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Item 6(b) of the Provisional Agenda

FOLLOW-UP TO RESOLUTION 42(IV)
The Practices of Transnational
Corporations in the Oil Industry
in the Region
(an interim report)

78-2149

Progress Report on

The Practices of Transnational Corporations in the Oil
Industry in the ECWA Region

The authorization for this study derives from ECWA Resolution 42(IV), Fourth Session, convened in Amman in April 1977*.

Historically, the international oil companies have been dominant in the development of the oil industry throughout the world since its origin. Their integration over all sectors of activity from exploration, drilling, production, transportation, refining and distribution have made them important links in the oil chain. Changing concepts on the world scene and the rise of OPEC dominance have contributed a significant realignment in the links of the oil chain. These companies, whose main features have been their transnational character, their financial strength, their vertically integrated organisations and their oligopolistic relationship with one another, have been assisted by numerous other specialised companies that function as contractors or service companies, vis-à-vis, the oil companies.

* The resolution states: The Economic Commission for Western Asia, recognizing the extreme importance of the oil industry to the economies of the region, taking note of the programme of work and priorities for 1977 and the biennium 1978-79 for the Joint CTNC/ECWA Unit on Transnational Corporations (E/ECWA/44/Add.1), decides that the practices of transnational corporations in the oil industry in the region should be included among the issues covered in the above-mentioned programme and given top priority.

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These specialised companies allow for the decentralization of tasks and responsibilities and enable the continuance of decision-making and control in the industry by the oil companies which are highly experienced in carrying out the necessary complex technical functions.

OPEC dominance has also given rise to state oil companies which, in some instances, have full control over their production functions, as in Iraq, but the various functions are rarely integrated. These state companies generally need the assistance of the international companies for the operations of refining and producing crude. They enter into long-term supply contracts with the oil majors to minimize the problems of access to the markets of the consuming countries, as well as bilateral arrangements for the supply of oil to countries in which they may sometimes have acquired equity interests in the refining segment. State companies, as they acquire technical sophistication, call on the services of contractors and service companies for their prospection and refinery construction operations.

In spite of the changing environment, however, the international oil companies participation in the industry are to be viewed against several general trends. The international oil companies carry out, in most cases, the research and development effort necessary for developing techniques and equipment, either alone or jointly with the parapetroleum companies (service companies, process developers, etc.). They practically never hold the technology concerned which is developed by the constructors or engineering construction companies or by the contractors. The oil companies' importance is, in fact, essentially based on their ability to control the know-how of practically all sectors of activity. This control of know-how appears decisive and is responsible for the oil companies' hold over the industry in spite of a practical loss of control

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over production. The refining and transport of oil for world trade are highly dependent upon the application of specialised knowledge. The oil companies initiate and participate in the search for new technical solutions that are developed by the specialised companies and have a monopoly of the organizational and management techniques from which they derive project management competence.

It is understandable that the international oil companies will want to have incentives in operating in all segments of the industry. However, a rise in technical sophistication of state companies will provide increased competition with the international oil companies for the technical skills of the parapetroleum companies.

In the light of the complexities of the subject, and in view of the vast amount of work carried out so far on various aspects of transnational corporation (TNCs) in the different sectors, and bearing in mind the specific requirements of ECWA resolution pertaining to the operations of transnational corporations in the oil industry in the Region, the study aims at concentrating on such aspects of the TNCs operations in the oil industry as exploration, construction of refineries and infrastructure, and their role in the transfer and application of technology. Accordingly, a preliminary outline was prepared which was communicated to member governments and organisations concerned and which formed the basis for discussion with government officials, as well as representatives of public and private enterprises involved in the oil industry.

In June and July a mission was undertaken to Iraq, Kuwait and Saudi Arabia. The purpose of the mission was three-fold: (a) officials of government and Arab organisations were thoroughly briefed on the

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work programme of the CTC/ECWA Joint Unit on Transnational Corporations, the broad programmes of research on transnationals, the build-up of a comprehensive information system on transnational corporations, and the technical assistance programme of the Centre on Transnational Corporations (CTC); (b) the collection of information on the laws concerning foreign direct investments in ECWA member countries; and, (c) to discuss with government officials the tentative outline prepared for the study on the practices of transnational corporations in the oil industry in the ECWA region.

In the light of the substantive comments received and discussions carried out with responsible government organisations and enterprises, the draft outline was modified with a view to reflecting the points and areas emphasized for a more thorough coverage in the study (copy of the ... revised outline attached).

The study proposes, in Chapter I, to review the organisation of the oil industry in the ECWA region, paying special attention to the international oil companies, the national oil companies and the specialized (parapetroleum) companies.

Chapter II, taking into consideration the vast literature that exists prior to 1973, will identify the trends in the ownership and operations of the oil industry in the region since 1973.

Chapter III will detail regional industry activities and, where possible, analyze current management, marketing and licensing agreements, the incidence of turn-key projects, production sharing, direct investments, joint ventures and technology transfer. Information will have to be

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obtained on the modes of technology transfer and a means to assessing the related costs and benefits; the development of technology and its impact on government and private company collaboration; the areas of oil technology that dominate the transnationals and the criteria they follow in pricing technology. It is to be noted, however, that these very important issues of joint ventures and technology transfer will not receive detailed treatment if the relevant information on these issues could not be obtained.

Chapter IV provides a summary of findings and conclusions.

In conducting this study, as outlined under the various chapters mentioned above, the methodology to be followed for the investigation and analysis will, inter alia, concentrate on:

1. Technical data covering country estimates on reserves, production costs, investments in various segments of the industry.
2. Financial data on assets, sales, profits, investment and reinvestment policy and strategies towards diversification, both in the context of horizontal integration into alternate energy forms such as natural gas, coal, oil shale, nuclear, etc., and into completely different businesses. It is felt that the financial variables, on the whole, are a key ingredient in assessing the power of these companies.
3. Data on discriminatory policies towards the host countries. It is felt that data should be obtained on private companies' share of projects in the Middle East, to be compared with such company projects when they operated in the North Sea,

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North Slope and other areas. It is important to know that even equal per barrel dollar profits do not indicate similar rates of return as the capital inputs and risk factors could differ significantly.

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The Practices of Transnational Corporations
in the Oil Industry in the ECWA Region

(outline)

Introduction

Short historical background

I. Organisation of the Oil Industry in the ECWA Region

- A. The International oil companies
 - 1. Integration
 - 2. Financial capacity
 - 3. Technological research and development

- B. The National oil companies
 - 1. Crude-oil exporting countries
 - 2. Crude-oil importing countries

- C. The specialised (parapetroleum) companies
 - 1. Contractors
 - 2. Engineering companies
 - 3. Constructors

II. Trends in the Ownership and Operation of the Oil Industry Since 1973

III. Industry Activities in the Region

- 1. Management contracts
- 2. Marketing agreements
- 3. Licensing agreements
- 4. Turn-key projects
- 5. Production sharing
- 6. Direct investments

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