Private Oil Companies & Governments: Today a Very Complex Net of Different Actors. The Mossadegh Case (Iran) & the Kashagan Case (Kazakhstan)

December 2007

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Abstract: In today’s world it is common ground that multinational corporations (MNCs) are gaining more and more power in their negotiations with foreign governments. Some scholars argue that MNCs are on the same level as national states. In some sectors this may result to be true but in the oil & gas sector this assumption should not be taken for granted. This paper will try to explain that with reference to MNCs operating in the oil & gas sector since the fall of the Soviet Union in December 1991 many things have radically changed. Probably these oil & gas MNCs have gained access to new and larger areas of the world but in their relations with national states they are not as powerful as they were before. In particular, the analysis will be developed through two empirical case studies: the Mossadegh Case and the Kashagan Case.

Introduction - The relationships between private oil companies and foreign governments have always been very difficult since the beginning of the oil industry. With reference to oil and gas it is of clear evidence that sadly the most important reserves are located in the so-called “difficult countries”. Arab Gulf states, Russia, ex-Soviet-Union countries, Angola, Nigeria and Venezuela just to mention the principal owners of oil and gas. This distribution of these resources is one of the reasons for which a lot of states are today rethinking to the nuclear option (in fact, uranium is located principally in friendly places such as Australia and Canada). The so called “difficult countries” normally have always lacked the know-how in order to start and run oil and gas fields. In other words, also today still in countries that have been producing oil for decades the expertise of western petroleum companies is necessary and fundamental. Obviously, for a private oil and/or gas company the measure of its success is the profitability for its investors in the long run (not in the short-run). In fact every oil or gas field requires huge investments and years of production before it can turn to be profitable and for these reason political stability is fundamental.

In today’s world at the international and domestic level we assist to an increase in the power of new actors beyond the national states. These actors – more than new are in reality much more powerful than they were in the past (in fact they have always existed in the previous decades) - comprise principally non-state actors such as multinational corporations (also called transnational corporations) and NGOs. In particular, the principal oil and gas companies are multinational corporations and are between the oldest ones. In fact, companies like British Petroleum (BP), Royal-Dutch Schell, ENI and Total S.A. have always managed production establishments or deliver services in at least two countries (this is in general the requirements to be considered a multinational corporation). All this said, to a more detailed analysis it is possible to affirm
that surely after the collapse of the Soviet Union in December 1991 oil and gas companies have gained a lot of scope of action that before was impossible. But in addition to this, at the same time - differently from other types of multinational corporations - oil and gas companies started to face a more complex environment where their power is not anymore as strong as it was in the past decades. In fact, before 1991 supported by their own governments they had more power in order to act while they had a limited scope of action given the division of the world into two opposite blocks (the west around the USA and the east around the Soviet Union). In other words, today they have gained a bigger chessboard in which they can freely invest and operate but they have to be confronted with an increased number of shareholders - before non-existing or with no possibility to voice their ideas - that can sharply limit their power. The aim of this paper is to examine two different cases that well explain these differences analyzing the way oil and gas MNCs worked before 1991 and after. The first example is related to the nationalization of the Iranian petroleum industry in 1951 and the powerful response that the oil company investing in the area could put into action supported by the governments of the USA and UK. The second example is instead a developing event and is related to the Kazak Kashagan oil field where in the last months the Italian oil company ENI is having a very difficult confrontation with the Kazak government. In particular, this second case will permit to us to really understand the way the conditions in which oil companies operate today are really changed and how many more are the actors involved in the process. If before the relations were between oil and gas companies plus their own governments on one side and the national governments where the resources were located on the other side, today this scheme is too simple and it is necessary to add more actors.

**Mossadegh Case** - In the 1950s there was a real unbalance between the revenues obtained by the oil companies and what was given to the national governments. The Anglo-Persian Oil Company (APOC)\(^1\) was founded in 1909 in order to develop a large oil field in Masjed Soleiman in Iran. In the 1920s the revenues Iran was able to get were only 16% of the net revenues. For almost thirty years although continued discussions between APOC and the Iranian institutions nothing really changed.\(^2\) Then after negotiations for higher oil revenues failed on March 1951, the Iranian parliament voted to nationalize Iran’s oil industry. Following this event, the then prime minister Razmara that had opposed the nationalization was assassinated and the parliament elected Mossadegh as new prime minister. The new prime minister immediately enforced the Oil Nationalization Act. This meant the nationalization of Iran’s oil, cancellation of the AIOC’s concession and the expropriation of the assets of the oil company in Iran. In response to this law, the UK government decided to support AIOC and impede Iran to ship oil out of the country. In addition, the oil company called back all the technicians from Iran causing a *de facto* block of the oil production\(^3\). Given

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1. APOC was renamed in 1935 in Anglo-Iranian Oil Company (AIOC) and eventually it became the British Petroleum Company (BP) in 1954.
2. The International Court of Justice was called in to settle the dispute, but a 50/50 profit-sharing arrangement, with recognition of nationalization, was rejected by both the British government and the then Prime Minister Mossadegh. At this point direct negotiations between the British and the Iranian government ceased, and over the course of 1951, the British ratcheted up the pressure on the Iranian government and explored the possibility of a coup against it.
3. The situation was particularly harsh for Iran because Iran was mainly exporting its oil to Great Britain. An industry that before the nationalization brought over US$ 100 million had become to increase Iran’s debt.
disagreements with his former allies Mossadegh then dissolved the parliament using a referendum to avoid his own impeachment. Finally, he was removed from power on August 19, 1953 thanks to a military intervention. The coup d’état was supported and funded by the British and American governments and received an important help by the CIA (that run there the Operation Ajax). After the regime change, the Iranian government was able to solve the dispute with AIOC. A consortium of eight companies from four nations (UK, USA, Holland and France) was built up and restored the oil production technically under the National Iranian Oil Company.

<table>
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<tr>
<th>Principal Actors in the Mossadeh Case</th>
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<td><strong>Iranian Institutions</strong> (Parliament, Government, Shah &amp; Clerics)</td>
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<td><strong>Anglo-Persian Oil Company (APOC, British Petroleum (BP))</strong></td>
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<td><strong>British Government</strong></td>
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<td><strong>American Government</strong></td>
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This case explains how the real stakeholders before 1991 in the oil and gas market were very few. In other words, in the Mossadegh case there were on one side three actors: a multinational corporation the APOC, its own government and the government of the USA. These three actors had an incredible power while on the other side there were the weak Iranian institutions. In addition, the latter were very fragmented about what was the best option for Iran. But in reality, the fact the Iranian institutions were not unified did not change a lot the outcome of the dispute. When the Oil Nationalization Act was passed in 1951 there was a sort of unified nationalism through all the country (that was the peak of nationalism in Iran before 1979) but immediately APOC first of all retired its experts blocking the production of oil and then the UK government that was the only buyer of the Iranian oil blocked any shipments to go out of the Gulf. For Iran the game was already lost at that moment. A multinational corporation such as APOC had a very strong power in order to impose its own agenda in an area of the world under the western influence. In the Mossadegh Case a direct intervention of countries belonging to the eastern block would have been unimaginable. The Soviet Union was obviously interested in the rich Iranian oil reserves but a direct

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intervention was out of question. It would have seriously been capable of starting a direct confrontation with the USA (like some years later with Missiles Crisis in Cuba). In fact, Iran after World War II was in the world chessboard under the influence of the western countries. This easily explains why after the coup d’état eight western companies from four states the USA, UK, Holland and France were able to work in Iran. What was really missing at that time was a real system of checks and balances between the MNCs and the national governments. The side where there were multinational corporations of oil and gas was always disproportionately stronger than the other. In particular, there were no alternatives to the other side. Not accepting the will of the MNCs would mean for a national state to start a confrontation with the countries the MNCs represent, then to be economically blocked and not to able to sell its own oil. After few weeks, the economy of the state would be destroyed and then normally a harsh political domestic confrontation would follow at the end replacing the government that tried to challenge the MNCs with another more complacent to their will. In the end it was a total gain for the MNCs. After 1991, in the oil and gas sector something has changed and the Kashagan Case is a clear example of a much more complex international system with many more actors where the oil & gas multinational corporations – allied with their own governments - cannot anymore play as powerfully as they did before forcing the national governments to their own agendas.

The Kashagan Case - Kashagan Field is an oil field located in Kazakhstan that given its oil and gas resources is one of the most interesting non-OPEC oil producing country. This field is located in the northern part of the Caspian sea. It was discovered in 2000 and it seems to contain more than 38 billion of barrels (it should be capable of providing more than 1,5 million barrel per day). The field is operated by ENI (Ente Nazionale Idrocarburi) under the North Caspian Sea Production Sharing Agreement. The agreement is made up of 7 companies: ENI, Shell, Total, Exxon-Mobil, ConocoPhillips, KazMunayGas (Kazakh) and Impex (Japanese).

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<th>Agip KCO Stakeholders</th>
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<tr>
<td><strong>Company</strong></td>
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<td>Eni*</td>
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<td>ExxonMobil</td>
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<td>Total</td>
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<td>Shell</td>
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<td>ConocoPhillips</td>
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<td>KazMunaiGas</td>
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<td>Impex</td>
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* operator

Source: [www.globalinsight.com](http://www.globalinsight.com)

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5 The only doable actions were indirect actions. For example, the Soviet Union in those years funded the Iranian communist party whose name was Tudeh.

6ENI: [http://www.eni.it/home/home.var](http://www.eni.it/home/home.var)

7ENI was nominated operator in 2001 and then decided to undergo the change in name to Agip Kazakhstan North Caspian Operating Company (AGIP KCO). See: [http://www.agipkco.com/wps/wcm/connect/AgipKCO+EN/Home](http://www.agipkco.com/wps/wcm/connect/AgipKCO+EN/Home)
This oil field is off-shore in a very harsh environment with temperature from -35° C in winter to 40° C in the summer. In addition to this, the Caspian Sea has a very fragile biodiversity. The Kashagan Field is located in a natural reserve close to the delta of the Ural River where live some species of animals such as the European sturgeon that risk disappearing. The shallow water of the Caspian Sea requires special boats to reach the wells that are in the middle of the sea 70km southward the city of Atyrau. Moreover, the consortium has been forced to build up special islands in order to drill off-shore. Last but not least, the pressure of gas and oil is very high (oil is 1,500-1,800 meters below the seabed under very compact salt cap.

The initial agreement was that the companies should have gotten 90% of the revenues with Kazakhstan keeping 10% of the total profits from the extracted oil. Obviously, Kazakhstan would also receive 8.33% of the corporate portion of production through KazMuniaiGaz (this in addition to the state portion of the extracted oil). Since the beginning the government wanted to have oil, gas and revenue as fast as possible. The production should have started in 2005, then ENI first postponed the beginning to 2008 and then in August 2007 to 2010 with a huge increase in costs from $57 billion to $136 billion. Probably, the supposed reason is linked to the fact that the oil contains mercaptan (a colorless gas also called hydrogen sulphide) that oblige the companies to clean the polluted oil. It should be noted that at Kashagan more that $9 billion (out of the $19 billion envisaged) have already been spent so that the investment has to continue but in particular the important point is that with the oil prices well beyond $70 per barrel also the most complicated oil to be drilled becomes interesting for the oil companies. On August 27, 2007, the government of Kazakhstan suspended all work at the Kashagan field due to environmental violations, “a move that mirrored the Kremlin’s first move against Shell at Sakhalin”8. In addition, the Kazak government gave ENI 60 days to seal an accord (the deadline would have expired on October 22, 2007). If an agreement would not have been found the consortium could have been thrown out of the project to develop Kashagan. Moreover, on September 27, 2007 the Parliament of Kazakhstan has approved the law enabling Kazakhstan government to alter or cancel contracts with foreign oil companies if the way they work threatens the national interests. Eventually, on October 7, 2007 the visit in Astana of the Italian prime minister Romano Prodi together with a delegation summing up 200 people between Italian industrialists and bankers was beneficial to the negotiating process because on October 22 – the day of the deadline – ENI and the government of Kazakhstan released a joint statement in which they affirmed that the parties agreed to continue their negotiations beyond October 22, 2007 in a spirit of positive and constructive cooperation9. At the moment this is the latest event and it is not clear what will happen in the next months.

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8 ROBINSON, A., Have the Oil Majors Bitten Off More Than Every They Can Chew With Kashagan?, in www.oilbarrel.com, October 21 2007. In Sakhalin, Shell admitting to have to face cost worth US$22 billion versus the previous estimated US$10 billion with reference to the LNG project created an ideal opportunity for Russia to modify the contract. Shell’s stake was reduced from 55% to 25% and the control passed from Shell to Gazprom.

Would have this kind of negotiation between a consortium of multinational corporations (the oil companies) and a national government been possible before 1991? The answer is probably no. And the principal reason is linked to the increased number of the actors involved in the process. If in the Mossadegh Case the actors were 4 in the Kashogan Case the actors are at least 10: ENI, the other 5 oil companies (the sixth KazMunaiGaz is Kazakh and is linked to its national government), the government of Kazakhstan, the Italian government, the European Union (EU), Russia and Lukoil, NGOs of different composition, financial institutions, China and India. The presence of so many stakeholders so interested in the development of the project really gives to the Kazakh government a lot of negotiating power although Kazakhstan alone would not be absolutely capable to exploit the oil of Kashagan. Now the government of Kazakhstan has a very different leverage in this dispute compared to similar situations all around the world in the previous decades and it can stop a project on the base of environmental damages that ENI did not try to avoid. In reality, these environmental reasons are really weak with reference to the action of the government. In fact, in the previous months the government of Kazakhstan first requested compensations for the delay in the beginning of the production, then it asked for an increase in the profits of KazMunaiGaz, then it wanted a compensation of $10 billion (impossible to be paid neither by ENI nor by the other companies), then again it stressed the necessity to increase the profits and to give a role of co-operator for KazMunaiGaz together with ENI. In other words, in the previous months there was no trace of environmental concerns and it is obvious that Kazakhstan wants to renegotiate the deal for monetary reasons principally linked to the fact that the increase in the costs of the project and the delay in the beginning of the production have forced Kazakhstan to reduce its forecasts for the amounts of available economic resources in the next years. Given this situation, in any case:

there is little doubt that at the end of the day the consortium partners will have to pay more to the government and to accept greater scrutiny of future expenditures. They will have also to comply with some of the strictest environmental and safety rules in the industry, fully understandable given the fragility and uniqueness of the Caspian ecology and the deadly danger posed by hydrogen sulphide gas.

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<td><strong>Other Western Oil companies</strong></td>
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<td><strong>Kazak Government</strong></td>
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10 One of the reasons for the inclusion of KazMunaiGaz in the consortium is – apart the revenues - principally for acquiring the expertise to work oil field located in very difficult areas.

Kazakhstan much more negotiating power because it has now always the possibility to find another partner if the deal with the first one does not work out well.

In addition, Kazakhstan’s environmentalist Tabigat (Nature) party criticizes the oil industry and suggests it could be responsible for the environmental havoc in the Caspian sea (between the damages the deaths of many seals).

The Caspian Environment Program is a regional umbrella program established by the Caspian littoral states and aided by the international agencies.

### Italian Government

The Italian government fully supports ENI. The visit of the prime minister Romano Prodi has been done in order to lobby in favor of ENI. Not only the delegation (comprising businessmen and bankers) spoke about Kashagan but also about many other economic deals that could be achieved between the two countries. In addition, the prime minister has reminded to the Kazakh government how much Italy could lobby in favor of the accession of Kazakhstan to the WTO.

### European Union

The EU wants ENI to continue to be the operator of the Kashagan Field. Kashagan is of vital importance for the EU that does not have any important energy source. The European commissioner for Energy Andris Piebalgs openly expressed the view that the EU in case of a serious stop for the consortium will strongly support ENI. In addition to this, the EU is really concerned and cautioned Kazakhstan over the new oil law allowing Kazakhstan to break off contracts with foreign companies, warning that investors need a secure and predictable climate for large energy projects.

### Russia & Lukoil

Russia is very interested in the Kashagan Field. Moscow would like to assist to an integral nationalization of the Kashagan Field by the Kazakh authorities and then to substitute the operator ENI with the Russian oil

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company Lukoil\textsuperscript{14}. Russia pushes for a solution similar to Sakhalin II.

### NGOs of Different Compositions:

#### Local NGOs

1) Globus  
2) TAN  
3) Caspian Press Club

#### International NGOs

1) Campaign for the Reform of the World Bank (CRBM)  
2) The Corner House  
3) Platform  
4) CEE Bankwatch Network

The principal document to be examined for a clear understanding is the “Preliminary NGO Fact Finding Mission Report” of September 4-13 2007\textsuperscript{15}

According to the report:

A) some NGOs insist on the environmental concerns related to the fact that the Kashagan Field has a very fragile biodiversity and that it is located in a natural reserve close to the delta of the Ural river that hosts many rare animals (such as European sturgeon and seal). Other environmental concerns are related to the fact that in winter ice could create serious damages to the artificial islands and the undersea pipelines and in this way spill over oil.

B) Some NGOs insist on health concerns on the residents of the area (Atyrau). Principally these organizations point out the risk of toxic exposure and mass poisoning to hydrogen sulphide and other sulfates that have to be separated from oil.

C) Some NGOs insist on the fact that local residents have never been included in any public form of consultation regarding the project while Kazakh law requires public hearings.

D) Some NGOs insist on social concerns explaining that the Kashagan Field threatens the livelihood of millions of residents in the area. In fact, oil development in the area places at risk tourism and fishing activities and prevent investment in other economic ventures that could contribute to the sustainability of the region.

E) Some NGOs insist on the fact that the majority of workers employed in the Kashagan Project are not local residents but come from other part of Kazakhstan, Russia or abroad.

### Financial Institutions

The three major banks involved in Kashagan are: BNP Paribas, Citigroup and Société Générale. Part of the project is also financed by the European Bank for Reconstruction and Development (EBRD). In addition, the Japan Bank for International Cooperation (JBIC) that is an export credit agency is financing INPEX together with three Japanese banks Mitsui, Mitsubishi and Mizuho. BNP Paribas, Citigroup, Société Générale and the EBRD are requiring that the financing to be put in place to include provisions for the project to be compliant with the Equator Principles\textsuperscript{16} that require a full Environmental and Social Impact Assessment ((ESIA) and associated Action Plans to comply with IFC Performance Standards and World Bank Pollution Prevention and Abatement Standards.

### China

China is always more and more interested in the Kazakh oil giving its increasing necessity of energy. In particular, the two countries started a collaboration in the energy sector in 1997 and since 2005 an oil pipeline between western Kazakhstan and China’s Xinjiang has been completed and is designed to transmit 20 million tons of oil a year.

### India

Similarly to China, India has huge necessity of energy that Kazakhstan could provide. Since 2005 there are specific Indo-Kazakh bilateral ties.

But it is interesting to underline how a national government is using – although only pro forma - environmental tools that before were unimaginable to be used in such a situation. Concepts deriving from international environmental law were simply out of question until few years ago in much easier context. But today this body of laws – although not really binding – is emerging and in the Kashagan Case creates a sort

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\textsuperscript{15} This document written by national and international NGOs explains the different problems linked to Kashagan Field. In: www.banktrack.org/doc/File/dodgy%20deals/Kashagan%20oil%20project/071011%20FFM_Report_with_cover.pdf

\textsuperscript{16} See http://www.equator-principles.com
of temporary alliance between NGOs seriously committed to the real damages engendered by oil companies and national governments seriously committed to get more money from their own resources. NGOs that until few years ago did not have any way to voice their opinions but that now can easily utilize modern ways of communication and in this way get the important power to be listened.

In any case, the message coming from Astana the new capital of Kazakhstan:

is that the international oil companies will be subject to ever increasing control, ever higher taxes and obligations and will ultimately have to concede both ownership and control. All this is provided for in the PSA of course, but could take place well before 2037, when the PSA expires. Ultimately speeding up the process is what the current talks are all about. With billions of dollars still to be invested in a long-term project several years away from delivering at full regime, the oil companies still have powerful cards in their hands. With oil at US$80 a barrel there is still plenty for everyone and the government’s share is bound to rise now, and over the longer time frame. But Kazakhstan is not Russia. It remains far more amenable to the idea of win-win solutions which leave foreign investors feeling both comfortable and valued - even if slightly less well off than they may once have hoped17

**Conclusion** - The two cases well explain two situations each involving a MNC and a national state. The outcomes are totally opposite. The first example finished with a total victory of the MNC involved. The second example testifies a radical change in power relations between oil and gas companies on one side and national states on the other side. As mentioned before this evolution is directly linked to the emergence on the international stage of many more actors that before 1991 were or hidden or were absolutely incapable of expressing their position. In other words, the second example shows how increasing the number of actors in the relation MNC versus national government does not mean anymore a complete victory of the first element of the relation. Increasing the number of actors means to give more alternatives. The result is a balance of power that will surely partially continue to benefit more the MNCs than the national states. But the relation is not anymore so disproportionate towards the MNCs side as it was before. Maybe in other sectors in today’s word MNCs are gaining more power but according to the two cases considered with reference to the MNCs operating in the oil and gas sectors the result seems to be the opposite.

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APPENDIX I

The Kashagan Oil Field. source: [http://www.rigzone.com](http://www.rigzone.com)
APPENDIX II

Map of Kazakhstan, source: www.eurasianet.org
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