

Is Resource Nationalism on the Rise?: Evidence from Service Contracts in Eight Countries¹

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Abstract

This paper assesses whether resource nationalism is on the rise by appealing to Ghandi and Lin's (forthcoming) review of the energy strategy and oil and natural gas fiscal systems of eight major oil or natural gas producing countries that have either adopted a variation of a service contract or have shown interest in this framework over the period 1990 to 2014. While heightened sovereignty concerns could be an important factor explaining the interest in service contracts in these eight countries, possibly reflecting a rise in resource nationalism, we show that the evidence for such a rise in resource nationalism in these eight countries is mixed.

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1. Introduction

Resource nationalism is the tendency of people and governments to assert control over natural resources located on their territory. There is a debate over whether resource nationalism is on the rise as a result of the general belief about the increasing global scarcity of oil and natural gas prior to the recent shale gas and tight oil development in the US, as increasing scarcity may cause some governments to hold on to their ownership or control over their fossil fuel resources for strategic and economic reasons.

This paper assesses whether resource nationalism is on the rise by appealing to Ghandi and Lin's (forthcoming) review of the energy strategy and oil and natural gas fiscal systems of eight major oil or natural gas producing countries that have either adopted a variation of a service contract or have shown interest in this framework as an alternative to production sharing contracts over the period 1990 to 2014.

Like a production sharing contract, an oil or natural gas service contract is a long-term contractual framework that is used by some host governments to acquire the international oil companies' expertise and capital without having to hand over the field and production ownership rights to them. However, in contrast to production sharing contracts, in a service contract the IOCs agree to a pre-determined return in lieu for sharing profit oil. In addition to the IOC's method of compensation, service contracts and production sharing contracts could also differ in four other major categories: field ownership rights, produced crude ownership rights, field's operatorship, and the degree of risk that each side bears (Ghandi & Lin, forthcoming).

Ghandi and Lin's (forthcoming) review suggest that heightened sovereignty concerns could be an important factor explaining the interest in service contracts in these eight countries.

Resource nationalism may therefore be on the rise for those countries that are interested in service contracts due to sovereignty concerns. However, as we discuss below, the evidence for such a rise in resource nationalism in these eight countries is mixed.

We categorize the eight countries covered by Ghandi and Lin's (forthcoming) review in to two groups: those for which evidence supports a rise in resource nationalism, and those for which evidence does not support such a rise. In particular, the first group includes those countries whose current status of cooperation with international oil companies lends support to a rise in resource nationalism. These countries include Venezuela, Kuwait, Iraq, Bolivia, Ecuador and Turkmenistan. The second group of countries consists of those that have shown evidence against resource nationalism even though they too have service contracts. These countries are Iran and Mexico. In what follows, we briefly describe our reasons for the above categorization.

2. Evidence for a Rise in Resource Nationalism

Countries whose current status of cooperation with international oil companies lends support to a rise in resource nationalism include Venezuela, Kuwait, Iraq, Bolivia, Ecuador and Turkmenistan.

Even in these countries where evidence supports a rise in resource nationalism, there might also be some evidence against for the rise of resource nationalism at least for a short period of time. For example, Venezuela adopted a variation of service-type contract, known as operational service agreements, in 1991. Among the three rounds of auctions for this framework, the third round's allocation of produced crude entitlement in accordance with the IOCs' internal rate of

return in the project is indeed a sign of a move towards more openness to IOCs in the countries' upstream sector (Manzano & Monaldi, 2010). However, we consider Venezuela among the countries with strong evidence of resource nationalism rise because in 2006-2007 it forced the conversion of the IOCs' operational service agreements into "mixed enterprises" with majority stakes for the Venezuela's state-owned oil company *Petróleos de Venezuela, SA* (Manzano & Monaldi, 2010). This situation might be lessening up in coming years due to the country's economic hardship, which has affected the performance of the IOCs in the mixed enterprises (Mogollon, 2014).

Kuwait has also shown some movement towards letting more IOCs in the country through introducing different versions of service-type contracts since the early 1990s (Middle East Economic Digest, 2010). In particular, the country's 1999 "operating service contract" (Stevens, 2008) and 2010 "enhanced technical service agreement" (Business Monitor International, 2011) could be seen as important steps away from resource nationalism. However, because of the long lasting dispute (Stevens, 2008) over the terms of the contracts between different segments of the government and also the probe investigation (Energy Compass, 2014) of the enhanced technical service agreement, we categorize Kuwait under the countries with resource nationalism on the rise. In fact, government's recent decision (Strouse, 2013) to sign oilfield service contracts with service companies as opposed to service-type contracts with international oil companies reinforces such categorization.

Bolivia has also shown strong resource nationalism in recent years after a period of more openness to IOCs in its upstream sector. In particular, the renationalization of the oil industry in 2006 (Vargas, 2007), which was accompanied by a forced conversion of the countries' existing

contracts to “operation contracts” as a variation of the service-type contractual framework puts Bolivia under the group of countries with rising resource nationalism. Still, it is worth mentioning that even though Bolivia held a bidding round in 2012 under the new “operation contracts” introduced in 2006, the government has also shown signs of providing more incentives to the IOCs by designing more flexible contracts based on the area of exploration and on the potential reserve discoveries in addition to providing fast cost recoveries for the IOCs (Vargas, 2007).

Ecuador also started the process of converting the IOC’s upstream contracts to service contracts in 2007 (Business News Americas, 2011b) with an agreed-upon flat fee cost recovery scheme for the IOCs. Therefore, we consider this move as a sign towards the rise of resource nationalism in Ecuador. The government has not shown any sign of lessening up this trend yet by awarding incremental production contracts, as a new variation of service contract, on two mature fields in 2012 (Canada Stockwatch, 2012). In addition, the government has started a new exploration-based licensing round through the introduced service contract framework (Kerr, 2012c).

Turkmenistan is another example of the countries with the rise of resource nationalism as reflected in their effort to adopt service-type contracts. The Turkmen government has insisted on using service-type contractual framework for the countries’ onshore natural gas fields even though the Turkmen 2008 hydrocarbon law allows pursuing other frameworks such as concessions, production sharing contracts, and oilfield service contracts (International Comparative Legal Guide Series). Turkmenistan has yet to show some flexibility even after the departure of some IOCs from the country in 2013 (Roberts, 2013).

Iraq has also used three different versions of service-type contracts since 2009, which include producing field technical service contracts; production and development technical service contracts; and a service-type framework for exploration (Ghandi & Lin, 2014). Awarding contracts to IOCs in a country with limited presence of international oil companies for many years until 2009 could be seen as a sign of more openness in the countries upstream. However, since the government chose service-type contracts over other frameworks that the Iraqi Constitution had allowed for (Ghandi & Lin, 2014), we consider Iraq's decision to use service-type contracts as evidence for a rise in resource nationalism.

3. Evidence against a Rise in Resource Nationalism

Not all countries with service-type contracts experienced a rise in resource nationalism. In particular, there is evidence against a rise in resource nationalism in Mexico and Iran even though these countries have relied on service-type contracts for many years.

In Mexico, after many years of reliance on oilfield service contracts, since 2001 (Soto, 2005), the country has started using multiple service contracts on non-associated natural gas fields (Kerr, 2009). Mexico's move from oilfield-service contracts to multiple service contracts and incentive-based multiple service contracts since 2009 (Dow Jones International News, 2009) might not be enough evidence against the rise of resource nationalism in Mexico. However, the continuance of this policy into 2012 (Business News Americas, 2012) and also the 2013 energy reform law that allows four contractual frameworks including service contracts, production sharing

contracts, profit-sharing contracts and licenses (Kerr, 2013b) are evidence against a rise in resource nationalism.

Iran, one of the pioneer countries in awarding service-type contracts since 1995 (Alikhani, 2000), should be considered on the top of the list of the countries with a rise of resource nationalism. However, since the 2013 unprecedented election of Hassan Rouhani as the new president, the country is experiencing a full front effort to ease international pressures over its nuclear program and also to shake up the country's stagnated economy. As part of the effort, the new administration has opened up dialogues with the Western IOCs and has signaled that it is ready to offer more lucrative deals than its former buy-back service contracts (1995-2009). In particular, Iran is getting ready to officially introduce its new joint-venture contracts called Iran Petroleum Contracts (IPC) in November 2014. Iran's new IPC has four risk-based tiers that allow the government to provide additional incentives to the IOCs that take on more risky projects. For example, IOCs could gain 60% higher through the highest tier for more risky projects than through the lowest tier. Iran's main objective is to increase the country's production potential to higher than 5 million barrels per day by 2018 with a particular attention to technology transfer and reservoir management. The government has also made it clear that they most welcome Western oil companies and in particular Shell, BP, Total and Exxon Mobil for their superiority in technology and reservoir management. These efforts serve as evidence against a rise in resource nationalism in Iran (Energy Intelligence Finance, 2014).

4. Conclusion

In this paper, we examine the evidence for a rise in resource nationalism from the perspective of eight countries with oil and natural gas service contracts. We find that the evidence suggest a mixed trend in the rise of resource nationalism. While six out of the eight countries covered by Ghandi and Lin's (forthcoming) show evidence of a rise in resource nationalism, at least two countries, Iran and Mexico, have shown clear evidence against a rise in resource nationalism. Thus, while resource nationalism may be on the rise in some countries, it is not on the rise in all countries, and may even be declining in some.

5. Author Biographies

Abbas Ghandi

Abbas Ghandi is a post-doctoral scholar in energy policy at the Institute of Transportation Studies at the University of California at Davis. He holds M.A. in Economics (2006), and a Ph.D. in Transportation Technology and Policy (2013) from UC-Davis. For his post-doc research, he is collaborating with a team of researchers from UC Davis, Stanford University and Argonne National Laboratory to model and assess the life cycle greenhouse gas impacts of crude oil produced from the Bakken formation of North Dakota and the Eagle Ford formation of Texas. He has also worked on a project to develop and estimate a structural econometric model of a dynamic game between energy firms making portfolio investment and production decisions in the US shale gas and tight oil plays. Dr. Ghandi has diverse energy industry-related business and research experience at the international level. In particular, he has extensively analyzed Shell Exploration and BP oil service contracts in Iran (offshore Persian Gulf) and Iraq. He also spent time at the International Energy Agency (IEA) in Paris as an energy analyst (2010). His research interests include energy/environment/transportation economics, shale gas and tight oil, national and international oil companies, geopolitics of energy, and oil and natural gas global markets.

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Cynthia Lin is an Associate Professor with a joint appointment in the Agricultural and Resource Economics Department and the Environmental Science and Policy Department at the University of California at Davis. Professor Lin is also the President of the U.S. Association for Energy Economics Bay Area Chapter and one of the eight economists selected to serve on the

California State Controller's Council of Economic Advisors. She was formerly the Fossil Fuels Tract Director of the Sustainable Transportation Energy Pathways Program of the UC-Davis Institute of Transportation Studies. Professor Lin's fields of interest are environmental and natural resource economics, energy economics, industrial organization, applied econometrics, and applied microeconomics. Among her current areas of research are the petroleum industry, renewable energy, natural resources, environmental regulation, and air quality. She has done consulting work related to renewable energy and to sustainability. Professor Lin has received numerous awards for her research, including the International Society for New Institutional Economics Award for the Best Ph.D. Dissertation and the Harvard University Stone Fellow Award for Best Paper Written by a Doctoral Student in Environmental and Resource Policy. Her research has also been featured in such media outlets as the New York Times, the Washington Post, the Guardian, and Platt's blog. In 2011, she was selected as a UC-Davis Hellman Fellow for promising young faculty who exhibit potential for great distinction in their research. Professor Lin received her bachelor's degree, *summa cum laude*, in Environmental Science and Public Policy from Harvard College in 2000 and her Ph.D. in Economics from Harvard University in 2006.

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