seen in this light. However, this position of bargaining influence must not be overstated. The appearance of multinational strength, as can be seen both from the earlier chapters and from the present analysis, often hides a reality of weakness. Global flexibility is tempered by the regulation and legal restriction of subsidiary operations, as well as by the prevailing atmosphere of public opinion in the host State. The global involvement in oil places the majors at the centre of a vast network of overlapping national jurisdictions, goals, and pressures. The history of the majors during the 'sixties' and 'seventies' is one in which governments have successfully pressed the majors for the control of production facilities, pricing

control, greater revenues, and supply control. Home States have taken ever greater interest in the majors as their demand for oil continues to grow and supply appears to become more uncertain as a result of political factors.

Yet the majors remain important. They continue to operate in all stages of the international industry and still possess a great deal of bargaining power. What then can be said to be the position of the multinational following this brief review of its main features? The position of the majors appears to rest upon three crucial factors. First, the bargaining status of the firm is governed largely by its need for crude oil supplies and for markets, and by the States' desire for the technical and financial or supply services that the firm can offer. It can therefore be regarded as a symbiotic relationship. Second, the importance of oil to the States and the awareness of possible escalations of tension between competing national goals and resulting instability, places great diplomatic importance upon the majors as the means of balancing State interests and of communicating the different goals to the various States without direct contact, in other words, acting as a form of 'lightning conductor'. Third, these two roles take place within the context of a State-dominated system, in which national sovereignty guides international behaviour. In practical terms this aspect can be seen in the threat or act of withdrawal of access to a State from the multinational. However, two further points must be looked at since the majors are only half of the story. First, as chapter 2 indicates, it is argued that the majors receive support from their home States to maintain their position

overseas. Secondly, this support is claimed to be based upon class interests.

In the oil industry there can be said to be two home States, America and Britain.<sup>19</sup> Traditionally claimed to have a 'special relationship', these countries share many similarities. Political and economic attitudes centre largely upon the individual and equal opportunity in society, political structures are organised on the basis of a belief in representative democracy, and social and cultural values a common historical heritage. Internationally, governmental perceptions of 'national interest' have, in general, rarely conflicted. Two World Wars, The Atlantic Charter, and NATO testify to close alliance in times of 'crisis'. On the other hand, no two States are exactly alike, and there are obvious and important differences between these home States. America dwarfs Britain in almost every respect. But significant differences are perhaps most clearly seen when their respective attitudes to the majors are briefly noted. Britain has followed a generally 'interventionist' road in the post-war period in her economic, social and political affairs. The 'mixed economy' has seen the extension of public interest into many previously private industries. BP is majority-owned by the British government following Winston Churchill's initiatives prior to World War One aimed at establishing a 'national champion' in oil. Despite this government holding and two government-sponsored directors, it should be noted that the firm acts entirely as a private enterprise with no State influence that can be seen to be effective. In America, private enterprise continues to be predominant, and the US majors are entirely private companies in this respect. There has been little interference with these firms since the 1911 Antitrust

action against the Standard Trust, government limiting its interest to intermittent congressional enquiries. Differences apart, these two States are home to the oil multinational parent companies.

The focus for all the interpretations looked at in Chapter 2 is that of America as the home for five of the seven sisters, and the following discussion will also largely be concerned with the American case. The argument that the majors enlist home government support to gain advantages overseas is not without supporting evidence. From the State sponsorship of BP in 1905 and the manipulation of British 'spheres of influence' in Persia (Iran) and Mesopotamia (Iraq) to advance the position of BP (Anglo-Persian Oil Company as it then was),<sup>20</sup> to the sending of gunboats to Mexico following the expropriation of Shells' assets, to the pressure exerted upon Iran in 1951-54 to restore BP's former position, Britain has been clearly active on its majors behalf. America too has been active. The self-interested use of the 'open door' principle enabled the US majors to enter the previous monopoly of BP, the Middle East, as a direct result of US governmental pressure to revise the San Remo Treaty of 1920. The overthrow of Mossadegh in Iran in 1954 with the involvement of the CIA that resulted in the securing of American majors participation in Iran's oil industry through the 'Consortium', the dispatch of U.S troops to the Lebanon during the Iraqi revolution, the economic sanctions against Peru in 1968, and finally the acceptance of the LPG in 1971, all appear to confirm the interpretations view of the home States' role.

Despite this seemingly persuasive evidence, questions remain as to why

these States have not acted decisively to prevent the erosion of the majors position in the host States, what the nature of the relationship between government and firm actually is, and if a joint interest does exist, does it follow inevitably that home States will actively support the majors?

How significant are economic and political factors to the majors' relations with home States? A brief review of American involvement in Iraq may provide some clues with which to try and answer this question. After a prolonged British presence in the Mesopotamian oil industry, the revision of the 1920 San Remo Treaty saw the entry of US majors into the area. In 1958, the Iraqi monarchy was overthrown by the Kassim nationalist coup. American troops were dispatched to the Lebanon and Syria to deter any tampering with American oil assets by the new Iraqi regime. In the following years Iraqi pressure grew on the majors to produce more, to increase government revenues, and allow State involvement in the Industry. In 1961 this pressure culminated in Law 80, expropriating some concession areas from the majors. Shortly afterwards Kassim himself was overthrown, but the pressure continued. In 1967 the Iraq National Oil Company (INOC) was established to work the concession areas and further 'under-worked' concessions were expropriated by Law 97, and in 1972 the main production facilities of the majors passed into State hands.

This brief history indicates the strength of the obsolescing bargain in Iraq, but what can it tell us about the major-home relationship? The San Remo Treaty offered Britain the chance to maintain her presence in Mesopotamia through BP, for the US the chance to provide a foothold for 'her' majors. America was experiencing one of its periodic

panics over oil supplies and the dominant position of Britain in the producing areas stimulated the American diplomatic offensive. Moreover, although not reaching maturity until much later, the British ascendancy had reached its height and was destined to decline thereafter whilst America was emerging really for the first time from its isolationist chrysalis and broadening its international horizons. Yet, the US majors were already involved in Saudi Arabia and Iran and were reluctant to extend their commitments in the area much further. It would appear that at this point political interests guided the US initiative rather than any real desire to protect the position of the majors.

However, the Kassim revolution brought together majors and home States in defence of their mutual economic and political interests. Successful in the short-term in securing a declaration of a status quo on oil interests from the new regime, in the long-term national pressure proved successful. Superpower tensions, the spread of Arab nationalism, and national and international public opinion, dissuaded America from identifying her 'national interest' with that of the majors as they came under mounting pressure from Iraq. Rhetoric continued but was not reflected in action. America could not afford politically to be seen to be supporting the majors against the national desire to own the oil industry within its own borders at a time in which national self-determination was an important leitmotiv of international relations. In this case, therefore, there is little to suggest that the interests of the home State inevitably coincide with those of the majors.

Critics claim, however, that there is a deeper, more insidious, interest between home State and major, that of 'class'.<sup>21</sup>

The executive branch of government and the oil majors are said to form a capitalist or business 'ruling class'. In this view such home State controls as exist are irrelevant:

"The growth of the executive branch of government, with its agencies that patrol the complex economy, does not mean merely the "enlargement of government" as some sort of autonomous bureaucracy: it has meant the ascendancy of the corporation's man as a political eminence." 22

Economic interest, it is argued, determines political interest, government policy and business strategy is the reflection of the interests of those who hold economic power in society. As the main concentrations of economic power the multinationals are claimed to determine the nature of home government foreign policy, and makes a mockery of the domestic political process:

"The dominant role of Big Business in both political parties, the financial holdings of certain key members of Congress, the ownership of the mass media, the industry-government shuttle in the regulatory agencies and, most important, the ideology prevailing throughout the society of salvation through profits and growth all help to explain why the government of the world's mightiest nation musters so little power to protect the interests of its people." 23

For some critics this interest remains a vague and general feeling, surfacing only in the attitudes and values expressed through the language of 'the national interest', 'Free World', and 'pax americana' rhetoric:

"Overseas investments were indispensable components of the national mission. It was the civic duty of the corporations to find oil and markets. And in turn, the developing countries were told again and again by Democrat and Republican Secretaries of State that it would be "wise and prudent" for them to put out the welcome mat for the Yankee corporate emissaries. If

approaches were resisted, if demands were unreasonable, if contracts were broken, property threatened or confiscated, then the oilmen were to run to the White House.

And they did. There they found sympathetic listeners, often their own colleagues or bankers, lawyers and politicians with whom they had been dealing all their lives, ready to take appropriate remedial action." 24

Discussion focuses upon what Barnet and Muller call the industry-<sup>a</sup> government shuttle": the movement of corporate management to government agencies and vice-versa. Whilst oil industry links can be traced back to Dwight Eisenhower, the level of interest is at a lower administrative tier. The main significance of the shuttle is posed succinctly by Mills:

"...how possible is it for men to divest themselves of their engagement with the corporate world in general and with their own corporations in particular. Not only their money, but their friends, their interests, their training - their lives in short - are deeply involved in this world. The disposal of stock is, of course, merely a purifying ritual. The point is not so much financial or personal interests in a given corporation, but identification with the corporate world. To ask a man suddenly to divest himself of these interests and sensitivities is almost like asking a man to become a woman." 25

There are many examples of such a "shuttle"<sup>and</sup> a brief note should indicate the depth of the "revolving-door" tradition.<sup>26</sup> In 1973, Hollis M. Dole, US Assistant Secretary for Mineral Affairs left to join an oil consortium project; his successor was an attorney for a leading Texas law firm with significant oil interest. Federal Petroleum Commissioners are also drawn from this background. Party politics plays a part too. One contributor to the Nixon re-election fund was Claude S. Brinegar (Senior Vice-President of Union Oil) who was later appointed to the headship of the Department of Transportation, another was William P. Clements Jr., later Deputy Secretary for Defence (1972). On the other



hand, appointees who were critical of the oil industry do not appear to have lasted very long. Secretary for Interior, Walter J. Hickel was unable to secure his position sufficient to maintain his critical stance and soon lost his post. John C. Sawhill, head of the Federal Energy Administration, whilst largely responsive to the industry, was suspected by the industry because of his willingness to enforce 'conflict of interest' measures, disclosure requirements, and to oppose the decontrol of 'old oil' prices. Sawhill was asked to resign by President Ford.

Opposition to such appointments has not been absent. Lee Richardson, Director of the Office of Consumer Affairs, resigned in 1974 offering a powerful attack on the FEA, claiming it to be on a "direct collision course with the best interests of the consumers."<sup>27</sup> In 1973 Robert H. Morris failed to be accepted by the Senate for his nomination to the Federal Power Commission. However, the willingness of Administrations to remove internal critics such as David Brooks in 1970; the ability of industry to 'penetrate' sensitive areas of government as in the Phillips Affair,<sup>28</sup> and the control over information by majors influence, suggests to some that a dangerous situation exists:

"The access and camaraderie of the oilmen in government reinforced by the advisory system, results in control of the information ("the fuel of government machinery") upon which decisions about resource development and use, rationing, price controls, inflation, taxes, foreign policy, and literally war and peace are made." <sup>29</sup>

Critics of the "shuttle" point to a practical example to support their argument, that of Occidental's attempt to establish a refinery in Maine for its crude oil imports from Venezuela and Libya in 1968.<sup>30</sup>

Occidental's plan to establish the refinery on the basis of a 'foreign trade zone' was supported by Maine, but threatened to demolish the carefully constructed management of imports since if Occidental was successful then the majors would find their import quotas reduced: moreover:

"Cheap foreign oil and the nightmare of competition would return on Armand Hammer's tankers to haunt domestic producers and their multinational brothers." 31

Despite opposition the Occidental company won the right to make their application to Washington but lost against there to what is claimed to be a distinct class interest of majors and national executive. For one critic a "secret government" was operating that "dwarfed the military-industrial complex...The Board (Foreign Trade Zones Board) appeared firmly within the 'secret governments' control....Some Board officials had such close personal ties with the oil industry as to appear themselves almost a part of the industry."<sup>32</sup> With the election of the Nixon Administration, the majors were confident since oil money had swollen the obvious and less obvious funds of the campaign and Nixon's law firm had many oil company clients. The refinery was not in fact built. However, despite this national pressure forced the Administration to eventually drop the oil import quota scheme despite oil major opposition.

How far does this example indicate class interest? Strong and effective pressure was exerted upon government by the oil industry. However, in the end the objective of maintaining the status quo failed to be achieved. The import quota system fell. This unexpected turn of events

could not be prevented by the industry led by the multinationals, simply because a class interest did not exist, opposition to Occidental representing a temporary coalition of convenience between majors and government. As soon as the particular political interest of the government was seen to be at odds with the oil industry, the coalition was ended. At a time of reduced superpower tension, greater availability of oil supplies, and cheaper imports, it made little economic as well as political sense to maintain the quota system, at least to the government. Moreover, the emergence of 'consumerism' in the US required some kind of favourable response from government.

However, it is claimed that the governmental failure to enact anti-trust actions against the majors constitutes a condoning of the activities of these firms; ~~reference is made to~~ the 'El Paso' antitrust action blocked by the Nixon Administration, the Alaska pipeline issue, and quiet acquiescent to the LPG, as well as the fact that no major anti-trust action has been taken since 1911. Again, however, class did not lie at the root of these actions. For the Attorney General, John Mitchell, the reason lay with the fact that they were "political dynamite"<sup>33</sup> endangering the flow of money into the re-election fund.

The whole question of class or group interest in politics involves the deeper analysis <sup>of</sup> political systems and party-political ideology that unfortunately lies outside the confines of the present study. What may possibly be noted briefly is a comparison between the Board of one of the majors, Mobil, and the executives of government. Both are over-

whelmingly male dominated, aged between 50 and 60, and university graduates. One-third of the Mobil Board experienced governmental office before joining the Board.<sup>34</sup> Beyond such similarities, it is only possible to speculate that there is unlikely to be significant conflicts of view on the nature of the free enterprise system or the social and political order in general between these groups. To note such similarities is not the same as making the large jump to the concept of class interest. Class and the relationship between economics and politics that underpins it remain unproved assumptions with little evidence to support them.

Home government attitudes towards the majors are influenced by national and international pressures, interest groups, domestic and foreign policy goals, and the very nature of the decision making process itself. Government is rarely a concise, homogeneous, confident body following clearly defined and agreed means and goals. Government in the home States is a collection of individuals and institutions that together are regarded as providing the central direction for the society as a whole. Decisions, attitudes and interests may well conflict as much as coincide within the confines of the government. Aims are often ill-defined, subject to disagreement, and open to differing interpretations. Thus governmental attitudes reflect complex pressures and balance of interests.

With regard to the industry in America, domestic pressures stem from three main sources; the multinationals, public opinion, and the decision-making process. The majors can be said to press the government for two main supportive measures--financial allowances and diplomatic aid overseas.

The system of foreign tax credits and the domestic depletion allowance which operated during the 'sixties' and 'seventies', may be regarded as being the result of such corporate pressure, for financial help whilst governmental actions in Iran, Peru, Libya and the shuttle diplomacy of Secretary of State Kissinger in 1973-74 represent diplomatic effort. However, with these few instances it must also be noted that the majors have lost their tax privileges and that diplomacy has been unsuccessful in stemming the tide of obsolescent bargaining in the host States. These changes have come about largely as a result of the changes in the international and national political climate that made such privileges appear anachronistic and unacceptable and thus insupportable to an elected Administration.

It may be that the majors are able to influence government through economic or political leverage. Complex transfer-pricing techniques could be used to evade US taxation, investment could be slowed, and artificial shortages could be created, causing reduced revenues, more unemployment, and social unrest. It would appear doubtful, however, that these options would even be considered for the cost of losing their respective shares of the world's largest single petroleum market could be too high to risk. The political option may well appear more attractive being more subtle and less likely to involve economic risk or public outrage. Oil companies have been involved in American politics for a good many years, and a number of campaign funds have benefited as a result.<sup>35</sup> Most notably, oil industry pressure has been exerted through the 'oil lobby'. A traditionally powerful group, its most famous member is probably President Lyndon B. Johnson. Since the days of Johnson, the lobby has declined in influence but still remains

strong. The lobby itself has consistently split over the sometimes conflicting interests of the national and the international members, and it has been challenged by 'New England consumerism'. Perhaps the most significant influence the multinationals can bring to bear on the US government is America's dependence upon imported oil. The US does not as yet have a State-owned national oil 'champion' nor has it been willing to follow the lead of some Western European States in establishing 'government-to-government' deals with producers, leaving the multinationals as the main medium by which US oil needs are met. Such a situation is unlikely to be ignored by government.

Other domestic pressures influence the definition of government attitudes to oil majors. The significance of public opinion in governmental processes remains the subject of academic debate. This study follows the fairly widespread academic practice of making a distinction between and 'attentive' or 'interested' public opinion and a public "mood" which "comes to bear as an unorganised whole...which prescribes the limits within which policy can be shaped."<sup>36</sup> The former includes academics such as Raymond Vernon and Robert Engler, consumer activists such as Ralph Nader, Labour organisations such as the AFC-CIO, and environmental groups like 'Friends of the Earth' and 'The Sierra Club.'<sup>37</sup> Each has its own perspectives, interests, and goals. Their pressure tends to be of a consistent and persistent nature, although some fluctuations may occur according to available funds, publicity, organisational efficiency, and access to government. Various Congressional enquiries into the industry or the multinationals might also be included in this category, drawing attention to the oil multinationals. In recent years it has been the environmentalists who have captured the headlines,

spurred on by oil spills such as that of Santa Barbara in 1969, or disasters such as Tory Canyon (1967) and Amoco Cadiz (1978-1979).

The limitations of these groups is, however, summed up in the paradox of the Alaskan Pipeline controversy of the 'seventies'. It was the environmentalists greatest victory and their greatest defeat. Having effectively organised opposition to the pipeline sufficient to delay it, change its format and route, oil company pressure with presidential support inspired by the 'oil crisis' finally and swiftly swept away opposition and built the pipeline. Independents involved have suggested that the environmental issues were used by the majors to delay the development of Alaskan oil reserves until oil prices rose and supply and demand tightened. This case would seem to suggest that it is only when government interests coincide with those of the pressure groups that the latter are effective.

General public 'mood', on the other hand, tends to be ephemeral in nature, ebbing and flowing according to its perception of 'crisis', of shortages, of price hikes or price wars, or of large corporative profits. Despite the attempts of opinion polls, this level of opinion remains inarticulate, its significance most probably lying in the atmosphere of what is acceptable that it appears to create. Its importance has not been lost on the various pressure groups that try to guide and 'educate' it. The multinationals for instance continue to place full page advertisements in newspapers explaining their position and the benefits they believe they bring to consumers. It is difficult to draw firm conclusions about the role of public opinion, but it would appear to form an important context within which government attitudes are formulated.

The decision-making process itself also influences the attitudes adopted by governments towards the oil multinationals. Four factors in particular are of importance: time, 'bureaucratic politics', political requirements, and the individual human characteristics of those involved. Although slightly distorted, these factors tend to be most obvious and accentuated at moments of crisis. The 1973-74 'oil crisis' can, even if only briefly looked at, indicate some of the pressures involved. Overall, this period was not one in which time was greatly compressed, however, October 1973 to June 1974 did see the highest point of pressure, international confusion, and intense activity. The embargo on the US had immediate results economically and socially and called for an immediate governmental response of some kind. 1974 was election year for the Congress and it was only two years to the next presidential election, a Republican Administration had to be seen to act decisively and effectively. Moreover, America, in the eyes of the government, must not be seen to give in to "blackmail", yet its need for oil required some movement in America's policy towards Israel to one of 'even-handedness'. Whilst the military lobbied for armed intervention, the State Department tried to organise a collective consumer response, the Interior pressed for the interests of the domestic industry and Consumer Affairs for lower increases in prices. The President himself was distracted by Watergate and his fight to stay in office.

The oil industry was therefore left to organise and plan America's response whilst at the same time operating the embargo on America on behalf of the Arab States, Prices rose dramatically and supplies were rationed and a diplomatic initiative was organised to try and bring



together the consumer States. Therefore, the factors involved in the decision making process are clearly important in influencing attitudes concerning the oil multinationals. In this case, a favourable climate existed for the delegation of responsibility to the majors, irrespective of the interesting question of whether the US had any choice in this particular instance.

The question that the home government must ask itself when considering the international pressures upon its relations with the oil multinationals is whether these firms will complicate or smooth its international relations. For America, the possibility that the political goals of 'bridge-building' with the developing world, projecting an image that will replace the established one of a colonialist power, and constructing an international network of mutually advantageous trading relationships, may be impaired by the actions of multinationals or by the State being associated with these companies in countries where suspicions exist about these firms.

Governments are largely judged by what they actually do. There are four ways in which a home government might provide support for an oil multinational: military intervention, covert activity, economic sanction, and diplomacy. Only a handful of instances of military intervention by home governments on behalf of the oil majors suggest themselves from the long history of the industry. British and American 'gunboat diplomacy' was brought into play against Mexico in 1924 and 1938; following the respective threats to a refinery, and the expropriation of Shell assets in 1941 troops were sent to Abadan in Iran and in 1958 forces were dispatched to Syria and the Lebanon. However, it

cannot be argued that these actions were successful in preventing the eventual takeover of multinational assets in these countries, a point not lost upon the home States, especially when faced with the modern realities of well armed host States, international condemnation of intervention in the affairs of another State, as well as the unwillingness of domestic opinion to support such action. The military option is not the most viable for contemporary statesmen looking to support the oil majors. The success of the obsolescing bargaining since the sixties has not been met by such action, simply reflecting the realisation of this fact by home States.

Covert activities may appear as a less blatant form of influence for the home government. The case that recurs in study after study is that of Iran in 1951-54. The embargo on Iranian oil supplies enforced by the majors and supported by Britain and America, brought great pressure to bear upon the nationalist regime of Mossedegh. Domestic support in Iran weakened as the economic sanctions bit and more importantly Mossedegh's dictatorial form of government stimulated opposition to his rule. In 1953 a right-wing coup overthrew Mossedegh aided by the American CIA, and the BP company was able to regain the assets expropriated by Mossedegh in 1951, although this time in conjunction with American majors as part of a Consortium. This action was obviously successful in the short-term, but in the long-term it proved counter-productive. Other hosts were warned off the nationalisationist path and pursued more successful policies of participation and collective bargaining, and in Iran the restored Shah found it necessary to take an aggressive stance towards the oil multinationals of the Consortium in order to 'prove' his legitimacy to rule in the light of domestic

criticism that he was merely the puppet ruler of the Americans. It may be that the strategy followed by hosts since the Iran dispute has meant that situations where this type of support could be given to the multinationals have not arisen. On the other hand, it is more likely that changes in international and domestic considerations have made Iran the last time such an act could feasibly be undertaken with impunity as later attempts in Iraq (1961) and Cuba (1962) showed.

A third possible means of support is that of economic leverage. As has already been noted, economic sanctions were operated against Iran in 1951-54 by an effective embargo operated by the oil multinationals themselves. By the Cuban embargo of 1961 it was clear that the multinationals could not operate alone as they once had for the emergence of OPEC in 1960 and the rise of the independent international company meant that the multinationals were anything but alone in the international oil system. Government demands for participation in the Peruvian subsidiary of Exxon, IPC, led to the cut-off of AID by America in 1964. Moreover, food shipments to India were withheld until agreement favourable to the oil majors over governmental claims for public fertiliser development was reached. Institutions such as the World Bank are argued to reinforce such economic leverage. Up to the 'seventies', the Bank operated a policy wherein financial aid was withheld from oil projects that were to be undertaken by the developing States themselves. It is claimed that pressure was placed upon the Indian government by the Bank to prevent it from exploring for oil overseas during the 1960's.

However, it cannot be said that these actions were successful in the long-term: Iran persistently moved further into the operations of the

Consortium, even during the 'fifties', Cuba fended off the embargo with the help of the Soviet Union, and Peru, at great cost to its poor economy managed to hold out against intense pressure. Furthermore, the use of such tactics led the producer States to embark on the strategy of participation and to build up State enterprises as a gradual process rather than use the sharp shock of nationalisation. This strategy has been aided by alternative sources of finance such as the Eastern 'bloc' countries and regional organisations such as the OAU and OAPEC. Thus the economic sanction does not seem to offer itself as the most effective of options available to the home State. A fourth option is diplomacy.

The representation by one State of its interests to another in the hope that the latter will change its policy to one more favourable to the former, is one of the oldest facets of the international system. In times of dispute, diplomacy is largely the option of negotiation, mediation, and compromise. It is dependent upon the retention of lines of communication between those involved; it requires that the talking continues. Diplomatic pressure may be bilateral or multilateral. Pressure from a single State upon another may prove insufficient if the latter is determined in its policy, strong enough to resist, or acting in conjunction with others. In such circumstances, the former State may then seek to mobilise a diplomatic offensive on a broad front, marshalling support among other like-minded States to exert collective pressure by isolating the State in question. The success of the American diplomatic initiative against Britain over the San Remo Treaty, the attempts to influence Libya in 1971, and the intense diplomacy among States during the 'oil crisis' of 1973-74 can all be regarded in

this light. But as the latter two examples also show, diplomacy can only achieve so much, even if it can be well coordinated and articulated clearly. It is dependent for success upon the willingness of the other State to listen and negotiate. The home government, moreover, may well be less than whole-hearted in its efforts; other considerations colour the diplomatic scene that may prove more important to the home government than the multinationals. The desire to maintain politically favourable governments in key strategic areas may take precedence over the economic interests involved. Multinationals themselves are a medium of diplomatic relations; prior to the oil crisis the majors were used by the Saudi Arabians to signal to the American Administration exactly what the Arab position was and the consequences for the Americans if their policy towards Israel did not change. In addition, the actual sharing of scarce oil supplies among the consumer States whilst maintaining the interests of the oil producers, highlights the essentially diplomatic role of the majors in transmitting and balancing national interests without direct national contact and possible conflict. The diplomatic option is therefore the most complex and difficult for home States to judge and to undertake.

If the interpretations are correct, then the obsolescent bargaining of recent decades should have been met with firm, unequivocal support for the majors by home governments; this clearly has not been the case. In many instances the home State has paid 'lip-service' only to the multinationals' calls for support. The decisive confrontation between Libya and the majors at the beginning of the 'seventies', as the following chapter amplifies, drew home support in the form of a single, inexperienced, and ill-informed emissary dispatched to Libya and the

Middle East.<sup>38</sup> If the interpretations are to be believed then this situation should have seen emphatic and decisive support by the home State. Overall, since the Second World War the oil multinationals have found their positions in the producing areas being eroded, in the consuming areas' participation in the market place; at the same time the amount of support forthcoming from their home States has declined as international and domestic conditions limit the viable options open to them. The relationship between home government and major appears therefore to operate on the basis of a mutual understanding. The majors are left to get on with the business of oil supply, so long as it is realised that the home government also has wider political commitments that will in some circumstances mean muted support for the multinationals. Support for the oil multinationals is neither inevitable nor automatic.

Turning to the host States, the central question concerns the extent to which these States are constrained by the presence of the oil majors? There are three groups of States that play host to the oil multinationals; the OPEC oil producing countries, the Western developed consuming countries, and the under-developed consuming countries.

The OPEC countries themselves fall into three groups: the 'Gulf' States of Bahrein, Iran, Iraq, Kuwait, Qatar, Saudi Arabia and the United Arab Emirates (UAE); the North African States of Algeria and Libya; and the other producers outside these areas, especially Nigeria and Venezuela. The majority of these countries share a common history of colonial subservience and a common goal of asserting

their sovereign status during the 20th century. Embodied in the desire for international recognition and influence is the pursuit of economic, social, and political development through the use of their oil and gas resources. During the post-war period, in particular, pressure has been increasingly exerted upon the oil multinationals by the governments of these States in the furtherance of these national goals.

The producing hosts have been concerned with three main issues with regard to oil: pricing and revenues, supply, and ownership-involvement. Up to 1960 these countries exercised no effective influence over production or price, nor did the majority of them have any participation in the operations of the majors in their own territories. Even in Iran where the National Iranian Oil Company (NIOC) had been established by the government to run concession areas outside the orbit of the Consortium, State involvement remained very small. Some gains were made in revenues; rising production, the spread of 50-50 profit-sharing agreements, and the abolition of host contributions for marketing and sales, all increased the amounts accruing to the producers. It was also evident at the time that these States could only achieve so much. They lacked the technical expertise, the information, and the facilities of the majors. The formation of OPEC in 1960 reflected not only a common interest in the short-term objective of maintaining posted-prices, but also a perception of the long-term need for cooperation in order to achieve their common aspiration for greater control over the oil industry. The success of OPEC in 1960 of preventing posted-prices falling was the first real reverse in the fortunes of the oil multinationals. Although it required another decade before the main effects of this change in the balance of power came to fruition, OPEC proved an

effective source of information-sharing, technical education and, most importantly, for the harmonisation of producer policy and bargaining positions.

Some observers in the West have expressed the belief that OPEC will break-up as self-interest surfaces following the watershed successes of 1973-74.<sup>39</sup> Differences have always existed between the members of OPEC, but whether they will produce the end of the organisation remains in the realm of speculation. Differences, however, are important in the pattern of relationships that have developed among the actors. Iran, for instance, with its large population sought to satisfy its economic needs through increased production. Countries like Kuwait and Saudi Arabia, on the other hand, with small populations prefer to increase revenues by means of production cutbacks when necessary.<sup>40</sup> Political differences also exist. The withdrawal of the colonial powers from direct involvement in these areas, has seen turbulent political changes also take place. Monarchic rule has been overthrown in some of these host States: Iran, Iraq and Libya, whilst in others, such as Algeria, the continued influence of the colonial power has been challenged. Often proclaiming a curious mixture of nationalism, socialism, and religious fervour, new leaders such as Kassim of Iraq or Qadafi of Libya expressed antipathy towards oil multinationals and the surviving monarchies of Saudi Arabia, Kuwait, and the UAE, alike. Whilst the revolutionary leaderships expropriated the assets of the majors in their lands, the monarchic States followed the more moderate and gradual road of participation.



Power politics has also played its part. The desire to lead the OPEC group has been an enticement to men like Hussein of Iraq, Qadafi, Reza Shah of Iran, and King Faroud of Saudia Arabia. The constant jockeying for position between Iran and Saudi Arabia in the 1960's has been given an added twist in the 1980's with the Islamic Revolution in Iran calling for the rejection of the 'materialist' values of the West, massive price rises, and for the oil to stay in the ground if necessary.

The Tehran and Tripoli agreements of 1971, discussed in the next chapter, marked the transfer of control over posted-prices from the majors to the producer States, the 1973-74 embargo represented how far the producers were able to control supplies, and by 1976 all the producers held 100% participation in their domestic oil industries. Majors, forced to adapt to survive in these areas, entered joint ventures, opened new contracts, and agreed to invest in petrochemical plants,<sup>41</sup> with the host State. It is therefore difficult to draw the conclusion that multinationals control these States or that they have benefited from the differences among these States, since at the crucial points OPEC unity has been successfully maintained. The developed hosts consist of three groups also: those that deal with the majors as both producing and consuming nations (America, Britain, the Netherlands, and Norway), those that are consumers (Italy, France, West Germany), and the special case of Japan. All are industrialised, are large consumers of oil products, are representative democracies, and base their socio-economic systems upon liberal values.

In the first group of States, government attitudes are largely influenced by the desire to balance the usefulness of the majors in

developing their oil resources and providing distribution networks, against a concern for a degree of control over the industry. This careful balance of interests is more appropriate to the European States involved than to America where the majors are not significantly involved in the production of oil. The intervention into society by government has been widespread in the Western European States since World War Two, although is much less pervasive in the US. With regard to the oil industry such interventionism is evident in the establishment of national oil companies to work with the majors in the North Sea. Britain established the British National Oil Company (BNOC), whilst Norway formed the Norwegian equivalent. Moreover, Britain and the Netherlands already look upon the Shell group as a national institution. BP too, is held even more in this light with its British government stock-holding. Taxation and royalty payments are high in these States but are not pushed far enough to alienate the majors. There may be occasional talk of 'windfall profit taxes' but the nationalisation and related policies pursued in some OPEC States are unlikely to be followed in these European hosts. In America, where Federal government continues to play the role of 'holding the ring' between the different groups in society, interference with the industry has been minimal although questions are raised over the role played by the majors during the 'oil crisis' and their high annual returns. These firms, having originated in Britain, Holland and America, do not constitute the aliens that they do elsewhere, and do not engender the same level of doubts.

The situation is different in France, Italy and West Germany. In the first two the position of the majors has been steadily eroded by

government in favour of State-owned companies; CFP-ERAP (Elf) in France and ENI in Italy. Such policies are not new, CFP was established in 1924 and ENI owes its origins to the corporatist policy of the Mussolini regime in 1926. But the significant forces involved are the personalities of General de Gaulle and Enrico Mattei who both sought to counter an Anglo-American domination by the oil multinationals. Thus refining capacity, market shares, and import quotas strictly govern the position of the majors. For some majors it is too restrictive and <sup>they</sup> have withdrawn.<sup>42</sup> West Germany took much longer to abandon her free market attitudes and it took the oil crisis to make her throw government support behind the Deminex and Gelsenberg companies. The majors are therefore clearly much more restricted in their movements in these hosts as a result of national regulatory policy.

Japan's total dependence upon imported oil supplies has meant that government has long been concerned with the industry and especially with the majors since in 1973 these firms imported 75% of Japan's oil. In 1962 the government passed legislation strengthening national control over pricing and refining, and in 1973 the majors accounted for only one third of refining capacity. In 1967 the Petroleum Development Public Corporation was established to extend Japanese involvement in oil and the Arabian Oil Company (Japan) is currently active in the Middle Eastern offshore explorations. Thus, in Japan government is seeking to lessen its dependence upon the oil multinationals.

The under-developed States, sharing low GNP's and general economic

weakness, the imprint of former colonialism, political instability, and a dependence upon outside aid, are perhaps in the weakest of positions to bargain with multinationals. Moreover, their lack of a collective voice such as that of OPEC further diminishes the scope of the bargaining strength available. It would be strange if some governments in these countries did not feel some suspicion of pricing policy and supply conditions. However, in terms of limiting the sovereignty of these States, questions largely turn upon whether the multinationals are symptoms or sources of weakness, for, even these States have the right to say no to those who wish access. The need for a deeper understanding of the requirements of these States, and consequently the role that the multinationals are hoped to play, can only come through work such as the Brandt Commission. The role of the producer States in either the transference of wealth to the poorest States or by offering oil discounts, may be a significant factor in the emergence of a clear role for the oil majors in these areas.

The multinationals have therefore experienced a decline in their position as the host States have exerted their economic and political capacity to bargain effectively with the majors, and as home government support has weakened as a result of changes in the international climate. The multinationals continue to be able to offer technical expertise and risk capital to States in return for guarantees of access to oil supplies. The case of India indicates the development and nature of this symbiotic relationship between the actors.<sup>43</sup>

Subject to the attentions of the oil majors for many years prior to independence (1947), India saw over 80% of her rising consumption during the 1950's imported by these firms. Over half were supplied by the British-owned Burmah-Shell Company. Faced with diminishing

foreign exchange reserves and growing nationalist pressure against such a prominent position held by the majors, government called for refineries to be built in India. Standard Vacuum and Burmah-Shell responded by building small refineries in 1954<sup>and</sup> in 1957 Caltex built another small refinery. Prices did not fall but this did represent a breakthrough for the government, however small. The companies had opposed these demands as less profitable. But for the government it represented an investment of \$100 million in India and reduced the force of company threats to withdraw. The majors acceded for three reasons. First, the fact that the majors would still be importing their own crude lessened the possibility of profits falling too far. Second, the legally-binding agreements included guarantees that assets would not be expropriated. Third, India was a promising area for expansion. The majors would simply be excluded from the market if they refused the government. This was a remarkable success for the host government when the situation in Iran is taken into consideration.

Although refining capacity rose to 75% in 1955 and majors investments to \$218 million, the Indian problems of demand and foreign exchange remained as a result of the Second Five Year Plan's stimulus. These problems, along with the desire to promote domestic business, saw government pressure focus upon the issue of 'local equity', in other words, the entry of the majors into joint ventures with local business. The majors were called upon to supply capital, technical knowledge, whilst local business (with a 50% holding) would supply local capital and a knowledge of local conditions.<sup>44</sup> The majors, distrustful of local involvement and fearful of the spread of such demands elsewhere, adamantly refused. In the short-term the multinationals protected

their position, but in the long-term their situation was severely damaged. Nationalist and anti-colonial sentiments, reinforced by a political consensus of the right, left, and centre, formed a powerful platform upon which host pressure upon the oil multinationals was able to emerge.<sup>45</sup>

The "seed of conflict" of 'local equity' came to a head in the 1960's when the Indian government sought to reduce prices paid by subsidiaries to the rest of the multinationals and to import oil from the Soviet Union on a barter basis. The majors rejected the pricing policy and refused to handle the Soviet oil. The Indian Oil Company had a capacity for only one-quarter of the oil needed by India. At this time prices were falling, production rising, the Congress Party was divided and superpower tension was high. The majors acted by cutting prices, attacking "political oil", and sought support from home States and the World Bank. But, home governments, fearing that India would be sent into the Soviet camp gave no support to the majors. India itself set up investigations into the working of the industry, and in 1965 the Defence of India Act gave government powers to coerce the majors. Three new refineries built by the Soviet Union increased India's bargaining power. In 1962, a deal between Phillips Petroleum and the Indian government gave the latter a 51% holding, Phillips 25%, and Indian stockholders 24%. A series of similar deals followed, including the majors. What had made the crucial bargaining difference?

"...the situation now, unlike the fifties, is that the government knows how the oil industry works and that the oil companies have sensed the increasing bargaining strength of the government over two decades and have begun to take a less rigid stance." <sup>46</sup>

With regard to the central question of independence and control, Michael Tanzer argues that:

"To the extent that the basic interests of the oil companies and government diverge, their views...naturally tend to differ. Conflicts stemming from divergent interests are not usually resolved by appeals to 'equity', but rather are settled by the relative bargaining power of the parties."<sup>47</sup>

With a broad consensus of support, an improving economic base, the willingness of independents to step in with much better offers than the majors, and the desire of the majors for access to the growing market as well as their large investments in India and a lack of home support, together produced a substantial swing in bargaining power towards the host State. In 1972, Burmah-Shell and Exxon offered India new conditions. They would enter joint ventures, relinquish their right of supply from their own sources, in return for an allowance to expand refining capacity. In 1974 Esso India offered a 74% participation to government to much of its operations, indicating the extent to which the majors have had to adapt.

A brief mention must be made of the significance of the Soviet Union in the international oil system. Important in the early years of the 20th century, the 1917 revolution removed the Russian industry from the world scene. It was not until 1950 that it returned to export to East and West Europe. The role of the USSR has been largely one of a revolutionary influence. By providing an ideological and a practical alternative to the majors, the position of the latter has been undermined. The development of the Soviet oil industry showed that the majors could be dispensed with. Moreover, at times of tension between

hosts and majors the USSR has made itself available as an alternative source of oil, expertise, or credits on terms that the majors could or would not compete with. Whether or not these offers are made for political gain does not change the fact that it does provide an alternative to the majors in the oil system.

There are no concise, all-embracing answers to the problem of the oil actors and their relationships. The discussion above highlights the complexity of appearance and reality in the role of the oil multinational. Global flexibility and the power that is associated with such organisation is in fact limited by the nation-states system. The enterprises are clearly not autonomous of the States, the web of national and international regulations restricts the freedom of the majors to roam the world at will. It is equally false to argue that the States are independent actors. In the context of oil, governments have clear needs that require international involvements; host States seek the markets for their oil and the home States seek secure supplies. It is in this position 'in between' States, as part and parcel of the international system of States' interests that the oil multinationals importance lies. The multinationals are 'go-betweens', the forum in which interests are articulated and communicated. This is an essentially diplomatic role, recognised by the governments and enterprises alike. In the vital commodity of oil involving complex competing interests, the States have a stake in the continued presence of the multinationals in the system as a medium in which direct contact and possible confrontation can be avoided, as can be seen from the discussion of the 'oil crisis' in Chapter 5.



However, the practical relationship between multinational and State is also political; a bargaining process wherein the actual influence achieved by the actors is the significant factor. Power is a distinctly relative concept in this bargaining context. The States can gain practical advantages in the form of investments, expertise, and facilities in return for their allowance of access to the State for the firms. This does not appear to rest upon an exercise of control by the majors, rather the belief among governments that the majors can still be of use to them. Overall, the interpretations based upon a presupposition of multinational control are unsubstantiated, rendering invalid their explanations of the status and role of the oil multinationals. The evidence available clearly suggests that the relationships between the actors is one in which a mutual awareness of respective needs, interests and capabilities, and in which relative advantages through bargaining are the most significant characteristics.

## CHAPTER 5

### THE INTERNATIONAL OIL INDUSTRY: BARGAINING AND CHANGE 1970-1976

Unlike the general analysis of the previous chapter, the following analysis is centred upon three particular events of the early 1970's that are significant for the overall study of the role of the multinational enterprise. These events highlight in close detail the trends and changes in the relationship between these companies and the nation-States discussed in the foregoing chapter. Analysis is still concerned with questions of power, autonomy, and bargaining and with the assertion of the main interpretations that multinational control forms the essential base for the relations between the actors. The Tehran-Tripoli Agreements in 1971; the OAPEC embargo of 1973-74; and the establishment of the IEA in 1974, are events that warrant attention simply because they raise serious doubts as to the validity of the explanations offered by the interpretations.<sup>1</sup>

In these instances, bargaining strength lay overwhelmingly with the governments involved. The 1971 agreements rocked the multinationals' influence over prices, supply, and ownership of oil; the embargo was implemented by the majors on behalf of the Arab countries simply to ensure continued access to crude oil supplies in the future; and the IEA was established in response to home State awareness that a reliance upon the multinationals was not necessarily in their own best interests. Together, these events destroyed any appearance of multinational autonomy that might have arisen during the post-war period, and replaced it with the reality of State sovereignty and governmental bargaining power that had gradually emerged during the fifties and sixties but

which remained unrecognised or ignored by multinational executives and even their critics.

The Tehran-Tripoli Agreements of 1971 represent the most significant and crucial event in the history of State-multinational relations during the whole of the decade under review. These agreements signify the breakthrough for the Gulf and Mediterranean oil producing host States in their bargaining with the oil multinationals in order to gain significant benefits and advantages from the negotiating process. The economic background of a tighter supply-demand situation; the advent of a new revolutionary group spurred on by anti-western values; and the changing circumstances surrounding home government foreign policy that made it less likely that their support for the oil majors would be of a decisive nature, provided the sufficient conditions in which the obsolescing bargain could be more effective. With the establishment of these agreements came the general awareness among host States and multinationals that any pretention that the enterprises embody a bargaining strength sufficient for autonomous action and universal control over the conditions in which they operate in the host States, no longer hold any large degree of force. Pricing, supply, and participation-ownership bargaining between the actors in the immediately following years that saw the nation-States (especially the hosts) gain increasing advantages was a direct consequence of the stimulus to obsolescent bargaining provided by the success achieved by the States in 1971.

The roots of the changing relationship between the actors in the seventies lie in Libya. This country provided the touchstone for events rather

than other, perhaps more obvious, States as a result of particularly strong and obvious tensions within Libya that were fuelled by a revolutionary coup which overthrew the monarchy of King Idris and left a determined and forceful regime in its place that looked to make immediate and strident inroads into the position of foreign oil multinationals in Libya.

Tensions in Libya stemmed largely from the interaction between the socio-political system and the oil industry. The institutions of Libya were encapsulated in a powerful and immobile venality. Authority maintained its position through patronage and corrupt practice. The nature of this system and that of the oil industry were conditioned by this venality. The requirements of the venal system stimulated the unique pattern of oil concession areas in Libya. Small blocs and a large number of applicants for them encouraged further patronage, bribery, and corruption.<sup>2</sup> The two main concession rounds (1955 and 1965) saw the involvement of all the oil majors, but, in addition, a large number of independents.<sup>3</sup> The situation was quite unlike that of the other oil producing States of the Arabian Gulf or Mediterranean where governments dealt with only one or two concessionaires. Fragmentation and corruption fed upon each other in Libya; soon the demands of the monarchy upon the oil companies became more pressing. Based upon terms offered by Phillips Petroleum and Standard Indiana in 1961, Libya pressed for notification of contracts over 200,000 (LP); depositing of local funds in local banks; priority to be given to Libyan tankers; total disclosure of technical information; a higher percentage of company profits in government revenue; and the establishment of refineries and petro-chemical plants by these enterprises. However, the

government, weakened by corruption, faced by general opposition from the companies, and lacking both the political will and the practical tools to exert sufficient pressure upon the multinationals, achieved little. Bargaining advantage remained with the companies; some concessions were ruthlessly exploited whilst others remained untouched for fear of flooding the petroleum market.<sup>4</sup> The host government did manage to secure a relinquishment of the depletion allowance by the majors in 1961, but overall their bargaining was ineffectual. Exxon, in particular proved a source of great frustration and tension during the fifties and sixties. Some of Exxon's concessions lay undeveloped and plans were delayed time after time;<sup>5</sup> posted prices were well below the Middle East levels; problems over the Zelta pipeline and the refusal to finance government losses from the 1967 close-down over the Arab-Israeli war, together created bitterness, resentment, and frustration in the country, feelings that were tapped by the Gaddafi revolution in September 1969 and later turned successfully against the oil majors.

The new government continued their predecessors' policy of pressurising the oil companies by raising the tax-reference price of oil in January 1970 by 10-20%. The companies united to face this challenge, rejecting the government demand. Deadlock ensued, the government gained the support of States such as Albania to buy their oil if the government was forced to nationalise, and the companies cut back on their drilling. The 'wild men of Libya' changed their strategy by exerting pressure upon the independents rather than the multinationals, specifically Occidental. These companies did not have the resources of oil of the majors and were largely dependent upon Libyan oil supplies.

Throughout 1970 the government ordered Occidental, Amoseas, Oasis, and Mobil. to substantially cut their production. Eventually, lacking the support of Exxon, Occidental was forced to succumb to Libyan demands. With the support of other radical States, Algeria and Iraq, Libya had managed to exert sufficient power to break down the common front of the companies. By again cutting Occidentals' production in August 1970; by harassing all the companies executives through the refusal of visas; the banning of new technology imports; and by police searches of company and employee belongings the government sought to increase its pressure. Occidental agreed to government demands for a rise in the posted-price of 30 cents immediately and a further rise of 10 cents over five years, and a tax-rate rise from 50% to 57%. The Libyans then raised this to 58%. In return, Occidental was able to gain government acceptance of a production level of 700,000 barrels per day. After this September 4th agreement, Oasis agreed on September 18th, and the rest soon followed - including the majors. Lump-sum payments were to be made to Libya by the companies for the price differences since 1965; posted prices were to rise by 30 cents per barrel and by 2 cents annually to 40 cents by 1975. Production cuts were not restored.

The Libyan government achieved these terms through determined bargaining and effectively directed pressure. The companies were divided in their needs and attitudes; the majors were afraid of similar terms being sought elsewhere, the independents and some majors needed Libyan oil badly in order to meet rising demand. The United States was divided in its attitude, whether to intervene or not. In the event, the State Department pressured the majors to agree to Libyan demands in order to maintain America's position as the supply medium to Europe and

to ensure that prices in America did not rise dramatically as a result of a Libyan embargo. The majors were therefore weakened by their multinationalism and their inability to act successfully in a cohesive, collective way to reject host government demands. Home government support was lacking and alternatives such as ENI or the Soviet Union were available. Therefore, in this case it was the government that was able to exert a controlling influence rather than the multinationals. Occurring right at the beginning of the 1970's, the host producer States had witnessed a substantial increase in their bargaining position as a result of the Libyan action. This awareness resulted in a wave of obsolescent bargaining throughout these States, just as the multinationals had feared.

Before analysing the relations between governments and corporations through 1971, mention should first be made of the immediate events leading to the Tehran and Tripoli Agreements. Following the Libyan agreements, the Shah of Iran still nurturing vague grievances against "foreign countries", raised Iran's tax rate to 55%. Over the next few months host producers began to establish their bargaining positions on the basis of 55% tax rates and 30% increases in posted prices. The 21st OPEC Conference meeting in Caracas (December 9-12th, 1970) codified these rising demands in a Resolution that also called for a 5% increase in government shares of company profits and the elimination of all remaining company discounts from posted prices. Supported by a threat of an OPEC-wide cut-off in the oil flow to the corporations in fifteen days if the latter refused, the corporations were invited to enter into negotiations on the basis of three regional groupings; the Gulf producers; the Mediterranean exporters, and Venezuela-Indonesia.

The Gulf producers meeting was to be the first, being held in Tehran in January 1971. Worried about American supplies, Under-Secretary of State John Irwin was sent to Iran; Saudi Arabia and Kuwait, where he gained an awareness that, in the event of an embargo upon the corporations, consumers would not face shortages. The majors decided upon a firm stand against the producers. Through the hastily established 'London Policy Group' (LPG) the majors sent a joint message to OPEC on January 13th proposing "an all-embracing negotiation" between all the oil companies and OPEC members, dealing with oil prices and agreement lasting five years. One week later, America convened the OECD in Paris to gain support among consumer States for a moderate increase in prices. Almost simultaneously the majors 'gave-in' to Iranian and Libyan pressure for separate negotiations in a letter to Libya:

"We should prefer, and should have thought that it would be beneficial, in the interests of time, that the negotiations should be with a group representing all the OPEC members. Nevertheless, we should not exclude that separate (but not necessarily connected discussions could be held with groups comprising fewer than all OPEC members." 7

On the 14th February agreement was reached in Tehran between twenty - two corporations and the Arabian Gulf producers. From this agreement, Iraq, Iran, Kuwait, Abu Dhabi and Qatar gained an increase of 35 cents per barrel, the price to increase on June 1st 1971 and thereafter on each New Years Day until 1975, 5% on each date. Additionally, inflation and dollar fluctuation adjustments were included, discounts abolished and State revenues raised to 55%. The producers agreed to refrain from further increases in prices. In Libya, negotiations had begun on January 2nd, 1971. Unwilling to wait for the Gulf talks to even begin, and with the ink hardly dry on the 1970 agreement, the government set



off on the bargaining trail once again. Libyan Vice-Premier Jalloud demanded price rises, special premiums to cover the Suez Canal closure, and cost-price development of indigenous oil and gas resources and local sales through the investment of more corporate profits back into Libya. The corporations reacted much as the same as they had before; the LPG agreed an 'Libyan Producer's Safety Net Agreement', providing for oil-sharing between companies in the event of embargoes. Esso Libya was selected to negotiate on behalf of the LPG members. Deadlock soon emerged once again. It was not until President Gaddafi threatened nationalisation of nineteen companies that movement took place. The threat came on the 28th of March and agreement was reached on the 2nd of April. Posted prices were to rise by 95 cents p/b, including 25 cents premium; annual rises were agreed at 7 cents p/b with an additional inflation allowance. Government revenue was set at 55% and part of corporation investment was specified as being for exploration. The agreement was to last five years. Immediately this was announced, Saudi Arabia and Iran sought the same terms from Aramco and IPC (Algeria had nationalised its oil industry) and reached agreement. The Libyan, Saudi Arabian and Iraqi agreements became known as the 'Tripoli Accord'.

A number of questions spring immediately to mind when these negotiations are considered as a whole. Perhaps the most surprising aspect of the events of 1971 is that negotiations continued at all despite the acrimony and threats that the process engendered! The question of why bargaining did not degenerate into unilateral imposition of terms by one or other of the actors is closely related to the question of what the aims, means, and capabilities of the actors were as reflected in their respective bargaining stances. A study of these factors should offer

some suggestions as to the nature of the oil multinationals' relationships with governments, and to the cogency of the arguments discussed in earlier chapters.

Together the hosts had similar aims to be achieved through the negotiations. The immediate goal of these governments was to gain control over oil prices and thereby over the revenues that they drew from oil sales. Obviously, this was part of the much wider aim, long expressed by the producer hosts, of achieving the decisive role over all aspects of oil. The ambition of the Shah of Iran, expressed in 1961, could have been spoken by any of the producer government leaders and was even more strongly felt ten years later:

"One of our most important endeavours is to enter the international oil market. This country, with its immense oil reserves and its skilled oilmen could in the future be more important than any oil company, because the oil which we market actually belongs to us. We could, in due course, produce it, market it, transport it with our tankers, and actually retail it ourselves." 8

Little had been achieved during the sixties to achieve this aim, but with the beginning of the new decade dawned new hope among the leadership of the producer governments. Working from a basic legal foundation upon which the whole obsolescing bargain is initiated, namely, 'rebus sic stantibus' described by Frank Hendryx (Arabia's legal council) in 1959 as involving a central democratic theme that was not encompassed by the existing State-orientated international law:

"The purpose for which governments exist - service of their peoples - requires that on proper occasions those governments be released from, or be able to overrule, their contracts and obligations." 9

At Caracas the host governments decided that a "proper occasion" had

emerged. They had the means to achieve their goals. Learning from past experience in Iran and Iraq as well as the more recent Libyan deals, these States undertook new tactics. The OPEC meeting in December 1970 established a collective position for negotiation. Moreover, this stance was to be propounded through split bargaining among three negotiating groups, opening the way for leapfrogging through the Libyan, Gulf, Libyan and Mediterranean agreements: successively revising terms with corporations. The hosts were also aware of the diplomatic channels open to them. Their diplomatic letters to the consumer countries were designed not merely to reassure these countries but to lessen the possibility that the home States would actively intervene on behalf of the majors. However, the hosts were determined to suffer the consequences of their actions, hence the threats to cut off supplies to the companies if they proved too intransigent.

The capacity of the hosts to press for their terms was enhanced by the Libyans' success in 1970 that stimulated confidence among the rest of these States. The Libyan deals were evidence not only of the actual strength of the host States but also of the relative disunity and weakness of the oil multinationals if bargaining was undertaken in the same way. Revenues that had grown during the sixties as production rose, provided greater security for those countries and lessened their immediate concern over financial dependency on multinational companies. Oil supply-demand had become tight in 1970 as a result of four main factors; the closure of the Suez Canal in 1967 and the shortage of tankers; the rapidly-rising demand in the consuming States; the sabotage of TAPline in 1970 (April); and Libyan cutbacks during 1970. This

tightening of the supply situation could only benefit the hosts by adding to the pressure upon the multinationals. The new radical leaders such as Gaddafi were willing to act upon these changed circumstances and OPEC provided a forum for a collective bargaining position to be established, and provided for a collective threat to cut off supplies to the majors. With the possibility of nationalisation given added credibility by Algeria's nationalisation of French oil assets in February 1971, the host governments were not the weak, ineffectual, subordinates to the multinationals that the interpretations argue is the case.

The bargaining position of the hosts did have weak as well as strong aspects. The hosts needed the markets, transportation, expertise, and investment that the multinationals could provide. Moreover, the multinationals maintained their ownership of the subsidiaries operating in these States, and their influential position over supply and production as the host's development of State-owned companies and facilities remained incomplete. Doubts remained over the credibility of the embargo threat, the attempts in 1956 and 1967 had been poor and ineffectual. With the contemporary knowledge of the 1973-74 embargo it is possible to argue that oil would still have reached the consumers and could not be maintained for a sufficiently long period, although in 1971 there was no way that the companies could be certain. Finally, the hosts too had their differences and division. The radical States such as Iran, Algeria and Libya were largely antipathetic to the moderate Sheikdoms of Saudi Arabia, Kuwait and UAE, coming together mainly as a result of mutual interests in oil. Iran, Venezuela and Nigeria were non-Arab States thus representing a further division, and in all these host States, the political authority and stability of the governing elites was suspect from domestic

political challenges or from communist insurgents such as in Iran.

Overall, however, the host governments were in a much stronger bargaining position than at any time in the post-war period and in the 1971 Agreements were able to make significant advances in their positions as a result. As has been noted in previous chapters, bargaining strength is relative not absolute and this host strength was directly related to the power of the oil multinationals and the home States.

Following the argument that the multinationals dominate States to its obvious conclusion in the context of the 1971 negotiations, then the clear aim of the majors was to maintain control over the OPEC States. But as we have seen earlier, the oil majors lost much of their influence over prices as a result of the agreements and left themselves open to obsolescent bargaining in the areas of host participation and supply. What then was the real nature of the oil majors bargaining position?

Specifically, the multinationals looked to maintain their access to crude oil, security of supply, and most importantly, a stability in pricing and supply. To support their aims the corporations could call upon a variety of means to achieve them. Through the formation of the LPG and the consequential joint message to the hosts, and the 'Safety Net Agreement', a ~~basis~~ was provided for a joint negotiating position in order to exert greater pressure upon the States. Backed by the ability of these multinationals to draw oil supplies from alternative sources during any dispute with the OPEC States, they could reduce their drilling and investment as required in order to press for their goals. The American multinationals in particular sought home government support and gained some diplomatic involvement through the Irwin mission

and the State Department's willingness to allow the IFG to meet. Furthermore, the significant role played by the majors in the production, refining, and exploration of these States offered an important point of leverage during their negotiations with the governments. Their continued presence in these countries after the 1971 rounds suggests that this factor played an important part in government deliberations.

However, the fact that the governments achieved the advances that they did suggest that the interpretations are wrong to conclude that multinationals inevitably and irrevocably control governments, or that the majors gave way to States because they still controlled the international industry. The majors flattered to deceive with regard to their bargaining power. Some measure of influence accrued to these corporations as a result of their multinationalism, but this also worked against the majors when faced by a collective approach from a number of host States. The majors failed to maintain their control over prices or supply, and failed to secure a period of stability. The recognition that the majors were weaker than they had appeared to be led the consumer States to establish the IEA to oversee their mutual interests.

Multinational bargaining power was less influential than might have been expected by observers and executives alike, as a result of a combination of long and short-term factors that undermined the majors' position in 1971. Multinational flexibility is over-emphasised as has been noted in chapters two and three, the corporations are tied to the regulatory structures of the States in which they operate and with the emergence of OPEC the majors lost most of their capacity to play-off one government against another. Furthermore, the larger role being played

by independent companies such as ENI or the Arabian Oil Company (Japan), as well as Eastern European countries, meant that real and creditable alternatives existed for host governments from whom more favourable terms could be gained than from the multinationals.<sup>10</sup> The tighter supply-demand situation restricted the freedom of the majors to implement company embargoes upon recalcitrant States as had been done in 1954 against Iran, and when BP tried in December 1971 to impose such a ban on Libya following nationalisation of its assets in that State it failed to achieve its objective. The majors were now more dependent upon the producers for supplies than at any previous period and could not ignore the demands for new terms without recognising the danger to their substantial investments in these countries.

In the short-term, the 1970-71 Libyan deals were important in that they set the pattern for future demands in the other producing States and represented for the majors their new line of defence beyond which they were resolved not to allow the host States to go. In Libya they companies had been divided and partly conquered, and they were resolved too not to lapse again. However, the divisions and differing perceptions of corporate self-interests carried over into the rest of the 1971 negotiations. The LPG was split, between majors and independents and between the majors themselves. For the most part, the majors were less dependent upon any single producer than were the independents, and because of this the latter were always more likely to be willing to accede to host government demands. Personal animosity was also a feature of inter-company relations at this time. Dr. Armand Hammer's attempt to reach agreement with Exxon chairman James Jamieson in 1970 to establish an oil-sharing mechanism to resist the Libyan governments pressure on Occidental and thereby

maintain a united corporate front failed mainly as a result of the latter's strong dislike of Hammer<sup>11</sup>. Moreover, the 'Safety Net Agreement' was claimed by the independents to be major-orientated since they were to be paid in cash rather than oil from the LPG<sup>12</sup>. The majors were divided in their attitudes towards the hosts. Unlike the other majors, SoCal and Texaco were finding difficulty in maintaining their supply situation as a result of the Suez Canal closure, BP-Shell were also experiencing problems of production in Nigeria<sup>and</sup> these companies were therefore reluctant to press the hosts too hard and endanger their oil supplies. The other majors, not experiencing these difficulties, were less restrained in their attitudes or actions, thereby producing tensions within LPG itself. In addition the LPG was weakened by its inability to draw in corporations, such as ENI, AOC or CFP that would not accept the joint position of the majors nor the terms that they offered to the host governments, thus strengthening their role as alternatives. As a result of these divisions of weakness the LPG accepted host terms based upon separate negotiations. Finally the majors did not receive the full support of their home governments. The United States sent out an unprepared emissary to the moderate Gulf States and attempted to gain consumer States' support for a small rise in prices as a concession to the host States. This diplomatic activity was mild and fell far short of what the majors hoped for. But the home governments had interests and priorities to take into consideration as well as their oil interests, important as they might



be, as will be discussed later. The LPG was given passive support through 'business letters' of the State Department in Washington, but this support was muted and not free from internal criticism. The oil multinationals therefore could not be certain that their attempt to coordinate their bargaining strategy would not come under home government scrutiny from Anti-trust authorities (as was the case later in 1974) Returning to the question of autonomy, it is clear that the multinationals were anything but the absolute masters suggested by the interpretations. Rather, the bargaining process reflected an outcome that was a result of the respective strengths and weaknesses of these actors and in this instance led to greater advantages accruing to the governments than to the corporations.

In this balance of bargaining factors, as was noted earlier, the home government also played an important role. These governments aimed to secure oil supplies, through the established corporations if possible, but by alternative means if necessary.<sup>13</sup> The United States was also interested in maintaining the position of the 'friendly' States of Saudi Arabia, Kuwait and UAE and in preventing the Soviet Union from extending its influence in the region at America's expense. Interested opinion was divided between those who advocated making concessions to the hosts, such as James Akins, Director of the Office of Fuels and Energy in the Department of State, and those who advocated government intervention on behalf of the majors to reinforce their unified stand against the producers, such as the Armed Forces who worried about their supply situation. Following Vietnam, and the international condemnation of the breaking of the ethic of national self-determination, the United States could not afford to be seen to be actively intervening in the affairs of the producer States to

their detriment. Thus the Irwin mission, the OECD meeting and the 'business letters' remained the extent of home government involvement in 1971, leaving the corporations to work out their best possible agreement within the context of these national interests.

The oil multinationals' position as the most important influence upon the oil industry and upon the States involved with them had begun to change during the 1960's, but it was the agreements of 1971 that saw the beginning of the swing in bargaining power towards the governments in an obvious way. The terms agreed represented a significant advance for the hosts and conversely an unwanted development for the majors. The governments did not nationalise, rather they maintained negotiations. This was a result of their recognition that they could achieve their goals without resorting to such action, the threat alone proving sufficient. The majors managed to retain their ownership of their subsidiaries, and importantly their access to crude oil supplies. Even the radical States allowed the majors to continue to operate in their territories. The host governments still did not have sufficiently developed State facilities to allow them to nationalise the assets of the majors with any real chance of running a successful operation. The home governments avoided a loss in supplies, accusations of intervention or endangering regional political stability. Bargaining produced agreements that reflected relative advantage not control. The position of the majors was seen to have changed, governments found themselves with more room for manoeuvre whilst the majors found themselves with less. Ultimately, however, the 1971 agreements were a failure for the majors failed to gain five years of stability, within a year prices were raised by the hosts, BP's assets were nationalised in Libya and participation agreements were widely called for. Obsolescent bargaining was

increasing in pace.

The Tehran and Tripoli Agreements proved to be mere 'ropes of sand',<sup>14</sup> that led to the collapse of the 'House of Cards',<sup>15</sup> that was the international oil industry and centered upon the fulcrum of the oil multinationals, and which culminated in the 'oil crisis',<sup>16</sup> of 1973-1974. The oil crisis can be seen as a 'single traumatic process',<sup>17</sup> however, it was not a single event. Instead a number of different strands combined to produce a crisis. The quadrupling of posted-prices and the imposition of production cutbacks and embargoes are linked together in the minds of many observers, and by the consumer governments of the period, as a single act by the Host States. However, these features of the crisis can be regarded as separate events that together advanced the obsolescent bargaining process. Although the price increases, production cuts and embargoes stemmed from the catalyst of the 'Yom Kippur' war of October 6th 1973 and involved both economic and political considerations, it is likely that the price 'hikes' arose more from the immediate economic concerns of OPEC whilst the embargo emerged from the particular political interests of O.APEC. As a result of the oil crisis the position of the majors was further undermined in the producer States and made more suspect in home and consumer States. The following discussion is less concerned with the price issue (although its political implications will be noted where they influence the relations between majors and governments) than with the relationships between the actors from the perspective of the Arab embargo and the home State-consumer reaction that led to the formation of the IEA.

When Egypt and Syria attacked Israel they achieved a significant advance through surprise and aggressiveness. Yet, within two weeks Israel had counter-attacked and was in a position to threaten both Damascus and the Egyptian lands of the Suez Canal zone. Faced with this military reversal the oil ministers of the Arab states met in Kuwait to coordinate their use of an 'oil weapon' against the West in general and the pro-Israeli States of America, Denmark, the Netherlands, as well as Rhodesia, South Africa and Spain in particular. These ten Arab States decided upon a 10% cut in oil exports and a complete embargo

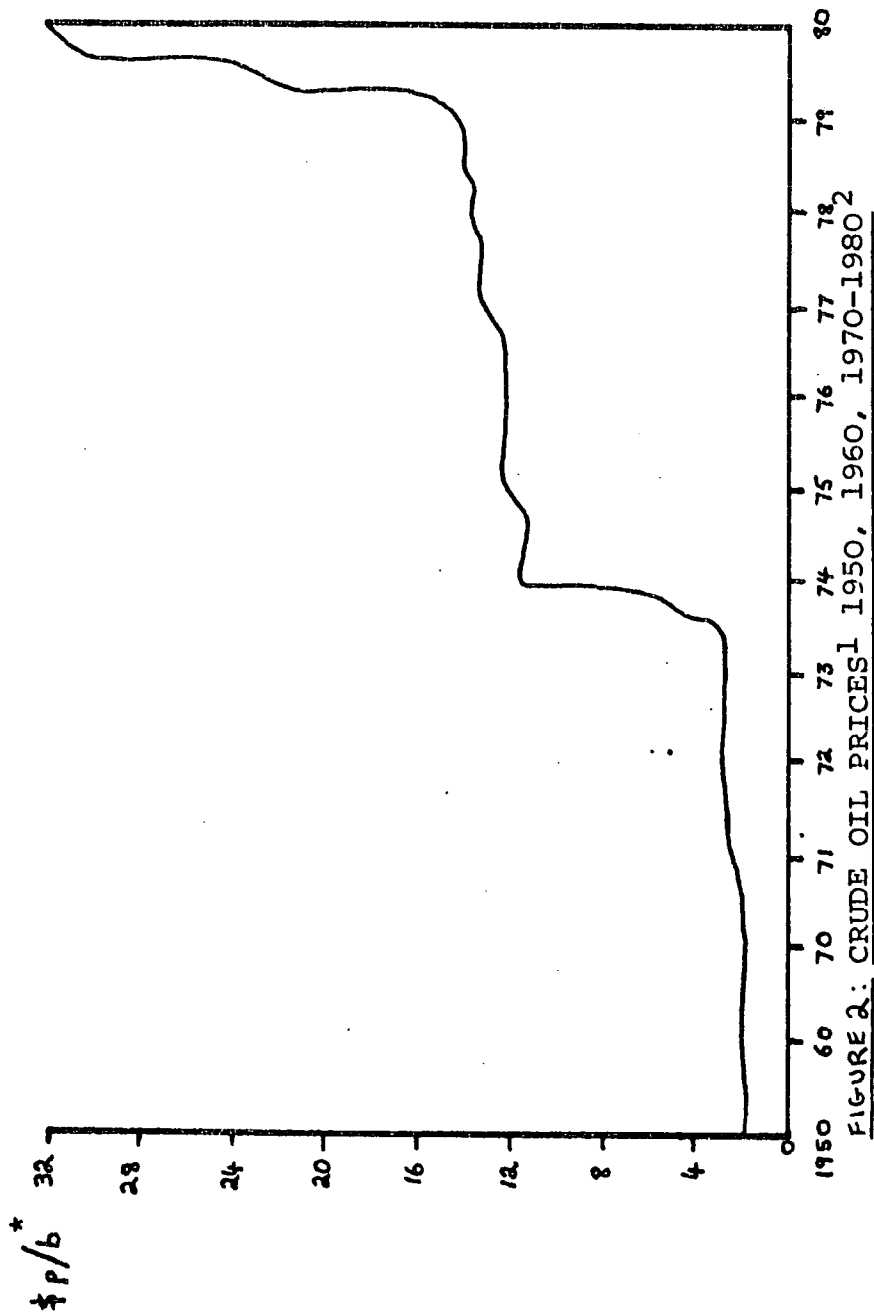
upon these 'hostile' countries. Saudi Arabia postponed her cut to provide America with an opportunity to change its foreign policy but almost simultaneously America increased its aid to Israel and Saudi Arabia then introduced its embargo. By November the embargo had succeeded in extracting a reiteration by the EEC of its support for UN Resolution 242 and a generally more favourable climate towards the Arab position in the capitals of Western Europe. OAPEC meetings in Kuwait and Algiers decided upon EEC embargo exemption from some of the proposed cutbacks and for an overall total cut of 25% of September 1973 levels. The war was progressing steadily towards a hard-fought, bitter and costly military stalemate. Arab proposals for ending the embargo were watered down from the demand for a full Israeli withdrawal from 'occupied lands' to a 'timetable' for such withdrawals. American foreign policy, whilst remaining substantially pro-Israeli, had moved perceptively towards a more 'evenhanded' approach to the warring States and was seriously pursuing a cease-fire and peace settlement. In January 1974, a cease-fire was signed. Already in December 1973 some Arab States had argued for an end to the embargo, and by the Algiers Conference in February 1974 the embargo was concluded, whilst in Washington the consumers were meeting to try and coordinate their oil strategies. The embargo was formally ended and eventually in November 1974 the LEA emerged from consumers' deliberations.

This then is the brief history of events during the 1973-1974 crisis.<sup>18</sup> But what were the particular aims and bargaining positions of the various actors and what was the nature of the role played by the oil multinationals? The first aspect to be noted is that it was not the OPEC organisation that imposed the embargo and cutbacks, but the OAPEC countries. These latter States include virtually all the major producers in the world and therefore as a collective group is in a position to enact an effective and coordinated series of exportcuts and embargoes.<sup>19</sup> There are two main views regarding why the Arabs should have taken such an action in 1973. The first is economic. Writers such as Benjamin Schwadran argue from the hypothesis that 'the Middle East oil crisis which stemmed from purely economic factors suddenly assumed aspects of political determinants'<sup>20</sup>. This argument would seem to fit in very well

with the proclaimed aims and raison d'être of OAPEC as embodied in its constitution:

'The principal objective of the organisation is the cooperation of the members in various forms of economic activity in the petroleum industry, the realisation of the closest ties among them in this field, the determination of ways and means for safeguarding the legitimate interests of its members individually and collectively, the unification of efforts to ensure the flow of petroleum to its consumer markets on equitable and reasonable terms and the creation of a suitable climate for capital and expertise invested in the petroleum industry in the member countries'<sup>21</sup>

Presumably then the embargo was initiated by the OAPEC hosts in order to 'safeguard' the legitimate interests of its members through the reduction in available oil, leaving 'market forces' to raise prices, only stopping -in Schwadran's view- when the economic consequences of international financial instability threatened the Arab States themselves.<sup>22</sup> However, whilst accepting that economic interests were involved in the decision to undertake an embargo, more important to OAPEC may well have been the political aim of changing American foreign policy in their favour, in other words, using the majors as 'transmission belts' for the exercise of influence over the home States and consumers. OAPEC, having been established in 1968 as a moderate grouping of Arab States to be a counter balance against rising radicalism, gradually grew in number and could not withstand the pressure from radical States for membership. OAPEC's radicalism, in consequence, grew during the early 1970's. The oil weapon had been used before and was not a new idea. Advocated in 1947 by the Arab League as a means of opposing the creation of the Israeli State, the following year Jordan and Syria closed the pipeline to Israel and TAPline was delayed. The Suez War in 1956 and the June



1. Arabian Light 'posted' at Ras Tanura.
2. 1952-1972: Market prices at discount on 'posted-prices'.
- \* 1 Barrel = 35 Imperial Gallons or 42 US Standard Gallons.

Sources: BP "Our Industry Petroleum" (1977) BP Ltd, p. 580;  
 "The Times", London, various issues, 1973-1980.

War of 1967 both saw Arab producer attempts to implement an embargo against pro-Israeli States. What was new about the 1973 situation was the unity of OAPEC and the length of the embargo. Most of the Arab States were involved and the action lasted five months (nine in the case of the Netherlands) much longer than ever before. The warning given to oil executives of the Aramco group by King Faisal of Saudi Arabia, the declared terms for the ending of the embargo, and the actual terms that ended it, all point to the political motive behind the embargo. <sup>We note</sup> ~~The~~ bitterness that remained after the 1967 conflict, the pressure extended by the pan-Arab organisations such as the Arab League and the PLO upon reticent Arab States, and the strong possibility that the moderate royalist States such as Kuwait and Saudi Arabia undertook this action as a defensive measure in order to grasp the initiative away from more headstrong radical States.

OAPEC was able to exert its influence over the multinationals through its members. Together these States held 65% of OPEC's oil resources and 55% of world resources. At a time when the market clearly benefited the sellers, these States were in a strong bargaining position in relation to the majors. American production was in decline, Venezuela was faltering and Alaskan and North Sea reserves had not yet been brought on-stream in commercial quantities. Since the beginning of 1972 OPEC had been significantly revising oil prices upwards and, following the outbreak of war, had taken the opportunity to boost prices unilaterally to high levels as figure 2 indicates. These price-rises were providing ever greater revenues for host states, thus strengthening their financial independence from the majors. The host

governments were now confident of their bargaining power. The emergence of State-owned corporations as efficient and knowledgeable organisations and the speed and spread of participation agreements throughout the Gulf increasing the host influence over domestic industries from 20% to 60% by 1973, strengthened the bargaining position of the host governments.

As in 1971 there were divisions and differences among the Arab States that weakened their position in some respects. The most obvious was that between the moderate royalist States and the radical, revolutionary States. The embargo produced curious differences among these countries. Whilst all agreed to the embargo and the moderate States implemented their cuts, the radical states actually increased production! The crucial differences arose from the 'hawkish' desire of the radical States to get the moderate States to nationalize their oil industries and take full control of the assets of the majors. The moderates, however, preferred to take a gradualist line, arguing that this <sup>would</sup> exert more pressure upon the majors and bring greater rewards. Moreover, there was, and remains, a difference in the tactics open to the various governments. Those with large revenues and small populations such as Saudi Arabia are able to use production levels to direct prices, whereas those with high ~~low~~ populations, such as Iran, seek to raise production and prices to increase revenues. Finally the increased production of non-Arab States such as Nigeria to offset the decline in available oil reduced the impact of the embargo. However, the Arab States undertook their embargo for political reasons and were led by Saudi Arabia. The moderates took this line for a variety of reasons. The enmity between King Faisal of Saudi Arabia and Nasser of Egypt was later replaced by a friendship



between Faisal and Sadat. Arab prestige and pride had been hurt by the 1967 war and Faisal in particular looked to regain it. These States also sought to regain the leadership of the Arab world and maintain their own position against the radical states. Finally, majors were being made aware that the demand for 100% participation would have to be conceded. The Arab States needed the majors to operate the embargo and commanded sufficient leverage over them to gain their acquiescence as a result of the bargaining of the previous three years.

An important question raised by the crisis is the amount of choice available to the majors; could they have avoided being used by the States? Critics such as C.T. Rand argue that the majors agreed by choice to cooperate because <sup>they saw</sup> the rewards of 'buy-back' agreements and home government support for higher prices as a cover for a change in foreign policy.<sup>24</sup> For John Blair the ability of the producers to control up-stream facilities and the continued strength of the majors down-stream formed a 'bilateral monopoly'.<sup>25</sup> Rand argues that the majors realised that compliance would guarantee their continued position and this is evidenced by high investment levels prior to the crisis. Whilst there is little dispute over whether the majors were instrumental in the embargo, it is unclear whether they faced a real choice. The majors had little incentive to hold out against Arab government demands, but even if they had decided to refuse it is likely that preferential agreements and their large assets and investments would be endangered and even these corporations could not afford such a loss.

The majors can be said to have had three goals in October 1973: first to retain access to crude oil supplies at least cost<sup>26</sup>, to change American foreign policy towards the Arab States, thereby strengthening the place of the majors in these countries<sup>27</sup> and third, to survive the turmoil as best they could. In effect, the majors achieved all three of these aims. However, in the long-run suspicion and uncertainty among home States and consumers had led them to become involved in the oil supply process rather than leave it solely to the majors. The majors are therefore not autonomous actors, but are closely tied to the heavily State-influenced international system, and respond to the distribution of power within that system and to the pressures exerted therein. To assess the role of the majors it is equally important to analyse the home States' and consumer reactions and bargaining positions. In 1975 Christopher Tugendhat wrote that:

'...one of the most important of all developments to come from the climactic events of the early 1970's could well be the emergence of the consuming countries as political actors in the drama of the next decade'<sup>28</sup>

However, in 1973 both the home States and the consumers were complacent in their attitudes towards oil and the oil majors. Following the 1967 embargo these States had undertaken stockpiling of oil in case of another such action and provided for an OECD Petroleum Emergency Group for oil-sharing. Western States were slow to recognize the extent of their dependency on the Arab States. America imported one-third from these states and a 10-15% cut could produce shortages. Western Europe imported 68% and Japan 90% of their oil needs. These countries did not expect the crisis, but the feeling was strong that if one arose the majors would cope, as they did in 1956 and 1967. The events of the early 1970's in the oil industry were simply ignored. Some observers

did offer warnings:

'... that the oil importer governments should consult to set guidelines for the companies actually engaged in bargaining is the most practical proposition ... require more responsibility and share final responsibility for negotiated agreements'<sup>29</sup>

Such warnings were unheeded or came too late. The 1973 embargo stunned these States. The majors' allocation of oil appeared free from home State influence<sup>30</sup> and a new approach to oil was called for by critics. Consumers met the crisis with confusion:

'... a setting of uncertainty and disarray, of transition from too successful a past to too uncertain a future'<sup>31</sup>

America, as both a home State and the leading importer of oil, was in a difficult position. America relied upon 'her' five majors and surrounded oil in an aura of 'national security'. Western Europe was used to such dependency, but it came as a shock to America. Initial reactions were of anger, frustration and misunderstanding with terms such as 'blackmail' freely used. America finally decided upon a diplomatic initiative to draw consumers together, whilst initiating 'Project Independence' in America itself. The American government had been reluctant to intervene early on. <sup>There was</sup> a strong Israeli lobby; a CIA report <sup>AA</sup> suggesting that Faisal was bluffing; the concern of the Secretary of State with cease-fire negotiations; and a President distracted by re-election and 'Watergate'. Yet, America felt it had to act and act as leader of the consumer states.

Western Europe, however, perceived the crisis differently from America and relations were permeated with suspicion and resentment in France<sup>32</sup>. To Anne-Margret Walton<sup>33</sup>, the crisis is an example of 'issue linkage' wherein America linked security interests to economic interdependence.<sup>34</sup>

The most important linkage however, is that of strategic-military interests to political changes in the international system of which the 'oil weapon' was a symbol:

'...the system of advanced industrial nations appears to stand in the greatest danger of falling apart as a result of failure of its leaders and peoples to recognize that it is under attack from a powerful external force, which, in part at least, sees the destruction of the Western system as a desirable end.'<sup>35</sup>

Concern was with possible expansionism by the Soviet Union in the Middle East and Western Europe. Yet it is argued that the Soviet Union as an increasing net importer of oil and in need of the industrial West to help her own development, had little desire to see a crumbling Western economy and a rise in tensions through its own actions<sup>36</sup>. Soviet production of oil rose as did supplies to the West at this time, rousing criticism of the Kremlin among those who foresaw the final collapse of the capitalist system.

The majors continued with their allocatory scheme. Britain with its status of a 'friendly' State affirmed by OAPEC and reprieved from the embargo still found itself with shortages - its close links with BP brought no particular advantage. America invited the Western States to meet in Washington in February 1974, and <sup>this</sup> represented the beginning of an attempt to establish a unified counter-group to OAPEC and OPEC. The Washington Conference formed a coordinating committee to help form a joint agency. This decision raised problems for Western Europe, for, under French pressure, the EEC had issued a pre-Arab Declaration in November and in December a 'secret' meeting of EEC Foreign Ministers in Copenhagen agreed an exchange programme of 'mutual assistance' with

Arab States, and in January announced an intention to hold a 'dialogue' with Arab States.

For France the crisis signalled an opportunity to extend its restriction of 'Anglo-Saxon' multinationals and also to challenge America's position of leadership in the West through the rejection of the IEA initiative and pursuing 'rapprochement' with the Arabs. Premier Jacques Chirac claimed in October 1974 that 'France refuses to be part of a confrontation between users and sellers'<sup>37</sup> .

France grasped an Arab proposal for broad discussions including 'Third World' States and the 'International Conference for Economic Cooperation' opened in 1975. The IEA had been established in November 1974, but by 1975 still did not resemble the envisaged organisation for counter-bargaining. The majors were left much as they were before the crisis. The reaction of the West was ineffectual and late:

'In the struggle between the producers and consumers the weakness and helplessness of the latter was amply demonstrated. All the daring efforts of the United States and the very modest efforts of the French were doomed to fail for they lacked the proper motivation for a united, determined stand of the consumers and a readiness to take the proper measures for the realisation of the objectives. They all worked at cross purposes, each trying to advance its own interest at the expense of the others. At the end the United States gave in and did not live up to her threats.'<sup>38</sup>

The majors generally implemented the wishes of the hosts and gained short-term benefits from higher prices and access to preference oil. The pre-dominant influence upon the majors was the host States at the same time as home State pressure was weak. The weakness of the consumers stemmed from

the dilemma over the role they should play in the international oil industry:

'...whether they should throw in their lot with each other and pursue policies and negotiations as an internationally coordinated body of major consuming areas, or whether they should seek to manage as best they can on a national basis, seeking bilateral arrangements with individual producers, or whether they can, as they have done in the past, play it by ear and attempt to have a measure of both individual and international cooperative action.'

The majors have tried to balance the conflicting pressures through their traditional role as 'middlemen'. In the 1973 crisis this was an untenable position. To try to operate the embargo whilst claiming to be impartial actors brought only criticism. The majors left themselves open to such attacks by acting for the Arab States yet also trying to 'demonstrate the validity of their claim that they can act as neutral intermediaries in moving oil between hostile governments.'<sup>40</sup> Consumers were bitter over the arbitrary decisions of the majors' emergency committee. The hosts were concerned that the majors would reap the financial rewards resulting from shortages or that the majors might reduce the force of the embargo by directing oil to embargoed States through third countries. The embargo was probably significant not in its physical respects (although the long queues of vehicles at the petrol pumps were real enough) but in its psychological impact. Governments and majors were made aware of their interdependency. Specifically, host governments realised their bargaining influence; consumers recognized that they must take a more active role in the international oil industry; and the majors were made aware of the State-dominated environment in which they operate and the pressure behind the demands of host governments.

The relationships between the governments and the multinationals, not only in the oil crisis but in the 1971 agreements as well, reflect differential bargaining rather than any absolute control. In these cases the host States have gained greater revenues, participation and pricing control through obsolescent bargaining, the majors have maintained their role as international merchants of oil, the consumer and home States maintained their oil flows whilst increasing corporate taxation and establishing state-based facilities to take on larger responsibilities from these enterprises. The overwhelming force for change has been the underlying improvement in the political capacity of the host governments to press for their national objectives leaving the multinationals performing their role as 'in-between' within a more restricted international framework. As one writer describes the importance of these events and trends:

'... the industry had changed for good. The system which once dominated in the Gulf (and elsewhere) had been shattered, and the architects of this demolition were Gadaffi, Occidental and the hubris of the unyielding Exxon, the redoubtable SoCal and the other five majors. The heyday of the independents in Libya-like an accident on a freeway-has left its trace on the industry, long after its debris has been cleared up.'

## CHAPTER 6

### CONCLUSION

This study began by asking a number of questions about the multinational corporations and their relationships with nation-states. In what sense do they operate beyond the sovereign authority of nation-states? Where does power lie within these relationships and of what is it constituted? What conflicts of interests are there? Do the multinationals represent a challenge to positions of authority assumed by the nation-states in international affairs? This concluding chapter provides the opportunity to bring together the principal arguments and the evidence discussed in the main body of this study and to draw conclusions as to what may be said to form the answers to these questions.

From the interpretations discussed in chapter two it is clear that there is a belief that the multinationals are very much beyond the control of governments, conducting their operations on the basis of an asymmetrical power relationship with the States, involving themselves in bargaining processes, the outcomes of which are inevitably 'zero-sum' in the light of inevitable and irreconcilable conflicts of interest between the actors, and constituting substantial challenges to the sovereignty of nation-states. However, it is also clear from chapter two and from subsequent chapters that this belief is mistaken and that these interpretations are unconvincing and are built upon weak, insubstantial theoretical foundations.



The case study, by focusing attention upon the actual relations between oil multinationals and governments, reinforces the view suggested by the theoretical discussion that precedes it, that the multinationals are not autonomous units, but are tightly bound into an international system organised by, and for the interests of nation-states. Power, in the sense discussed earlier in the study is largely distributed symmetrically although in many instances the balance tips in favour of the States. Bargaining is undertaken on the basis of reciprocal benefits with the parties involved seeking agreements that go some way to fulfilling their competing interests. Finally it is evident from the review of the characteristics of both the multinationals and the States in chapter three that the corporations do not constitute a serious challenge to government authority and appear to reinforce the established nation-state dominated system.

Such conclusions are obviously inimical to arguments that posit a virtually complete independence for these corporations. The neo-imperialists base their analysis upon an economic rationale or rather rationalisation, the belief that it is economic processes and their loci and not political frameworks (nation-states) that are the important foci for analytical attention. Multinationals are identified as the largest and most significant concentrations of economic strength in the international economy and as such exploit countries as 'captured' economic territory. These global monopolies, in this view, owe their growth to an inherent and inevitable capitalist trait for expansion, and their power to their economic capacity to control

countries, be they home or host. Apart from doubts concerning capitalist expansionism, national or international, class exploitation and the systemic polarisation of wealth and poverty, which were raised in chapter two, it is clear that this theory breaks down in a number of other respects. First, the multinationals cannot be said to be the monopolies that they are claimed to be by the neo-imperialists. The limitation of competition between capitalist enterprises that is the basis of the concept of monopoly simply does not exist among multinationals, however much these corporations desire or pursue it. For example, there is in the car industry intense competition between the giants and, as the case study highlights in the oil industry successive attempts such as that of the Achnacarry agreement have either been short-lived or outright failures. The related argument that these corporations are so large that they cannot help but dominate industries, leaving governments with no choice but to deal with them and accept their terms, is more worthy of consideration. But this is also oversimplified and rendered invalid by what it chooses to ignore. In the oil industry in particular, but in others too, the multinationals' position is being eroded by smaller specialised firms and government-owned companies. These latter firms are not constrained by fears that terms agreed in one country will result in 'leapfrogging' in others—a justified concern of the multinationals as chapter five has shown. Second, the multinationals do not control nation-states as this interpretation argues must inevitably be the case. Taking the home countries first, the question of why these countries should allow the multi-

nationals to lose their control over their subsidiaries overseas, despite the calls for aid from these firms to government, if there is a harmony of economic or even class interest, is not satisfactorily answered. The link between economic strength and influence over government, that is, power, is simply assumed, not proved, as it must be if this interpretation is to mean anything at all. Class is used as an all-embracing 'catch-all' to cover the deficiencies of the abstracted equation: economic capacity equals power (influence). In this context, class consists of speculation built upon dynamics of implication, rather than conclusive proof. It is argued that because both corporate and governmental executives are from the same background, their perspectives are similar and therefore it is implied that their actions will coalesce. Similarly, it is argued that a 'shuttle' of executives between corporation and government indicates that the behaviour of those involved will remain the same despite institutional differences. There is no evidence to support a generalised systemically-ordered dynamic of class of the nature propounded by the neo-imperialist interpretation. More important still is the evidence indicating strong obsolescent bargaining, by host states especially that completely contradicts the claim of this interpretation that the multinationals inevitably and irrevocably control nation-states. The very presence of such a process, so evident in the reduction of oil majors to contractors in countries where previously their position of authority over oil was unchallenged (chapter 5), refutes the distorted determinist explanation of the neo-imperialists.

Equally unconvincing is the neo-mercantilist argument. In this interpretation the multinational corporation has established its position during the post-war period as a consequence of a 'natural harmony of interests' with its home government. American political and military expansion is argued to have provided favourable conditions for multinationals and in turn corporate expansion has reinforced the position of America overseas. However, an inevitable decline in the hegemonial position of the home country as a result of the diffusion of technology forces the home country to depend upon the multinationals to an ever greater extent, thereby allowing the multinationals to develop as increasingly more autonomous organisations. This interpretation does not attempt to portray itself as a general theory as does the neo-imperialist, rather it draws its conclusions from particular historical instances such as the Cold War. The problem with this interpretation lies with the inability of these historical examples to stand up under investigation. The Cold War period must be regarded as the exception rather than the rule. The threat of Soviet expansion into Western Europe perceived by the American government after the war, stimulated a similar response from government and business. This was only a temporary coalition that ought not to be generalised too widely <sup>for</sup> <sub>A</sub> clearly the history of the oil industry indicates that home country interests do not always coincide with those of the multinationals. The oil crisis highlighted the difference in policy towards the Arab countries in the context of Israel with the corporations backing the political demands of the Arab oil producers and the American government continuing in its

support for Israel. It is also difficult to accept the view that the multinationals are moving beyond the control of American regulation because America is in decline. America's world influence may be in a slight decline, but its ability to enforce its sovereign authority upon private corporations cannot be seriously questioned, especially as new regulations such as those covering information disclosure and environmental protection have been introduced. Moreover, the claim that multinationals were manipulated during the immediate decades after the war by the home government to secure its position overseas, such as Cuba following the takeover by Fidel Castro, is limited in its validity, for, in this case as in others, the companies have been guided not by national interests but by their own, as the avoidance of Rhodesian (Zimbabwe) sanctions indicates. Home country aggrandisement does not constitute the rationale of the multinational corporations' operations overseas, although neither can they entirely ignore the requirements of behaviour established by such countries, both of which points indicate the weakness of the neo-mercantilist explanation. Furthermore, as the Iranian hostage crisis so graphically illustrated, wealth (or economic capacity) does not directly correlate with power. Even the strongest of organisations can be ineffectual. This core belief of this interpretation can be seen to be invalidated by the successes of countries in harnessing sufficient 'countervailing power' to restrict the position of the multinationals as well as the American home country.

Although the interpretations as a whole argue that the multinationals exercise autonomy as a result of economic strength, the sovereignty-

at-bay and global reach arguments identify the crucial element of autonomy as being that of multinationalism itself, that is, global flexibility. As new economic organisations, structured on world-wide bases, these enterprises are in a unique position to overcome national restrictions simply by 'going elsewhere'. Immobile national units cannot compete with these corporations on equal terms and are therefore threatened with extinction. Although the two interpretations differ as to whether this independent role is a good or bad development, they agree that such an independence is emerging. Yet, it is clear from the earlier chapters that the amount of flexibility accruing to the multinationals as a result of their global structures is limited. The multinationals are represented in these interpretations as homogeneous entities operating with little reference to national frameworks. However, the study of the multinationals in chapter three indicates that whilst financial and managerial links are centralised, the corporations are based upon parents and subsidiaries that are nationally-orientated and responsive to national conditions. The global reach interpretation chooses to underplay the importance of the obsolescing bargain, and argues that the multinationals possess a monopoly of knowledge. But the nation-states are clearly pressing the multinationals hard to alter their operating conditions in favour of the countries, and in so doing are being helped by their greater understanding, technical expertise, and research facilities; OPEC for example provides a forum for the exchange of information between oil producers. It is a fallacious argument to reason that corporations can establish an independent role on such an uncertain basis.

It is evident from this study that the interpretations considered and referred to throughout offer unconvincing explanations of the multinationals' relationship with nation-states. Multinational autonomy is as far from reality as absolute national independence. Just as the State, no matter how powerful, must look to and depend upon outside entities for resources to satisfy the needs of its people, the multinational corporation requires the continued access to countries for materials or markets, the control over which resides firmly in the hands of national governments. The multinationals are tied into the nation-states system, their actions are regulated by a large and growing network of national controls and international supervisory bodies. Investment and trade laws, taxation requirements, public auditing, information disclosure requirements, competition policies such as the American Anti-trust legislation, codes of conduct such as that declared by the ACM, ownership and participation agreements providing for government involvements such as those achieved by the Arab countries in the early 'seventies' with the oil majors, export and import quotas, environmental protection restrictions, labour provisions, safety practices, production and marketing quotas, together are some of the regulations that form of body of 'rules' of behaviour for the multinationals against which their conduct can be judged by governments and within which their relationships with governments are undertaken. These rules form the context in which bargaining and negotiating takes place. Multilateral cooperation between governments reinforces the impact of these rules. This cooperation may be based upon regional interests as in the case of the ACM, or as chapter five shows,

it may be based upon producer concerns (OPEC) or consumer interests (IEA). OPAEC for example involved a complex interaction of economic, military, political, and religious factors in its formation and development. Moreover, the establishment by the United Nations of a Centre for the Study of Transnational Corporations, in association with its investigation and publication of a code of conduct further restricts the possibility that the multinational corporation constitutes an autonomous organisation in the international system.

The difficulties with the interpretations largely stem from the underlying misunderstanding of the distribution of power present in the relations between corporation and government. Power is symmetrical rather than asymmetrical in nature, involving not the imposition of a set of conditions upon one actor by the other, but a negotiated outcome based upon differential bargaining that in the majority of instances appears to offer reciprocal benefits to those involved, rather than the 'zero-sum' bargains claimed by the interpretations in which one gains only if the other loses. As can be seen from chapter four, size alone is a misleading guide to the distribution of power. As far back as 1937 Jersey Standard's subsidiary was expropriated by Bolivia. The following year the subsidiaries of both Jersey and Shell were expropriated by Mexico and in the 'sixties' Peru successfully expropriated the Exxon subsidiary IPC. However, these examples do largely represent breakdowns in, or the avoidance of, the processes of negotiation. In these cases the governments were indeed able to gain their objectives at the expense of the multinationals despite the intense pressure placed



upon them by these firms. Of course there are also examples in which the multinationals have been able to exert sufficient pressure to achieve their goals at the expense of government: the Chilean case in the 'seventies' or the Iranian crisis in the 'fifties' are, as we have noted in earlier chapter, instances where the countervailing bargaining power of a government was too weak to withstand that of the corporation. Yet, it is also quite evident from the preceding chapters that these are exceptions, bargaining does usually take place, often of a bitter nature, and benefits are largely distributed on a pragmatic basis of what is possible. As the case of India has shown, despite the country's need for oil supplies from outside sources, technical expertise and risk capital that left it dependent upon the oil majors, it was still able to establish its control over the domestic industry during the 'sixties' and 'seventies'. Out of the bargaining involved, the government secured its objectives of participation in the oil industry, higher revenues, agreement on graduated ownership, and a continued dialogue with corporation that were able to provide capital and expertise as well as oil. On the other hand, the oil majors managed to maintain a role in India, in other words they were granted continued access to the Indian market with reasonably secure returns for their investments. It has also been seen from the analysis of the Arab oil producers' relations with the majors that whilst the producer countries gained effective control over prices, supplies and ownership of Middle Eastern Oil, the majors in return were able to secure (at least temporarily) preferential terms for the supply and purchase of this oil. Moreover, the

requirements of these governments in the related area of petrochemical plant development, namely that the majors supply the risk capital, fulfils national goals but also offers the majors a continued involvement inside these countries. In each case those involved recognized the fact that each had something that the other needed. Influence was reciprocal, and of a relative rather than absolute nature. These corporations and governments could not afford to alienate each other as result of an exercising of asymmetrical power; the political process clearly involved the resolution of competing interests through bargaining and compromise, and not the imposition of conditions upon one actor by the other. Conflicting, or, as is more often the case, competing interests cannot therefore be realistically drawn as being either inevitable or irreconcilable, the power balance precluding the possibility of corporation or government being able to effectively pursue its interests in isolation from those of the other actor, as in the case of Kennecott in Chile mentioned earlier in the study illustrated. The copper multinational could not ignore the mounting pressure from the Chilean government and the real danger of expropriation. Once the government had acted, it found that it could not ignore a network of financial commitments that required compensation in the light of expropriation to which the government had to address itself.

One of the most obvious conclusions to be drawn from this study is that the relationship between the multinationals and the nation-states is a great deal more sophisticated than the interpretations argue. Mention was made in the introduction of the differences to be

found among the types of multinational and the nature of their operations. It must also be evident from the intervening chapters that there is an even greater number of differences among the countries. Some countries are obviously larger than others; some are wealthy and some poor; there are those that are weak and those that are strong; some are less dependent upon multinationals than are others and there are some that are more hostile to these corporations than others.

Strength and weakness can originate from political, economic or natural factors. America exercises a worldwide role, it is economically mature and diversified, there is a high degree of political stability and it is rich in natural and human resources. On the other hand, countries such as Ethiopia or Chad are politically strife-torn, economically underdeveloped and lack resources. The Arab oil producers do not exercise a role comparable to America's but possesses great strength through their possession of oil resources in demand by the corporations. A strong political will offers a country a better position from which to deal with multinationals. The powerful leadership of Qaddafi in Libya, the religious fervour of the Iranian leadership, or the ideological radicalism of Algeria or Iraq all contribute to a position of strength with regard to the multinationals lacked by others.

Similarly, dependency is not limited to those countries that are

identified as underdeveloped, although in some instances national economies can become tied to the fortunes of the multinationals that operate within them, such as Chile in the 'sixties' and early 'seventies'. Developed countries too fear that their technological lag behind the United States forms a type of dependency from which it is difficult to escape; as this study has already seen the EEC was partly encouraged in its formation by those that saw an opportunity for European corporate mergers to challenge the technological lead of American multinationals. In some cases dependency is more obvious such as the Japanese reliance upon oil supplies provided by the oil majors. Yet, even in the case of America the position can be ambiguous. As one of the leading economies of the world it might be expected that concern over dependency on multinationals would be minimal. But as chapter three indicated there are worries that the American economy is developing into a service-orientated post-industrial economy generating less income, thereby increasing the dependence upon the revenues derived from multinationals operating overseas. Since it is a reasonable conclusion to draw in the light of previous discussions of autonomy and power, no government is entirely independent from those multinationals operating within the confines of its authority, but some -such as America- are more independent than others.

The differences in attitude of governments towards the multinationals cannot be regarded in isolation from the factors discussed immediately above, but are, however, also influenced by other distinct factors.

A comparison between Libya and South Africa suitably illustrates some of these factors. Both these countries are rich in natural resources; Libya in oil and South Africa in precious metals and minerals. Both are importantly placed geographically: Libya for the Mediterranean and northern and central Africa; South Africa for southern Africa and the Indian Ocean. Both are also the focus for international disapproval: Libya because of its expansionism in north Africa and elsewhere; South Africa because of its domestic policy of apartheid. However, their respective attitudes towards multinationals are very different. The revolutionary leadership of Libya has been reinforced over the years by socialist ideological trappings; together this political complexion has proved unfavourable to large capitalist multinationals. Religious fervour directed at the representatives of Western materialism has provided an additional rationale for government pressure upon the oil majors. Successive obsolescent bargaining has been interspersed with nationalisation of multinational operations in Libya and the establishment of national control. In South Africa, on the other hand, a more favourable climate exists for multinationals. Ideologically sympathetic to capitalist free enterprise and bolstered by a national consensus of values centered upon the protestant work ethic, economic nationalism finds its expression in the desire to attract enterprises that will enhance the position of South Africa in southern Africa and the world. This desire is given added urgency by the country's unpopularity abroad. By locating in South Africa, these corporations can be used as symbols of South Africa's determination to order its own affairs without outside advice or pressure, Apart from the factors of ideology, political leadership, religion, or economics, suggested by this comparative example, there are others.

France, for example, assumes a hostile posture with regard to multinationals from abroad, especially those from America, almost as a matter of national pride and irrespective of the question whether these corporations will be granted access to the French economy. The fierce French protectiveness towards its cultural, social and politico-economic identity is an important feature of its attitude towards these corporations.

Such differences between countries cannot be ignored, and it is clear that generalisation is not easy. The simple postulates of multinational autonomy or asymmetrical power distort the reality of differing actors and national and corporative perspectives or actions. There is a need for detailed analysis of the multinationals' relations with governments to provide a larger body of empirical information for interpretations to escape the problems of working in an area of limited information.

However, even with the information that is available it is possible to conclude that the multinational corporation does not constitute a challenge to the authoritative position of the nation-state in contemporary international affairs. These corporations have emerged as a response to the prevailing international environment in which they have sought to operate. These private organisations have developed structures designed to reduce the costs involved in transactions across national frontiers such as tariff fluctuations. However, this establishment of international structures represents a development within the existing framework of a nation-state. The parent-subsidiary relationship operates within national jurisdictions and the network of

regulations that form the context for international bargaining between corporations and governments. To identify the multinationals as being subordinate parts of a nation-state dominated system, is not to undervalue their significance in that system. The multinationals are able to provide sources of revenue, employment, expertise, capital and distribution and marketing networks. Moreover, as the oil crisis discussed in chapter five highlights, the multinationals can play a diplomatic role by providing a forum in which competing national interests can be pursued free from the danger of friction arising from direct national confrontation: the multinationals assuming the role of 'lightning rods' in the international system. The multinationals are therefore important organisations within contemporary international relations.

Although on the one hand there are obvious examples of multinationals being able to impose their conditions upon governments and being able to accrue a higher level of advantages from their bargaining relations with some governments, on the other hand, there are also examples of governments imposing their own conditions upon multinationals through nationalisation and of increasing their advantages through obsolescent bargaining. On balance, however, these examples represent the extremes of the relationships between multinationals and governments. In general the corporations and governments conduct their relations on the basis of a mutual recognition that each has something to gain from a balanced relationship and continuing dialogue with the other. Power is exercised through the medium of differential bargaining that reflects its relative and symmetrical nature. Bargaining outcomes mirror the distribution of power in

the reciprocal benefits to corporations and nation-states. These outcomes also reflect a desire to achieve objectives within the framework of mutually-acceptable agreements, a failure to achieve such an agreement opening the way to attempts to gain these objectives through recourse to extreme tactics. The crucial point to emphasise however, with regard to the central question that has been posed concerning multinational autonomy, is that this bargaining relationship takes place within the context of a network of regulations established by the nation-states that define the boundaries of multinational operations and the limits to bargaining. In effect the 'rules' of the game are established by the nation-states and in consequence the multinationals are required to play out their role accordingly. The multinational clearly does not lie beyond the sovereignty of nation-states, but rather forms an important and integral part of an established international system that is heavily influenced by the interests of nation-states.



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38. Paul Baran & Paul Sweezy Monopoly Capital (N.Y., Monthly Review Press, 1966, repr. Penguin 1970) p. 201
39. US Bureau of Census Statistical Abstract of the United States: 1957-1978
40. John Ardagh The New France (London, Penguin 3rd ed. 1977) pp. 101-2, 110-2, 116-7
41. See Chapter 5 pp. 7-9
42. Harry Magdoff The Age of Imperialism (N.Y. Monthly Review Press 1970) p. 12
43. Ibid.
44. See Chapter 5 p. 7
45. See Chapter 4 pp. 21-6
46. Andrei Sakharov Progress, Co-existence and Intellectual Freedom (London Penguin, 1976 ed.)

47. Ernest Mandel Europe Versus America? Contradictions of Imperialism (London, New Left Books 1970)
48. European hopes have been raised by the success of BASF's purchase of Wyandotte and Volvo's establishment of the first European-owned car plant in the US in 1973. But the strength of the 'European riposte' is weak amounting only to \$ 20,162 thousand million in 1976. US Bureau of Census, op. cit. 1977. Also Christopher Tugendhat The Multinationals (London, Penguin 1977) pp. 64-81
49. India is a good example of this, see Chapter 4 pp. 43-5
50. Yamani, op. cit
51. Christian Palloix The World Capitalist Economy (Paris, Maspero 1971)
52. Robin Murray 'The Internationalisation of Capital and the Nation-State', New Left Review No 67 May-June 1971 pp.84-109
53. Ibid. p. 104
54. Michael Barratt-Brown Essays on Imperialism (London, Spokesman Books, 1972)
55. Ibid. p. 76
56. Bill Warren 'The Internationalisation of Capital and the Nation-State: A Comment' New Left Review No 68 July-August 1971, pp. 83-8
57. 'Through its propensity to nestle everywhere, settle everywhere and establish connections everywhere, the multinational destroys the possibility of national seclusion and selfsufficiency and creates a universal interdependence'. Stephen Hymer 'The Multinational Corporation and the Law of Uneven Development' in Hugo Radice International Firms and Modern Imperialism (London, Penguin 1975) p. 60
58. Ibid. p. 38
59. Frank, op. cit.; T. Dos Santos 'The Crisis of Development Theory and the Problem of Dependence in Latin America' in H. Bernstein (ed) Underdevelopment and Development (London, Penguin 1973) pp. 57-79; C. Furtado Development and Underdevelopment (USA, University of California Press 1964)

60. Frank, op. cit. p. 76
61. Dos Santos, op. cit. p. 75
62. The Arab oil producers clearly cannot be regarded as supporting the dependence model, nor even can the distinctly poorer state of India, see chapters 4 and 5
63. Dos Santos, op. cit. p 76
64. R. Jenkins Exploitation: the World Power Structure and the Inequality of Nations.
65. Arghiri Emmanuel Unequal Exchange (USA, Monthly Review Press 1972)
66. 'The outcome of a relationship or exchange is 'unfair' or 'unjust' (where) there is a lack of equivalence in the value of the things exchanged'. Description offered by Klaus Knorr Power and Wealth: the Political Economy of International Power (London, Basic Books 1973) p 12. Knorr also points out that such exploitation only becomes fact when related to a pre-existing normative standard.
67. W.H.B. Court 'The Communist Doctrines of Empire' in Fieldhouse, op. cit. p. 136
68. J.A. Knapp 'Economics or Political Economy' Lloyds Bank Review, January 1973
69. Jacob Viner 'Mercantilism' in International Encyclopedia of the Social Sciences, Vol 4 (USA Macmillan-Free Press 1968) pp. 435-442
70. Ibid. p. 436
71. Robert Gilpin, US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment (London Macmillan 1976) p. 140
72. Ibid. p. 143
73. Iran, 1978
74. General Motors for example uses the name Vauxhall in Britain and Opel in Germany.
75. C.F. Bergsten, et al. American Multinationals and American Interests (Brookings Institute, 1978) Table 6.1 p. 182

76. Gilpin, op. cit. p. 49
77. R. Hammond, 'Imperialism: Sidelights on a Stereotype' Journal of Economic History (21) No 4 December 1961, p. 596
78. Gilpin, op. cit. p 43
79. 'The chronic condition for industrial enterprise is to be looking around anxiously for prospects of sales. Since the total market does not grow fast enough to make room for all each government feels it a worthy and commendable aim to increase its own sphere in world activity for the benefit of its own people. This is the New Mercantilism ... everyone is keen to sell and is wary of buying. Every nation wants to have a surplus in its balance of trade. This is the game where the total scores add up to zero. Some can win only if others lose'. Joan Robinson The New Mercantilism (CUP 1966) p. 10
80. Helmut Schmidt 'The Struggle for the World Product' Foreign Affairs (52) No 3 April 1974 pp. 437-453
81. Bergsten, op. cit. pp. 324-9
82. Gilpin, op. cit. Chapter 4, pp. 98-112
83. Bergsten, op. cit. p. 328
84. It is unclear as yet whether this consensus will continue during the 'eighties'.
85. The interpretation culls its name from the title of a book by Raymond Vernon, leading exponent of this view: Sovereignty at Bay: the Spread of US Multinational Enterprises (London, Longmans, 1971)
86. Adam Smith Wealth of Nations, quoted in Gilpin, op. cit. p. 29
87. By improving the lot of the individual, the well-being of society as a whole is enhanced.
88. Vernon, op. cit. p. 66
89. Gilpin, op. cit. p. 140
90. The UN Centre for Transnational Corporations is hoped to produce some global regulatory 'codes of conduct'
91. Chapters 4 and 5
92. Saudi Arabia and Aramco led the way to this position with their agreement in 1972-3 for a 20% state participation in the consortium.

93. Raymond Vernon, op. cit. Chapter 8. Also 'The Multi-national Enterprise: Power Versus Sovereignty' Foreign Affairs (49) No 4 July 1971 p. 715
94. OPEC, CIPEC, IBA, OAPEC, and even IEA
95. Bergsten, op. cit. p. 333
96. Richard Barnet & Richard Muller Global Reach: the Power of the Multinational Corporations (N.Y. Simon & Schuster 1974) p. 367
97. Hugh Stephenson The Coming Clash: the Impact of the International Corporation on the Nation State (London, Weidenfeld, 1972)
98. Barnet & Muller op. cit. p. 133
99. Ibid. p. 58
100. Ibid. p. 128
101. Ibid. p. 193
102. Ibid. p. 147
103. Ibid. p. 184
104. The implementation of the Hickenlooper Amendment against Peru was very largely ineffectual in the face of strong Peruvian political will to resist.
105. Stephenson, op. cit. p.2
106. Barnet & Muller op. cit. p. 136
107. OAPEC banking, technical and industrialisation cooperation and coordination.
108. Klaus Knorr op. cit. pp. 14-5
109. H.D. Lasswell & A. Kaplan Power and Society: A Framework for Political Enquiry (London, Routledge, 1952)
110. A symbiotic relationship evidenced throughout the case study in Chapters 4 and 5 below.



### Chapter 3

1. See Chapter 2 p. 29
2. For Henri Deterding see Christopher Tugendhat & Adrian Hamilton Oil, the Biggest Business (London, Eyre Methuen 1975 ed.) pp. 43-58. For Sosthenes Behn see Anthony Sampson The Sovereign State: the Secret History of ITT (London, Hodder & Stoughton 1973) For W.H. Lever see Charles Wilson The History of Unilever, Vol I (London, Cassel 1954)
3. Raymond Vernon 'Multinational Business and National Economic Goals. International Organisation (25) No 3 Summer 1973 pp. 693-705
4. UN op. cit.
5. Jacques Maisonrouge 'The Mythology of Multinationalism' Colombia Journal of World Business (9) Spring 1974 pp. 7-12
6. Quoted in David Blake & Robert Walters The Politics of Global Economic Relations (University of Pittsburgh, Prentice-Hall 1976) p. 81
7. Maisonrouge, loc. cit. Also Emile Benoit 'The attack on the Multinationals. Colombia Journal of World Business (7) November-December 1972. pp. 15-22
8. Chapter 5 pp. 1-5
9. Ibid.
10. 'A situation in which sellers are so few that each is aware of, and therefore takes account of, the repercussions of its own actions on other sellers, and adjusts its own strategy in the light of anticipated or actual actions of its rivals'. Edith Penrose The Large International Firm in Developing Countries: The International Petroleum Industry (London, Allen & Unwin, 1968) p. 40
11. UN op. cit. US Congress, Senate Committee on Finance, Implications of Multinational Firms for World Trade and Investment and for US Trade and Labour (Washington 1973) pp. 581-593, repr. in K.P. Sauvant & F.G. Lavipour (eds) Controlling Multinational Enterprises (London, Witton House, 1976) pp. 29-38. M.Z. Brooke & H.L. Remmers The Strategy of Multinational Enterprises: Organisation and Finance (London Longmans 1970); S. Lall & P. Streeton Foreign Investment, Transnationals and Developing Countries (London, Macmillan 1977) pp. 20-46

12. Lall & Streeton loc. cit.
13. Chapter 5
14. ENI's 'political bridge' to avoid 'adversary bargaining' with NIOC is an example of such confidence. The Financial Times August 13th 1974, p. 16
15. P.H. Frankel, Mattei Oil and Power Politics (London Faber and Faber 1966)
16. Lall & Streeton, op. cit. p. 11
17. Lord Cole, Chairman of Unilever in discussion with K. Harris of the Observer, January 6th and 13th 1963, quoted in Wilson, op. cit. p. 3
18. Louis Wells 'The Multinational Enterprise: What Kind of International Organisation?' International Organisation (25) No 3 Summer 1971 p. 448
19. Wells, loc. cit.
20. OPEC
21. Jacques Maisonrouge, quoted in Barnet & Muller op. cit. p. 18
22. See Raymond Vernon 'Multinational Enterprises and National Governments: Explanation of an Uneasy Relationship' Colombia Journal of World Business (11) No 2 Summer 1976 pp. 9-16
23. Used as the title of a book by S. Purnell The Society of States (London, Weidenfeld 1974)
24. Chapter 5
25. The 'contract' of international society is thus one of self-interested states maintaining some norms of international behaviour for perceived benefits that they bring.
26. Susan Strange 'International Economics and International Relations' International Affairs (46) No 2 April 1970 pp. 304-15
27. Quoted in G.L. Goodwin 'The Erosion of External Sovereignty' in James Barber and Michael Smith (eds) The Nature of Foreign Policy: a Reader (London, Homes McDougal 1974) pp. 45-57
28. Thomas Hobbes Leviathan (London Penguin 1968) p. 64
29. Case Study below

30. Goodwin, op. cit. p. 49
31. David Mittrany A Working Peace System (London RIIA 1943)  
Ernst Haas Beyond the Nation State (Stanford 1964)  
John Burton World Society (CUP L 1972)
32. Carl Gerstacker's predicted dream, quoted in Barnet & Muller, op. cit. p. 56
33. G.A. Wagner; Oral Statement to the Group of Eminent Persons, Geneva November 5th 1973. (Senior Managing Director of Royal Dutch Shell Group) quoted in Robert Engler The Brotherhood of Oil (University of Chicago Press 1977) p. 143
34. F. Parkinson The Philosophy of International Relations (London, Sage 1977) pp. 132-4
35. The most vivid explosion of nationalism in the 20th century has been that of National Socialist Germany where the invocation of 'Reich' held out a mystique attraction to the German people, calling up historical and cultural images of the generations of people who had inhabited that part of Europe.
36. Such as Zimbabwe where the Shona and Ndebele tribes extend beyond the boundaries of the state.
37. See Chapter 4 p. 25 . Also K. Simmons claims that of 1.851 managerial executives of US companies only 1.6% are non-American; quoted in Barnet and Muller, op. cit. pp. 17-8
38. Atherton Bean, former chairman of International Multifoods speaking in 1971, quoted in Barnet and Muller op. cit. p. 48
39. Joseph S. Nye Jr 'Multinational Corporations in World Politics' Foreign Affairs (53) No 1 October 1974 p. 154
40. W. Wallace Foreign Policy and the Political Process (London, Macmillan 1971)
41. A cursory glance at the interpretations leaves no doubts about the strength of such feelings.
42. Barnet & Muller, op.cit. p. 123
43. J.P. Grant 'Marginal Men: the Global Unemployment Crisis' Foreign Affairs (50) No 1 October 1971 pp. 112-124
44. Parkinson, op.cit. pp. 43-5

45. Alan James, 'The Contemporary Relevance of National Sovereignty' in M. Liefer (ed) Constraints and Adjustments in British Foreign Policy (London, Allen & Unwin 1972)
46. Goodwin, op. cit.
47. 'Any country whose residents make foreign direct investment, especially the country of origin of the company described' Brooke and Remmers, op. cit. p. 5
48. UN op. cit J.W. Vaupel & J.P. Curham The Making of the Multi-national Enterprise (Harvard Business School 1968)
49. Maisourouge Mythology p.7
50. 'Wader Attack on Multinationals Before UN Panel' The Times September 14th 1973
51. Maisourouge, op.cit. p. 11
52. Blake & Walters, op. cit. p. 101
53. Maisourouge, op. cit. p. 12
54. In Britain such moves are usually taken within the context of taxation.
55. Usually as a result of not being in the position or being a home state like Britain and America.
56. 'Any country which receives foreign direct investment, especially a country in which a particular subsidiary is operating' Brooke & Remmers, loc.cit.
57. The Arab states, Nigeria , India, Mexico and perhaps Chile and Brazil are the most obvious to be placed in the former category whilst states such as Mali continue to think of survival rather than simply growth.
58. The Datsun agreement in Britain sparked off a scramble among the various regions for its placement, occasionally reaching bitter heights. The Guardian, January 30th 1981 p.1.
59. UN, op. cit.
60. Logis Turner, Oil Companies in the International System (London, Allen & Unwin, 1978) or Anthony Sampson The Seven Sisters: the Great Oil Companies and the World they Made (London, Hodder 1975)
61. In France this tendency has fluctuated with the fortunes of the Gaullist party, see Ardagh, op.cit. p. 85

62. UN, op. cit.
63. Jack Behrman National Interests and the Multinational Enterprise (University of North Carolina, 1970) pp. 55-69
64. 'For each country its key sectors tend to be rooted in its history and its politics and tend to be associated with a public sensitivity that may seem irrational to foreigners, but is nonetheless real' Canadian Task Force, quoted in Behrman, Ibid. pp. 38-9
65. Leyton Brown 'The Multinational Enterprise and Conflict in Canadian-American Relation' International Organisation (28) No 4 Autumn 1974, pp. 733-54. R. Dunn 'Canada and its Economic Discontents' Foreign Affairs (52) No 1 October 1973, pp. 119-140. L.G. Feldman 'Canada and the US in the 1970's: Reft and Reconciliation' World Today (34) No 12, December 1978 pp. 89-9. J. Douglas Gibson, 'Canada's Declaration of Less Dependence' Harvard Business Review (51) September-October 1973 pp. 69-79
66. Blake & Walters, loc. cit.
67. S.J. Rubin 'The International Firm and the National Jurisdiction' in C.P. Kindleberger (ed) The International Corporation (MIT 1970) pp. 179-204
68. Ibid. pp. 191-2
69. Ibid. p. 192 Judge Learned Hand.
70. Tugendhat The Multinationals, p. 69
71. Treaty of Rome, Articles 85 & 86
72. Rubin, op. cit. p. 195
73. See Bergsten, op. cit. chapter 11 pp. 399-448
74. Arnoud de Vogue, President of St Gobain, quoted in Tugendhat op. cit. p. 213
75. pp. 56-65
76. Italy-France over the Fiat-Citroen, see Werner Feld 'Political Aspects of Transnational Business Collaboration in the Common Market' in Michael Hodges European Integration (London Penguin 1972) especially pp. 435-7

77. Maisonrouge, loc. cit.
78. John Powers, quoted in Barnett & Muller, op. cit. p. 31
79. C.F. Doran Myth, Oil and Politics: Introduction to the Political Economy of Petroleum (Free Press 1977) argues that it is a myth to assume that OPEC will continue much longer as a cohesive unit.

#### Chapter 4

1. BP Our Industry Petroleum (London 1977) p. 30
2. Although split 60:40 between Dutch and British ownership, Shell operates from London, largely as a British domiciled concern.
3. Sampson, The Seven Sisters, p. 7
4. See Chapter 3 pp. 1-7
5. Engler, Brotherhood of Oil, p. 4
6. Ibid. p. 22
7. The three largest stockholders in Mobil: the Chase Manhattan Bank, the Bankers Trust and Morgan Guaranty, in 1973 held 14% of the stock through their nominees. Engler op. cit. p. 24. For John McCloy's role, see Sampson, op. cit. p. 165. Joe Stork Middle East Oil in the Energy Crisis (USA, Monthly Review Press 1975) pp. 161, 164-8, 203, n. 305. Engler op. cit. pp. 69, 81, 119, 139, 178, 179
8. Engler, op. cit. p. 54. Also Table III below p. 86
9. Peter Odell Oil and World Power (London Penguin 1979) p. 11
10. Christopher T. Rand Making Democracy Safe for Oil: Oilmen and the Islamic East (USA Atlantic Monthly Press 1975) p. 334
11. Odell op. cit. p. 178. Also 'Mexico to Look for Cuban Oil' The Guardian, January 23rd 1981, p. 8
12. Prince Guido Colonia di Poliano, Wall St Journal 17th February 1970. Quoted in Tugendhat op. cit. p. 161
13. Engler, loc. cit.
14. Ibid. p. 256. Warner Rawleigh Jr Business Week February 2nd 1974

15. Michael Tanzer The Energy Crisis (USA Monthly Review Press 1974.) pp. 88-91
16. Rand, op. cit. pp. 14-36
17. Engler, op. cit. pp. 67-74
18. Rand, loc. cit.
19. Shell is of course 60% Dutch.
20. The Anglo-Persian Company changed its name to Anglo-Iranian in 1935 and to British Petroleum in 1954. The contemporary name is here used throughout.
21. See Chapter 2 pp 6 and 14
22. C. Wright Mills The Power Elite (OUP 1956) p. 275
23. Barnett & Muller Global Reach, p. 253
24. Engler, op. cit. p. 101
25. Mills op. cit. p. 253
26. Engler, op. cit. p. 171. The following discussion is very largely drawn from the work of Robert Engler.
27. Ibid. p. 207
28. Ibid. p. 312
29. Ibid. p. 184
30. Ibid. pp. 86-97
31. Ibid. p. 87
32. Ibid. pp. 89-9 Senator Thomas McIntyre (Dem. New Hampshire)
33. Ibid. p. 60
34. Mobil Corporation Notice to Shareholders of Annual General Meeting, April 1980 pp. 6-11
35. Engler, op. cit. p. 59, 61-87, 200-2
36. Joseph Frankel International Relations (OUP 1972 edn) p. 34

37. Raymond Vernon Storm over the Multinationals: the Real Issues (Cambridge, Mass. 1977). Engler op. cit. For Mader see The Observer, April 13th 1980. The unions are covered in Blake & Walters op.cit. pp. 22, 101. The environmentalists in Engler op. cit pp. 230-2 and the Times, June 8th 1973, p. 18
38. Rand, op. cit. p. 219
39. Doran, op. cit. pp. 133-180
40. 'Why a split over oil prices need not signal the break-up of OPEC' The Times December 20th 1976. p. 10
41. Dr. Louis Turner Lecture at the Centre for Middle Eastern and Islamic Studies, University of Durham, February 25th 1981.
42. 'The Seven Sisters Turning Sour' The Times, December 13th 1973 p. 27. 'ENI buys out Shell's Italian oil interests' The Times December 29th 1973, p. 15
43. R. Vedavelli Private Foreign Investment and Economic Development (CUP 1976). B. Dasgupta The Oil Industry in India: Some Economic Aspects (Frank Cass 1971) Tanzer The Political Economy of International Oil and the Underdeveloped Countries (London Temple Smith 1969) Part II pp. 163-274
44. Tanzer, ibid. p. 172
45. Ibid. p. 171
46. Vedavelli, op. cit p. 185
47. Tanzer, op. cit. p. 201

## Chapter 5

1. This choice can of course be criticised on the grounds of subjectivity, but since these events form part of virtually all studies on the subject, it would be wrong to ignore them here.
2. Rand, op. cit. chapter 12 pp. 232-249, chapter 13, pp. 254-7
3. 1955: Mobil, CFP, Shell, BP, Amoseas (Texaco/So Cal) Exxon, Libyan American, Oasis (Amerada Hess, Continental, Marathon) Hunt, Gulf.  
1961: Phillips Petroleum, Standard Oil of Indiana.  
1965: Elwerath/Wintershall, Union Rheinische Braunköhlen Kraftstoff A.G., Deutsche Erdöl, Vertex Oil A.G., Scholven Chemie, Gelsenberg Benzin, Mercury, Lion, Circle, Occidental Libyan Desert.



4. Mabruk field.
5. Mainly in fields where Exxon were joint-holders, since they had bought into the fields of Libyan American and other independents.
6. Benjamin Schwadran Middle East Oil: Issues and Problems (Cambridge/ Mass. Schenkman 1977) p. 14. Also James Akins 'The Oil Crisis: this Time the Wolf is Here' Foreign Affairs (51) No 3 Spring 1973. pp. 462-90
7. Petroleum Intelligence Weekly April 22nd 1974, supplement p. 8
8. Harvey O'Connor World Crisis in Oil (USA Elek Books 1962) p. 296
9. Ibid. p. 340 Also George Lenczowski Middle East Oil in a Revolutionary Age (USA National Energy Project 1976) p. 3
10. ENI entered Iran offering contractual terms and 57% profit-sharing for the government.
11. Rend, op. cit. p. 280. But for an alternative view see Raymond Vernon 'The Oil Crisis: an Interpretation' in Daedalus, Fall 1975 p.5
12. Petroleum Intelligence Weekly May 6th 1974; articles (4) and (9) of the agreement, the 'Dimes and Quarters' provisions.
13. Schwadran, op. cit. p. 19
14. Sampson, op. cit. p. 228
15. Ibid. p. 227
16. The term 'crisis' is used here despite some reservations about whether it constitutes a crisis in the way that the Cuban missile situation might be called a 'crisis'
17. Vernon, op. cit. p. 1
18. For a wide-ranging and very useful discussion of the oil-crisis, see Daedalus, op. cit., whole issue
19. OAPEC membership in 1973 was : Abu Dhabi, Algeria, Bahrain, Egypt, Kuwait, Libya, Qatar, Saudi Arabia, Syria.
20. Schwadran, op. cit. p. 76

21. Middle East Economic Consultants; OAPEC: Background, Performance and Plans February 1976, p. 6
22. Schwadran, op. cit. p. 78
23. Nigerian production rose from 1.8 million barrels per day in 1972 to 2.1 million in 1973 and 2.3 million in 1974. However, Nigerian cutbacks in line with other OPEC states (partly to conserve and partly to raise prices) saw production fall back to 1972 levels.
24. Rand, op. cit. pp. 318, 328
25. John Blair The Control of Oil (USA Pantheon Books 1976) p. 293
26. Rand, op. cit. pp. 325-6. Engler, op. cit. pp. 129-30
27. Engler, ibid. pp. 137-40
28. Tugendhat, Oil: the Biggest Business, p. 250
29. J.E. Hartshorn 'Oil Diplomacy: the New Approach' World Today (29) No 7 July 1973. p.288
30. US Senate, Foreign Relations Subcommittee on Multinational Corporations (Church Committee)
31. Vernon, op. cit. p 12
32. 'France Agrees to Give Saudi Arabia Arms and Equipment in return for Oil' The Times, January 8th 1974, p. 1
33. Anne-Margret Walton 'Atlantic Relations: Policy Coordination and Conflict' (Atlantic Bargaining over Energy) International Affairs (52) No 2 April 1976 pp. 180-196
34. Ibid. p. 183
35. Odell 'The World of Oil Power in 1975' World Today (30) No 7 July 1975 p. 281
36. Ibid. p. 276
37. Schwadran, op. cit. p. 91 (n) 3
38. Ibid. p. 100
39. Tugendhat, op. cit. pp. 258-9
40. Odell Oil and World Power, p. 190
41. Rand, op. cit. p. 353

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