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ABSTRACT

In the U.S.-Iran nuclear crisis, U.S. motivations stem from its role as protector of today's market-centered, global oil system, herein "The One Global Barrel." This market itself is the principal basis of global energy security today, unlike the political-economics of the old neo-colonial system. But, most light-oil reserves are in Persian Gulf states—Saudi Arabia, Kuwait, the UAE, Iran and Iraq. U.S. Grand Strategy prevents any from projecting power affecting another's production and undermining the open market. Hence, Iraq was driven from Kuwait, placed under sanctions and the Ba'athists overthrown. Iran alone now projects power independently. Its nuclear program is a gambit for a Grand Bargain to lift oil sanctions without surrendering Regional power status, or to accomplish this as *fait accompli*. A future national-democratic Iran could find U.S. limits on sovereign power equally obnoxious. These underlying oil-market interests must be publically recognized to advance negotiation of the present crisis.

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Introduction

There can be no doubt that the interests of foreign powers in Iran's vast oil resources played a central and often ruinous role in the country's modern history. Recognition of the role of oil is considered *de rigueur* when considering Iranian modern history before the 1979 Revolution. However, since the Revolution, the role of oil in Iran's confrontation with the U.S and other major powers is not so clearly understood. In the present paper, I argue that specific material interests having to do with petroleum underlie, define and constrain the U.S.-Iran conflict. These petroleum interests are similar to those underlying the U.S.-British confrontation and occupation of Iraq.[2] The

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[2] Iraqi "weapons of mass destruction" and "links to Al Qaeda" were given as rationales for the U.S.-British invasion of Iraq. After much searching within occupied Iraq, they were admitted to be non-existent by both the Bush Administration and Blair Government. Understandably, much effort had been expended by critical-minded persons to contest these *rationales*; however, unfortunately, much less effort was expended in discerning the particular material interests motivating U.S. and British decision makers to a "preemptive" "war of choice" whatever their public *rationale*. A more independent-minded critique would seek to determine the actual motivations lurking in material interests of the belligerent powers. From such an analysis, one could most fruitfully critique the *rationales* offered by the political-military

fundamental basis for the ongoing U.S.-Iran crisis is not, *per se,* Iran's ostensible "nuclear threat," its support for "terrorist groups," its "threats against Israel," or any one of a number of other contentious issues over which the dispute actually plays out day-to-day. However, the "oil interests" underlying this crisis take a very different form in the present globalized era than they did in the past.

Late-Colonial vs. Globalized "Oil Interests"

Too often, when "oil interests" are said to underlie U.S. relations with Iran, or for that matter Iraq, China, Venezuela and other states, these interests are often represented in an antiquated manner, as they existed during the late-colonial or neo-colonial era. In that era, international oil companies (IOC) held fields as concessions, as private property, and the Great Powers defended IOC interests against the local states and peoples, and engaged in rivalries for these resources.[3] The semi-colonial states received only a minority share of rents, and had no input into production or pricing decisions. And, while each IOC supplied a number of countries with oil, the system retained a certain mercantilist character in that each IOC was also expected to guarantee petroleum products for its "own" nation's domestic needs.

Indeed, Great Britain exploited Iranian oil fields in this manner, setting up the Anglo-Iranian Oil Company (AIOC), partially owned by the British state, to guarantee a steady source of this new fuel superior to coal for its naval forces before World War I. In the inter-war years, AIOC supplied the British homeland and other markets with petroleum, with the lion's share of rents going into the coffers of the British state and private investors. After World War II, with the British state bankrupt, income from AIOC's Iranian concessions became indispensible to the Exchequer. This was a major factor for the intransigence of the British government of Winston Churchill in 1951 against the nationalization of AIOC's concessions by the government of Prime Minister Dr. Mohammad Mossadegh, and for Britain's role in the infamous coup against Mossadegh organized with Washington in 1953.[4]

This history is well known. The point is, in those days, if one said that a conflict was "all about oil," it was in *this* particular, late-colonial/neo-colonial way that it would be understood to be "all about oil" and this was the basis for the bulk of British and U.S. politics vis-à-vis Iran in the late-colonial era—even though Washington denied its motives were ultimately as pecuniary as Britain's.[5]

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actors, understanding that they themselves may or may not actually be fully conscious, able or willing to admit to their allies or even to themselves, the material interests that impel their actions. Most generally: "Just as our opinion of an individual is not based on what he thinks of himself, so we cannot judge of such a period of transformation by its own consciousness; on the contrary, this consciousness must be explained rather from the contradictions of material life..." Karl Marx, Preface to *A Contribution to the Critique of Political Economy*, 1859.. Access: http://en.wikiquote.org/wiki/Karl_Marx

[3] See reference 50, below, discussing work of Harvey, Klare et al.

[4] One outcome of the coup was that U.S. companies, due to insistent U.S. State Department pressures on the British state and BP management, were given a significant share of AIOC concessions by the shah after his return to the throne, undermining British dominance of the Iranian oil sector. Obviously, Washington had its own "oil interests" in these events.

But, we are no longer living in the late-colonial/neo-colonial era of capital; this is its globalized era. The dominance of the IOCs, in particular of the Seven Sisters and the French national company in the oil system began to fade in the early 1960s when independent companies entered Middle Eastern upstream petroleum production.[6] But, their dominant position was fatally undermined by nationalizations after the Arab OPEC oil embargo of 1973. This OPEC Revolution destroyed the last major vestige of European and U.S. colonial property relations in Asia, Africa and Latin America. After the second oil shock following the 1979 Iranian Revolution, IOCs that were still operating in nationalized oil fields were largely expelled and the various OPEC national oil companies (NOC) came into their own as major players in the international oil system. Over the next decade, a new international system for the exploitation of petroleum resources—consistent with the new post-nationalization property relations and the new level of development of productive forces of the post-industrial Information Era[7], came into being. This is an oil system characteristic of the Global Era. If the U.S.-Iranian confrontation today is indeed "all about oil," it is necessarily "all about oil" in a new and different manner than were the U.S. and British conflicts with Iran of the late-colonial era, a manner that we must carefully explain. This is the question I pursue here. Before beginning, I give a brief résumé of the main arguments, and of the method employed.

Résumé: U.S.-Iran crisis in the globalized oil security system

The U.S. motivation in confronting Iran pertains to the international oil market security system. Its aim is to not permit Iran— given its prodigious oil and gas producing

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[5] A censored CIA official history of the 1953 U.S. and British coup against Mossadegh, published for the first time, in the New York Times, some 50 years later in 2000, goes to some length, as the Eisenhower administration did publically at the time, to attribute the U.S. role in the coup to concerns over possible communist subversion and Soviet expansion into Iran, and to downplay the role of the British-Iran oil crisis. The misrepresentation by the U.S. of its motivations at that time, and in this CIA document, are illustrated by E. Abrahemian in his essay analyzing the document: Ervand Abrahamian, "The 1953 Coup in Iran,", *Science & Society*, Vol. 65, No. 2, Summer 2001, 182–215. Accessed at http://www.geocities.com/thelasian/1953-coup-Iran-CIA.html

[6] Most notably, beginning with Armand Hammer of the independent U.S. company, Occidental Petroleum, who signed contracts with the new government of M. Kaddafi to develop Libyan fields shortly after the revolution that overthrew the royal family.

[7] A standard breakdown of "technical" or "industrial" revolutions of the capitalist era distinguishes three stages: the First Industrial Revolution of the late-17th to mid-19th centuries (this period followed the Commercial Era and the original rise of European empires in the New World, Africa, and Asia); the Second Industrial Revolution from the late-19th to early-mid-20th centuries (a.k.a. the "mass production" or "automation" revolution that saw the development of large-scale production, vertical integration and mass bureaucracies co-incident with a transformation from mercantilist forms of colonial domination to neo-colonial forms exhibiting massive export of capital in foreign investments and nominal independence of formerly colonial states, referred to as the stage of "monopoly capitalism" and/or "imperialism" in left discourse); which was then supplanted by a "post-industrial" era which, fully evolved, become the Information Revolution/Age. I often refer herein to both the present stage of technical-scientific-productive development (i.e., the Information Age, actually the Third Industrial Revolution) and the international system of relationships among the dominant, more-economically developed states, and the former-colonial states as "globalism", as is the general custom. See author's syllabi and seminar materials at: http://www.umich.edu/~twod/syllabi entitled "Steam Engines and Computers: From Industrial Proletarians to Information Workers."

potential—to assume its natural role as a powerhouse energy producer without providing irreversible guarantees that it would not use this position and the wealth that will come with it to undermine the international oil market security system, especially the present balance of power in the Gulf Region enforced by the U.S.

Today, 95% of all transportation in the world is fuelled by petroleum derivatives.[8] For all countries and business activities, security of petroleum supply is a fundamental concern —in fact, an existential concern. The majority of global conventional oil resources are located around the Persian Gulf. Today's international oil system is market-centered, with institutions and practices that differ greatly from those of the previous neo-colonial system that did not have an open market. Today's globalized system has five major components: (i) The market itself, which forms a single, common, albeit virtual "global barrel" consisting of the spot and futures markets through which all exported oil circulates, traded in U.S. dollars. This market has control institutions that support its secure functioning, including: (ii) Saudi surplus production capacity, (iii) the Strategic Petroleum Reserve (SPR) system of the International Energy Agency (IEA) of the OECD states, and, in recent years (iv) the International Energy Forum (IEF), which incorporates the major consuming-states' organization (the IEA), the major producing-states' organization (OPEC), plus over 80 other states in total, along with representatives of the world's major petroleum companies. And, lastly, (v) U.S. Persian Gulf regional hegemony plus its dominance of the world's oceans.

Each of these components acts to insure day-to-day confidence in the market being sufficiently stable and "real" (open and transparent), and, in times of market emergencies, to insure security of supply to consuming states. What I refer to as the "one global barrel" oil-market is the key element of energy security in the post-nationalization world. The IEA, OPEC, IEF and other institutions each play specific roles. However, petroleum resources are very unevenly distributed in the natural world, with 60-66% of conventional oil reserves found in five states around the Persian Gulf. In the view of the U.S. and most First World actors, as well as the "OPEC core" states,[9] one of the most severe threats to this market, and to energy-supply security generally, would be if any one of the Region's major petroleum producing states were able to significantly influence the production of another. Hence, a geostrategic imperative the U.S. has set for itself is to prevent any Gulf oil-producing state from being able to project sufficient power to significantly influence the production of another state in the Region. It has done this by maintaining itself as the predominant regional power, and maintaining the OPEC core states of Saudi Arabia, Kuwait, the UAE and Qatar as protectorates.[10] The U.S. has long considered the remaining two Gulf oil producing states, Iran and Iraq, the chief threats to this order. This U.S. regional role has specific market-control and market-protection logic underlying its political, diplomatic and military aspects. However, for the U.S., this role is not merely about preserving the international oil order in the interests of the U.S. and in its allies'. Its position of centrality within the oil system also provides the U.S.

[8] EIA/IEA data.

[9] Saudi Arabia, Kuwait, the U.A.E., and Qatar. We shall define this concept anon.

[10] This also excludes other outside powers from attaining substantial influence in the Region and, with this, influence over the globalized oil market. This is the Carter Doctrine.

with enormous prestige and leverage beyond the oil system itself, as a key lever of its global hyper-power status. It is within the context of this political-economy and geo-strategy of the globalized petroleum system that the U.S.-Iran confrontation must be analyzed.

Method

In order to examine the role of oil in the U.S.-Iran conflict, we cannot start with Iran itself or with this conflict *per se*. One must first elaborate, in general terms, how the present *globalized* petroleum system functions, and how it differs from the previous late-colonial system. After this unavoidable detour, I then examine the roles and interests of the U.S. and of Iran within this system. From this, we shall be in a position to make sense of the ongoing U.S.-Iran crisis. I then assess the success of the U.S. program of sanctions and other pressures on Iran, and, in turn, Iranian pressures to compel three things from Washington: removal of oil and gas sanctions, acceptance of Iran's desire to project power in the Region, and to provide security guarantees for the present Islamic state's leadership (i.e., against destabilization or regime change). These are the parameters within which the new Obama administration and any Iranian leadership will bargain and contend.

The Political Economy of Globalized vs. Neo-Colonial Oil

To assess "the role of oil" in the U.S.-Iran conflict, one must first understand the main characteristics of the international oil system. The Globalized Oil System (GOS) emerged gradually in reaction to the oil shocks of 1973 and 1979, and in the resolution of the so-called Saudi Netback Crisis of 1986-87.[11] It was a product of the intense North-South conflict between the newly empowered OPEC states and the U.S.-led OECD[12] states. A history of the complex twists and turns of this confrontation is beyond the scope of the present paper.[13] However, the characteristics of the new system are most clearly illustrated in contrast to those of the previous, neo-colonial system.

The old, neo-colonial oil system

Figures 1 and 2 are schematic canonical representations of the old and new petroleum systems respectively. On the left-hand-side of Figure 1, ovals represent oil-producing countries, and on the right-hand-side the consuming countries. In between are the international oil companies (IOC)—the Severn Sisters plus the French national company.

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[11] "Netback Pricing and the Oil Price Collapse of 1986," Robert Mabro, Oxford Institute for Energy Studies, WPM10, January 1987. Access: http://www.oxfordenergy.org/pdfs/WPM10.pdf. For a view of the impact on Iran, see Hooshang Amirahmadi, *Revolution and Economic Transition: The Iranian Experience*, U. Chicago Press, 1993, pp. 78-80. Access: http://www.journals.uchicago.edu/doi/abs/10.1086/452077.

[12] OECD: Organization of Economic Cooperation and Development. Historically, this has been the organization of the First World states in the post-WWII period, with the U.S.A. as its dominant member. It currently has 27 member states. The International Energy Agency (IEA) is an organization of OECD states.

[13] See: Thomas W O'Donnell "The Political-Economy of the Globalized Oil Order: How 'Objective Conditions' Drove the OECD and OPEC from Confrontation to Collusion and a Market-Centered System Resting on US Gulf Hegemony,", International Studies Association Annual Meeting, New York, 15 February 2009.

The lines represent the flow of oil from producers to consumers, with the IOC acting as intermediary transmission belts. In those days, the IOC were vertically integrated entities, consisting of upstream production facilities, pipelines and tankers, and downstream refineries, truck fleets, and retail outlets including branded gasoline stations making direct contact with customers. In this system, there existed bi-lateral connections between specific producing states and consuming states, mediated by the IOC. To ask from which country or countries a given consuming state received its oil was a sensible question. If the supplies of an IOC from a given producing state stopped for some reason, there could be a significant crisis in its consuming states for the sudden lack of oil. To resolve this, another IOC would have to increase production from one of its foreign concessions and provide oil to the IOC temporarily without oil. An IOC that found itself without sufficient oil supplies could not simply go to the marketplace to purchase the shortfall. Nowhere in Figure 1 is there an open market. In those days, there was no significant "spot" market and no futures market whatsoever. This near-elimination of a market from the international petroleum system was actually a desirable achievement for the IOC at that time.

The oil sector, from its inception, had been notorious for its market volatility[14]. It was when John D. Rockefeller established his Standard Oil Company in the 19th century and came to exercise effective control over most of the production and marketing of oil products in North America that petroleum became a sufficiently reliable fuel source to displace others, and a regularly profitable commodity.[15] With the breakup of Standard Oil by the U.S. government, the Seven Sisters coalesced and came to dominate the world oil system. How effective they were at dampening market volatility can be seen in Figure 4, showing that the price of oil remained remarkably flat for decades until the crisis of 1973. Yergin specifically links vertical integration with dampening of volatility:

> Oil of course had always been a commodity, from the earliest commercial days ... in Western Pennsylvania. But one result of the constant thrust toward integration was to internalize the volatilities of price within the workings of a company tied together from the wellhead to the gasoline pump.[16]

[14] The political economics of this are beyond the present discussion. Suffice it to note that, especially in any sector based on rents, including agriculture, without a well developed meta system of market controls on entry of new enterprises into the sector, and to control the output levels of enterprises in the sector (sometimes provided by state regulation, other times by collusive business associations, or some combination of these), there will quite generally be ruinous sector-specific swings of over and under supply, and of associated price collapse and price inflation. The history of the early U.S. oil sector, in Pennsylvania pre-Standard Oil, and of the 20th century independent oil production in Texas regulated by the Texas Railway Commission, are classic examples of this.

[15] "Rockefeller was poised to make his last great strategic decision—to go directly into oil production. No less than his colleagues, he had great antipathy for oil producers. Yes, they were speculators, they were unreliable, they behaved like greedy miners in a gold rush. Yet here ... was an opportunity for Standard to gain control of raw materials on a very large scale, to apply its rational management to the production of oil, to balance supplies and inventories against its market needs. In short, Standard **would be able to insulate itself to a considerable degree against the fluctuations and volatility of the oil market—and against the disorder of the 'mining camp**.' And that was the direction in which Rockefeller very definitely wanted Standard to go." [emphasis added, T.O'D] Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, Simon & Schuster, 1992, pp. 52-53.

[16] Yergin, *ibid.*, p. 721.

However, there remained two other locations where unruly competition could easily disrupt profitability and security of supply. These were located at the two extreme ends of vertically integrated IOC structures. One was "upstream", where competition between companies took place for control of new concessions and to decide how much oil each company would pump. In a world where there was consistently a huge excess of proven reserves of oil, agreements were negotiated between the IOCs to limit how much each company would pump from its concessions, lest prices collapse. The other was located at the extreme "downstream" terminus of the oil sector, where competition between networks of branded gasoline stations could be fierce. Agreements to limit competition were implemented at these two extremes: the IOC entered into cartel arrangements to set quotas limiting production, especially in the Middle East, and to divvy up final markets. These arrangements were constantly upset in the face of the ultimate irrepressibility of capitalist competition; nevertheless, for significant periods of time they kept matters under control, limiting competition and volatility.

However, nationalization eliminated concessions, and with them the neo-colonial oil system, including the dominant role of the IOCs, that had rested on concessions. It was replaced, eventually, by a new system consistent with the new property relations. In Iran, nationalization initially occurred earlier than the OPEC Revolution, in 1951, under Prime Minister Dr. Mohammad Mossadegh. However, this early attempt was undone until the Revolution of 1979 by the U.S.-British coup. For completeness, we will now briefly review the role oil took in Iran's geostrategic relations with the U.S., Britain and other foreign powers, and the historically specific forms it took at the time of the late-colonial oil system, before proceeding to describe the new globalized oil system and the very different forms that the role of oil takes in Iran's contemporary geostrategic relations with the U.S.

British and U.S. neo-colonial-era oil interests in Iran

In 1951, Iran became the first state to make a serious attempt to take control of its national oil resources from the international oil companies since México had done so in 1938.[17] This was over two decades before other Middle-Eastern and Latin-American states that would form OPEC nationalized their oil. In that year, Prime Minister Mossadegh ordered the enforcement of nationalization laws previously adopted by the Iranian parliament, the Majlis. The immediate outcome of this national movement is well known. The U.S. Eisenhower administration and the British government of Churchill organized the 1953 coup that removed Mossadegh, and placed the shah back on his Peacock Throne. In June 2009, some 58 years later, a U.S. president finally openly admitted Washington had overthrown the democratically elected Mossadegh government.[18]

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[17] With the addition of Article 27 to its constitution, México created PEMEX and made oil the property of the State. See: John A. Adams, *Bordering the Future*, Google Books, Greenwood Publishing Group, 2006. p. 62. Access: http://books.google.com/books?id=_ZrZ9Xq_VCcC.

[18] President Barack Obama, in his speech to the Islamic world, in Cairo, Egypt, said: "In the middle of the cold war, the United States played a role in the overthrow of a democratically elected Iranian government." *New York Times*, Text: Obama's Speech in Cairo, June 4, 2009.

Technically, nationalization continued in force after the coup, as the shah realized it would be politically unwise to openly reverse these laws. Nevertheless, by granting concessions and bringing back the IOC as operators of Iran's oil fields, he *de facto* denationalized the fields.[19] The centrality of oil in precipitating this U.S. and British intervention, as a reaction to nationalization, is obvious. However, the diplomatic confrontation between the U.S. and Britain following the coup is also revealing in this regard. Although the shah brought back British engineers and managers expelled by Mossadegh, Britain was left with a much reduced, though controlling percentage of the Iranian domestic oil sector. The British government had been pressed by Washington to turn over a significant portion of AIOC's holdings to American IOCs that, in the end, got a 40% share. The U.S. thus became a major power in Iran's oil sector—consistent with the post-War global balance of power. The Americans also settled matters with the Saudis, in whose country U.S. oil interests had been heretofore centered, by getting the Royals' agreement to U.S. plans to significantly expand the rival Iranian oil sector. The Saudi royals' traditional impulse had been to oppose any increase in Iranian oil production or Iranian regional influence. But, the Americans used the threat of the Soviet Union gaining influence in Iran, and from there within the Gulf proper, to rationalize their new oil-production activities in Iran to the Saudis. In his assessment of the history of modern Iran, Ervand Abrahamian, states that the U.S., in hyping the Soviet threat: "... places the coup in the context of the Cold War rather than that of the Anglo-Iranian oil crisis—a classic case of nationalism clashing with imperialism in the Third World."[20]

Iran under the re-installed shah soon became a bastion of U.S. regional influence. In so far as his U.S.-armed regime was built up to block expansion of Soviet influence, it was, of course, possible Soviet influence in the world's most important oil producing region that was being blocked. But, the shah's regime was an increasingly unstable, *rentier* state, constantly driven to increase revenue streams needed to maintain a corrupt, unpopular and repressive regime.[21] In time, the shah's constant raising of prices to sustain his regime and its hangers-on, become problematic for the U.S. Shortly before the Revolution, President Jimmy Carter successfully pressured the shah to moderate his pressure on world oil prices. But the shah was in much more trouble domestically than the U.S. and its allies had realized, and this loss of revenues only further hastened the development of a revolutionary crisis.[22] With the Revolution of 1979, the Iranian national movement finally re-expelled the IOCs and the oil and gas sectors were

[19] "Aftermath: The coup inaugurated the denationalization of the oil industry. The new government gave a concession to a consortium of major companies. In theory, the National Iranian Oil Company remained in charge, but in reality this consortium gained full control over management, refining, production, and distribution of oil. In this consortium, 40% of controlling shares went to the Anglo-Iranian Oil Company, renamed British Petroleum; 14% to its ally Royal Shell (thus giving majority vote to the British); 40% to a group of American firms; and the remaining 6% went to the French state company. The consortium was to give 50% of profits to Iran. In the words of the new British Charge D'Affaires, "a formula" was found that "gave the consortium the control they considered essential" (FO 371/Persia 1954/114805). To make the deal more palatable, the United States sent Iran $40 million in aid — on top of $28 million rushed in September, and $5 million secretly delivered the day after the coup. Abrahamian, *op. cit*, 182-215. Access: http://www.geocities.com/thelasian/1953-coup-Iran-CIA.html

[20] Abrahamian, *ibid.*

[21] Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Studies in International Political Economy, No 26), Stanford, Stanford University Press, 1997, pp. 201-207.

renationalized. The National Iranian Oil Company (NIOC) took over full operation of the country's fields. As is to be expected, these expulsions, together with strikes and struggles among factions of Iranian workers and managers working in the oil fields, undermined Iran's productive capacity for a time. This sudden loss of Iranian oil from the market during the Revolution was, in fact, the basis of the world's Second Oil Shock. In any case, that U.S. and British interests in Iran are oil-centered, at least up to the Revolution, is clear. As we shall see, in the globalized era oil remains the basis of these interests, but the forms of the interests have changed considerably.

The New Globalized Oil Order

Figure 2, is a schematic representation of the new international system that emerged in the decade after the OPEC Revolution. As shown in Figure 4, about 85% of the world's proven oil reserves are now nationalized, with 77% belonging to OPEC states. I refer to Figure 2 as "the one global barrel" system. This barrel, which is, of course, virtual, is the market itself, located principally in New York and London, where the bulk of the world's oil is traded and re-traded, in dollars, on the spot and futures markets. Here, producing and consuming states are no longer joined in bi-lateral connections mediated by specific IOCs, but are joined only indirectly, via the market, without the direct dependencies of the former system. And, without concessions, there are no longer the same rationales or advantages for the IOC to be vertically integrated. After their concessions were taken from them, the IOCs eventually spun off the bulk of their pipelines, refineries and branded gasoline stations and today engage mainly in upstream exploration and production of petroleum (E & P). This is precisely the sort of system the OPEC states had hoped to attain with nationalization, one where they themselves sell their oil production directly to the market, without secretive foreign IOCs running the show. However, as we have seen, since much of the reason the IOCs had previously built up vertically integrated companies was to regularize (guarantee) profits by escaping the vicissitudes and volatility of a petroleum market, how would volatility be limited and security of supply guaranteed now, after nationalization, in a market-centered system? And how, in very specific terms, does Iran (and, previously Iraq and Libya in particular, and to some extent Venezuela) come into such sharp conflict with the U.S.-OECD vision for the market-centered oil system?

Security of Supply

The main elements of today's "one global barrel" oil security system are as follows:

1. The open market itself that forms a single, common, albeit virtual "global barrel" consisting of the spot and future markets, through which essentially all oil exports are circulated to consumers. This market operates in U.S. dollars.
2. The emergency oil capacities of:

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[22] Nikki R. Keddi, *Modern Iran: Roots and Results of Revolution*, Yale University Press, 2003. See especially Chapter 9, pp. 214-239, entitled "The Revolution". Note that, in 1977, "... in return for Iran's moderating its stand on oil prices, the United States guaranteed continued arms supplies, diplomatic support and a downplaying of the human-rights issue. In December Iran backed Saudi Arabia's oil-price-freeze policy, while American officials from then on played down human rights in Iran more than before." p. 217.

a. Saudi Arabia (and occasionally other OPEC states), which can be rapidly brought to market when there is a supply shortfall
b. The Strategic Petroleum Reserves (SPR) system of the member states of the International Energy Agency (IEA) of the Organization of Economic Cooperation and Development (OECD), along with any commercial reserves held within these states at a given time, all of which can be brought to market during a severe supply crisis.

3. The International Energy Forum (IEF) and the IEF's two standing Secretariats (IEFS): consisting, respectively, of representatives of major commercial oil companies and state energy ministries, involving over 80 states.[23]
4. U.S. Persian-Gulf regional hegemony, with the aim of insuring none of the local major producing states can project sufficient power there to dominate the production of any other(s), thereby undermining the global oil market.

Fundamentally, it is Iran's place in this system, should sanctions be lifted, over which it and the U.S. clash. Each point here requires some explanation before we look at the implications for U.S.-Iran relations.

The IOCs are no longer in a controlling role; but they are major market players alongside the national oil companies (NOC) of OPEC states, Russia, China, and others. Today, everything centers on this market. In elaborating the characteristics of this system, I will emphasize the perspectives of three of the most authoritative and influential mainstream analysts of international oil markets: Daniel Yergin, Edward L. Morse, and Amy Myers Jaffe.[24] According to Yergin, writing in *Foreign Affairs*:

> Markets need to be recognized as a source of security in themselves. The energy security system was created when energy prices were regulated in the United States, energy trading was only just beginning, and futures markets were several years away. [i.e., during and after the first oil crisis of 1973 – T.O'D.] Today, large, flexible, and well-functioning energy markets provide security by absorbing shocks and allowing supply and demand to respond more quickly and with greater ingenuity than a controlled system could.[25]

[23] "The International Energy Forum (IEF) is the world's largest recurring gathering of Energy Ministers. Unique in that participants include not only IEA and OPEC countries, but also key players like Brazil, China, India, Mexico, Russia and South Africa. The IEF countries account for more than 90% of global oil and gas supply and demand. Through the Forum and its associated events, Ministers and Energy Industry Executives participate in a dialogue which is of increasing importance to global energy security. The IEF and the global energy dialogue [also called the "consumer-producer dialogue"-T.O'D.] are promoted by a permanent Secretariat based in the Diplomatic Quarter of Riyadh, Saudi Arabia." IEF homepage, accessed at: http://www2.iefs.org.sa/Pages/index.aspx

[24] Daniel Yergin: author of *The Prize*, *ibid.*, and founder of Cambridge Energy Associates, one of the two preeminent energy sector consulting firms; Ed Morse: a leading specialist on the commercial aspects of the international oil and gas sector; and Amy Myers Jaffe: associate director of the Rice University Energy Program in Houston, and author of numerous scholarly and professional papers on the energy sector.

[25] Yergin's continuation is of interest: "Such markets will guarantee security for the growing LNG market and thereby boost the confidence of the countries that import it. [LNG: liquid natural gas. Note: if most

All producers supply the one global barrel, and all consumers draw from it. If one supplier, even a major one, drops out for some reason—whether due to a revolution, natural disaster, war, U.S. sanctions, etc.—the entire barrel drops its level by a bit, and all consuming countries equally share the burden in higher prices. No state(s) become selectively paralyzed or a burden for other states. This is a new, collective type of international energy security. According to Morse and Jaffe:

> An oil shortfall anywhere in the world will produce an equal price rise in every country, irrespective of the level of national import dependence, as long as markets are allowed to clear without government interference.
>
> The United States must face up to this energy interdependence squarely … For the foreseeable future, the Gulf will remain the world's base-load supplier and least expensive source of oil to meet growing demand. The global nature of oil trade and pricing means that it matters little if Gulf oil flows to Asia or to the United States. Middle East Gulf pricing and supply trends will affect energy costs around the globe regardless.[26]

Unlike the old system, as long as producing states continue to deliver their oil to the global barrel with no political or other strings attached, and all consuming states have equal rights to purchase there what oil they require, there is no significant motivation for any consuming state (e.g., for any Great Power) to enter into conflict with another as in the neo-colonial era, especially as was seen before and during World Wars I & II, whether it was to acquire concessions or some preferential bi-lateral delivery contract. There is no aspect of bi-lateral or mercantilist dependence here. Oil is now completely fungible; no matter where Middle East oil is delivered, its price and supply affects all consumers in like manner.[27]

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commercialized gas were to be liquefied and transported by ships and trucks like oil, rather than as now, by pipelines, it too would become completely fungible, and the elements of a market-centered security system like that for petroleum could come into being- T.O'D.] Thus, governments must resist the temptation to bow to political pressure and micromanage markets. Intervention and controls, however well meaning, can backfire, slowing and even preventing the movement of supplies to respond to disruptions. At least in the United States, any price spike or disruption evokes the memory of the infamous gas lines of the 1970s …. Yet those lines were to a considerable degree self-inflicted -- the consequence of price controls and a heavy-handed allocation system that sent gasoline where it was not needed and denied its being sent where it was." Daniel Yergin, "Ensuring Energy Security," *Foreign Affairs*, March/April 2006. One may not agree with Yergin's high assessment of the self-regulatory abilities of markets, but the point here is to illustrate the central role of the market, and *rationale* for its role in the present energy security system.

[26] Morse and Jaffe, Council on Foreign Relations, 2001, *ibid.*

[27] We should add "to a first degree approximation." In fact, the Gulf States add a certain premium on their oil delivered to the Far East. See: Ronald Soligo and Amy Myers Jaffe, "A Note on Saudi Price Discrimination", *Energy Journal*, Vol. 21 No. 1, Jan. 2000. "Despite the development of an international market for crude petroleum and the resulting opportunities for arbitrage, Saudi oil continues to be shipped to markets in the U.S. and Europe when closer markets are available. Furthermore, these Western sales take place at fob (Saudi Arabia) prices that are lower than for exports to customers in the Far East."

If one or more suppliers fail to make deliveries to the global barrel and this leads to a real dearth of oil available on the market, there are two options at present for emergency inputs to the global barrel (*viz.* points 2a and 2b in our list above); these are shown as additions at the top, in Figure 3. One is the excess capacity of Saudi Arabia and any other OPEC state that may have such capacity. Should this Saudi spare production fail to end the crisis the Strategic Petroleum Reserves (SPR) of the International Energy Agency can be released onto the market in a coordinated manner. The origins of the SPR go back to the Arab-OPEC Oil Embargo of 1973 when U.S. Secretary of State Henry Kissinger proposed forming an organization of global-North states to confront the new economic and political power of OPEC.[28] This is the origin of the IEA, which can be characterized as a sort of "counter-cartel" of the OECD oil-consuming states with which to confront the "cartel" of OPEC producing states. To become a member of the IEA, an OECD state was required to accumulate an SPR equal to 90 days worth of its total imports. This is a volume of oil much greater than that which was cutoff during the first Arab Oil Embargo. The accumulation of oil in OECD states' SPRs neutralized OPEC's embargo weapon, and no OPEC states have ever again attempted to carry out an embargo. And, the SPRs were very successfully used when a coordinated release was ordered to address loss of oil production and refinery capability caused by the Katrina hurricane. This disaster had temporarily destroyed about 2 mb/d of U.S. oil production from the Gulf of Mexico and Louisiana region. A standing committee of the IEA automatically takes control of these reserves and orders their distribution as necessary in any oil-shortfall emergency that involves the loss of a certain pre-set percentage of the market's normal volume. In the days before the SPR system, due to the cutoff of supplies during the Arab oil embargo; long gas lines formed in the U.S. and there was much confusion as to what the state of oil supplies actually was. Yergin writes:

> Contrast that to what happened immediately after Hurricane Katrina. A major disruption to the U.S. oil supply was compounded by reports of price gouging and of stations running out of gasoline, which together could have created new gas lines along the East Coast. Yet the markets were back in balance sooner and prices came down more quickly than almost anyone had expected. Emergency supplies from the U.S. Strategic Petroleum Reserve and other IEA reserves were released, sending a "do not panic" message to the market.[29]

These SPR of the IEA now contain about 4.5 billion barrels held by member states when one includes commercial stocks.[30] But, before calling on IEA strategic reserves, the Saudi royals have historically guaranteed they would rapidly bring their surplus production (their so-called "shut-in oil") to market in such an instance. During the beginnings of both U.S. wars involving Iraq, the Saudi's allayed supply fears by making their spare capacity rapidly available to the world market. Similarly, during the later

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[28] Richard Scott, "History of the International Energy Agency, 1974-1994: Origins and Structure," pp. 42-44. Access: http://www.iea.org/Textbase/nppdf/free/1990/1-ieahistory.pdf

[29] Daniel Yergin, "Ensuring Energy Security", *Foreign Affairs*, March/April 2006.

[30] As of March 2009, IEA states have 168 days of all members' total imports on hand, of which 99 days are in industry stocks and 63 in public stocks. See. http://www.iea.org/netimports.asp. For U.S. SPR levels, see: Strategic Petroleum Reserve - Quick Facts and Frequently Asked Questions, US DoE. Access: http://www.fossil.energy.gov/programs/reserves/spr/spr-facts.html.

years of the G.W. Bush Administration, would Iran have been attacked by the U.S. as was often threatened, causing Iran's export of roughly 2.3 million barrels per day (mb/d)[31] to be suddenly removed from the market, the Saudis had given firm assurances to Washington that the kingdom's surplus capacity would be on the market within about two days.[32] Quite likely, the EIA would not have to activate the SPR system, just as Saudi emergency-supply assurances before the First Gulf War convinced the IEA general secretary it was unnecessary to do so.

When demand for oil reached an historic high around June of 2008 (along with prices), Saudi excess capacity was by then at an historic low of about 1.9 million barrels per day. On the one hand, this change was due to the huge increase in global demand over the past several years from China, India and North America (all of which has been mitigated, for the time being, by the global economic crisis that began in 2008). On the other hand, this low level of surplus production capacity is also due to what many see as insufficient additions to supply capacity in recent years by Saudi Arabia and other OPEC states, as well as by IOCs. However, much of this lack of added capacity in OPEC states has clearly been due to long-term U.S. sanctions on Iraq, Libya and Iran. The sanctions regime lasted for about 13 years in the case of Iraq and about ten years in the case of Libya, with Iran's continuing in force since 1995. Precisely as intended, they significantly reduced the ability of these states to maintain or expand their oil production capacities. In addition, Venezuela's production has continued to drop in the aftermath of the anti-government oil strike there in 2003.[33]

Saudi commitment to deliver their excess oil in times of market emergencies is only one aspect of the close relationship between Saudi Arabia and the U.S. that has spanned several administrations essentially unchanged. Following the U.S. invasion of Iraq, Jaffe, Morse *et al* wrote:

> The Bush Administration has continued to pursue much of this agenda, as outlined in its formal energy strategy (the so called "Cheney Report"). ... its language devoted to the international arena could have been written under the Clinton Administration, or indeed under Bush I, Reagan or Carter.
>
> The centerpiece of the status quo is "the special relationship" with Saudi Arabia—a strategic quid pro quo under which the United States would guarantee the security of Saudi Arabia in return for Riyadh's cooperation in keeping a reliable flow of moderately priced oil to international petroleum markets. The first pillar of the special relationship is the decisive role that Saudi Arabia plays in international oil markets. Riyadh is not only the world's largest exporter of oil, but possesses a quarter of global petroleum reserves and, significantly, excess capacity for use in an emergency. The second pillar is the ability and willingness of the United States to intervene militarily should Saudi Arabia be threatened. Washington did so, most notably when it rushed troops to Saudi Arabia

[31] EIA statistics, 2007, accessed June 2009

[32] Private communication, U.S. official in contact with the Saudi leadership.

[33] The Chavista government has been unable to recover technological and managerial abilities lost due to the strike, and this is exacerbated by a policy of excessive rent-taking that has not left the state oil company, PDVSA, with the funds required to repair or expand production.

> when Iraq invaded Kuwait in 1990. … the formal U.S. relationship with Saudi Arabia has not changed. Saudi Arabia has diligently—albeit more quietly -- continued to raise its oil production in times of war and/or market emergency. Senior officials in both Riyadh and Washington also continue to downplay differences. Indeed, Energy Secretary Spencer Abraham has cultivated Saudi Arabia, even going so far as to suggest tacit U.S. approval of OPEC price bands and financially supporting the establishment of a secretariat for a new international energy forum in Riyadh.[34]

The International Energy Forum (IEF) referred to here, and which was point number three in our list of the elements of the present oil security system, was founded in 2000 based on a proposal by Clinton's Energy Secretary, Bill Richardson, and this was followed up by the establishment of the IEF standing Secretariat (IEFS) in 2003 in Riyadh, Saudi Arabia. It was for this IEFS that G.W. Bush's energy secretary, Abraham, contributed funds. The IEF/IEFS is the embodiment of the much vaunted "producer-consumer dialogue" between OPEC and the IEA. That is, it institutionalizes the process of North-South market and energy-security collusion that began after the Saudi Netback crisis of 1986-87, a date that marks the beginning of the globalized oil era. This came at the end of a period of intense North-South confrontation during the decade following nationalizations, a transitional period between the old neo-colonial oil system and the new globalized one. The IEF/IEFS has projects to insure availability of accurate global production information, and market transparency such as JODI (Joint Oil Data Initiative); it provides logistical support (such as to China, in constructing its own new SPR); and is a venue for regular, face-to-face meetings and coordination between important market participants. In a sense, it substitutes for many of the production and distribution coordination features that the old vertically integrated IOCs achieved using cartel agreements amongst themselves.

The willingness of the U.S. to go to war on behalf of the security of the Saudi state and its oil reserves is cited above as the "Second Pillar" of the U.S.-Saudi "Special Relationship." In fact, the U.S. maintains this sort of special relationship not only with Saudi Arabia, but with the other OPEC core states as well, including Kuwait, the UAE, and Qatar. The content of this special relationship is that these states are U.S. protectorates. What is extremely striking in this regard is that the U.S. has had a very different sort of relationship with other OPEC states such as Iran, Iraq, Libya, and lately, to some extent, with Venezuela. What, if any, differences in the material interests or conditions of these two OPEC groups impel them into such different political relationships with the U.S. and into conflicts within OPEC? This bifurcation among OPEC states is the other important element of "the role of oil" affecting U.S. geo-strategy in the Gulf Region, and in U.S.-Iran relations, that we must examine.

Basis of two OPEC factions and two U.S. policies

There are two aspects of oil within the Gulf Region itself that crucially affect U.S. geo-strategy there:

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[34] Joe Barnes, Amy Jaffe and Edward L. Morse, "The New Geopolitics of Oil," *The National Interest*, Winter 2003/2004. Access: http://www.saudi-us-relations.org/articles/2004/ioi/040106-geopolitics-oil.html.

1. Six states there have about 60% of all conventional oil reserves, while the Middle East and North Africa (MENA) together have about 66%. The region will greatly increase its market share in coming years. Any ideas of the Gulf, or MENA states generally, becoming less influential in the oil sector in coming decades are mistaken.[35]
2. However, beyond this general importance of the region, the U.S. has obviously had a marked and persistent difference in its attitude towards different states of the MENA Region.

Regarding the first point, Figure 6 and Figure 7, show the reserves of each continent or major geographical area, with a breakdown of the main states of the Persian Gulf within the Middle East region. Clearly the earth's known conventional oil resources are very unevenly distributed, with a high concentration in the Gulf Region. Figure 8, showing the ranking of OPEC states for their production levels, showing Iran to be the second in this group. However, for the size of its reserves, Iran and other OPEC states of the Gulf Region are not producing oil at anywhere near the rate, as a fraction of proven reserves, as are most global north producers. The present powerhouse producers of the Global North, including Russia, the U.S. (which does not export) and the British-Norwegian North Sea are pumping their reserves out at a much higher rate than the Gulf Region states. That is to say, the Gulf countries' reserves-to-production ratio, or "RP ratio," is much higher than most states in the Global North. The R/P ratios of the world's top eleven producers are shown in Figure 9 (for 2003, before the U.S. invasion of Iraq cut its production even more than it had been). As the North exhausts their reserves, the Gulf region will inevitably supply a much larger percentage of world production. In this sense, the hyper-concentration of U.S. foreign and military affairs on the region is not illogical or arbitrary.[36]

Addressing the second point, as discussed earlier, the U.S. and other First World states (i.e., IEA-OECD states) generally see the OPEC core states of Saudi Arabia, Kuwait, the UAE and Qatar as "honest", "business-like" market players that participate in the "special relationship" as U.S. protectorates. Meanwhile, Iraq, Iran and Libya have clearly been in a very different category with respect to the U.S. and the First World. Is there some factor to be found within material interests, some underlying economic conditions that can explain the persistent and stark differences between these two sets of OPEC states in their relationships with the U.S.?

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[35] Thomas W. O'Donnell, *Global Oil to 2030: A Quantitative Assessment in the Context of International Affairs*, International Relations and Security Network (ISN), Zurich, Switzerland 2 May 2007. The paper concludes that because oil demand has become highly inelastic to price pressures and given the progressive depletion of the aging oil fields in the Northern Hemisphere, global dependence will increasingly concentrate on Persian Gulf oil. Access: http://www.isn.ethz.ch/isn/Digital-Library/Publications/Detail/?id=30696&lng=en or http://TomOD.com.

[36] T.W. O'Donnell, *ibid.*

Looking again at Figure 10, in the average export volume per day of the top 15 producers, Saudi Arabia stands out above all OPEC states, and, along with Russia, both tower above the output of any other producer worldwide. But, no differentiation between the two groups of OPEC states stands out based simply on oil production levels. Similarly, the amount of total revenues garnered by each OPEC state is roughly proportional to the number of barrels each exports in a given year.[37] However, the amount of rents available *per capita* should indicate the relative ability of each state to attain a given level of development internally, that is, to divvy up rents between social-economic development, the military, enriching upper classes, middlemen, and etc. Addressing the pressures from the persistence of large impoverished lower classes might have systematic effects on the policy of a given state within the market (and within OPEC), and hence might affect its relations with the U.S. Data on export income *per capita* is shown in Figures 11, Figure 12, and Figure 13, for the major Gulf-Region and North-African OPEC states plus Venezuela from 1960 to 2008, using data from OPEC. We now see a clear differentiation between the two OPEC-state groupings of interest (*viz.*, point 2 above). *Nota bene*: the vertical axis on the first of these three graphs, on Figure 11, showing Saudi Arabia, Kuwait and the UAE, has a scale ten-times that on the vertical axes of the other two—its maximum is $50,000 per capita while Figure 13, showing Iran and Iraq, and Figure 12, showing Algeria and Venezuela have maxima of only $4500 per capita. In other words, the OPEC core states of Saudi Arabia *et al* have roughly an order of magnitude greater income per capita from oil exports as do Iran, Iraq, Algeria, Venezuela and, in fact, all other OPEC states. We can see this clearly even in the last year of the international oil-price surge, in Figure 14, showing the average income per capita for all OPEC states and the states which are above and below this level. The disparity into these two groups is quite stark.

This distinction in export income per capita between these two groups is not due to a great difference in the absolute sizes of their oil production; rather, it is guite generally due to differences in the size of their populations. That is, the low-export-income per capita group has much larger populations than the other group. Within the high-import-income per capita group, Saudi Arabia, however, does have much greater production capacity than any of the others and, although rapid population growth over the last couple decades caused its per capita income to be below that of the others in its OPEC core group; it clearly remains well within that high-export-income-per-capita group.
This bifurcation into two distinct per-capita-income groups leads to categorizing the lower-income-per-capita OPEC states as the "high absorber" faction, and the OPEC core states with high-incomes-per-capita as the OPEC "low absorber" faction. The basis for these appellations is that the "high absorber" states with their large and generally quite impoverished populations need to "absorb" the maximize rents possible, no matter what the situation in the market. For example, they have serious difficulties lowering oil prices even if it may be in their long term business interests to, say, preserve market share by discouraging new exploration in the global North and/or the development of more

[37] All states do not get the same average price per barrel. The difference between the price a given state receives for an average barrel for its crude as compared to the price as quoted for, say, Brent or WTI crudes on the London or NY markets respectively, depends on the difference in the quality of the average market basket of the crudes the state produces (of the basket's average API) to that of the standard quality for Brent or WTI crudes.

efficient automobiles, etc. They are simply too desperate for funds to maintain their impoverished populations, meet large foreign debt obligations, etc. On the other hand, the "low absorber" group has such high income per capita that they have been able to establish relatively wealthy populations, and, so, can take a long term, more businesslike approach to pricing, moderating prices when it is in their long term interests.
This economic bifurcation has been robust over the entire life of OPEC to date.[38] Even a 50% increase in oil production by any of the relatively impoverished, high-absorber states, or, for that matter a full doubling of their output, would not put them near the category of the low-absorber states. This difference in economic circumstances, especially intense when prices fall to low levels, leads on average to significant differences in the policies of low absorbers as vs. high absorbers in the oil market. These differences can give rise to sharp policy clashes between these two factions inside OPEC and in dealing with the U.S in particular. So too, on average one find similarities within each of these groups, as far as in their states' internal development policies.[39]
In short, the political distinctions traditionally made by the U.S. between the two groups are not merely the result of happenstance in the social-cultural-political trajectories of these states. The low absorbers have been considered by the U.S., since at least the 1980s, as "honest", "businesslike" players in the world oil market, and as allies to be protected militarily. This is not to say that there are not sharp differences at times between the U.S. and these states; but, these differences take place within the context of being U.S. allies. On the other hand, within the high-absorber faction of Iran, Iraq, Algeria, Libya and Venezuela one finds states that the U.S. has often considered "rogues", "enemies", "state sponsors of terrorism", or that it accuses of developing "weapons of mass destruction", etc. While the two groups' differences in their relationships to the U.S. are stark, this is not to say that economic factors determine politics as some iron law. In fact, especially over the last 20 years since the 1990 Iraqi occupation of Kuwait, the U.S. has worked very hard to change the policies/politics of high-absorber states to resemble more those of low-absorber states and has had some success in this.

Iran, Iraq and Libya were long at the head of the list of "rogue" states on which the U.S. had imposed sanctions. However, today, Iraq and Libya are considered "allies" of the

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[38] A more detailed treatment shows that over time, while the two factional foci within OPEC remain well defined, some states tend to move from affinity between one focus and the other, constituting what one knowledgeable observer terms a third group. See: "OPEC, Past, Present and Future," by Massood V. Samil, Chapter 8, pp. 86-95 in the collection: Siamack Shojai, Editor, *The New Global Oil Market: Understanding Energy Issues in the World Economy,* Greenwood Publishing Group, 1995 Access: http://books.google.com/books?id=UleZJ0I5Oj4C&printsec=frontcover#PPA95,M1

[39] This says nothing about theories of "rentier" states, about a general "resource curse" or a specific "oil curse"—theories that are generally presented in a manner that is not falsifiable. The claim that petroleum dependence breeds especially undemocratic states, inequality, underdevelopment, fails in statistical comparisons (regression) of so-called oil rentier states using control groups of non-oil-producing states. A comprehensive study, allowing for a null hypothesis, showed no positive correlations save for Nigeria (S. Haber, Stanford; presented Aug. 8, 2008, IESA, Caracas; and http://www.stanford.edu/~haber/papers/HaberandMenaldo_Does_Oil_Fuel_Authoritarianism1.pdf). This is not to say petroleum mono-economies do not have highly negative consequences. Rather, these consequences are within a context of, for example, Venezuela historically being consistently better off in most indicators vs. a regional cohort of other northern South American states.

U.S., and accepted as respectable players within the globalized oil system. Algeria, for its own reasons, has been much less in conflict with the U.S. vision of the international oil system since it embarked on a strong neo-liberal policy for its oil company in the mid-1990s and extended in its hydrocarbon law of 2005. In the wake of its fierce civil struggle against the fundamentalist insurgency, it has now, since 9/11 in particular, moved closer to the U.S. The exception in this is Venezuela, which was long rather closely aligned to the U.S. in its international oil-market policy and political positions. Figure 12 shows that, in the 1960s especially, its per capita export income was significantly higher, at time when both its population was much lower, and its production higher. In those years, the idea (and associated politics) developed that it might evolve into "Sauditauela" state. However, its population kept rising significantly, while production fell. Since the late 1990s, Venezuela has progressively gone over to policies generally associated with the high-absorber faction, and more consistent with its present-day low-per-capita oil income. In fact, its per capita oil income is remarkably similar to that of Iran, Iraq, Libya and Algeria. However, as Venezuela has no major oil-producing neighbor, it cannot dominate another major oil state and thereby severely threaten the integrity of the global oil market, so it does not come into conflict with U.S. petroleum geo-strategy with the same intensity as the Persian Gulf or North African oil states constantly do.

This leaves Iran. With Iraq and Libya, it is the other high-absorber that the U.S. has long openly challenged. Iran's low level of per-capita income from oil has influenced its positions within OPEC's market policies, and in its relations with the U.S. Nevertheless, this alone cannot fully explain the extreme vitriol the confrontation has entailed on both sides. To understand more satisfactorily what it is the U.S., as the Regional hegemon, sees today when it looks at Iran—or, perhaps more accurately, what it fears in the future when it looks at Iran— we first look at the historical example of the reaction of the U.S. towards Iraq when it occupied Kuwait.

The U.S.-Iran confrontation

The Iraq-Kuwait paradigm in U.S. Iran policy

When Iraq, a country then having the world's second largest oil reserves, occupied Kuwait, a country with the fourth largest reserves, Saddam Hussein and the Iraqi Ba'athist leadership came to control as much conventional/light oil as could be found elsewhere only in the reserves of two entire continents (this is evident, for example, from Figure 7–recall that most of the new N. American oil shown there is tar sands, a very heavy oil in Alberta, Canada, not light, 'conventional' oil). In addition, given the strength of the Iraqi military in August 1990, in principle Hussein could have pushed on to occupy or destroy most of the oil production capacity of Saudi Arabia, a state with oil reserves larger than any two continents elsewhere. The U.S. quickly moved troops into Saudi Arabia. In the logic of the globalized oil system I have traced out here, clearly there would be no real oil market if, for example, Hussein demanded a premium for Iraqi-plus-Kuwaiti oil, took it off the market, or etc. And, it was for this reason that the U.S. coalition drove Iraqi troops from Kuwait in late February 1991. In assessing the Gulf War, Daniel Yergin writes:

> Saddam Hussein's bid to dominate the Persian Gulf had been foiled, and it appeared that the world oil market would remain a market (rather than becoming Saddam's instrument of political manipulation)...[40]

The security of, specifically, "the world oil market" had been at stake. In the assessment of Morse and Jaffe, writing for a commission of the Council on Foreign Relations:

> The August 1990 Iraqi invasion of Kuwait witnessed a major test of global energy security. That test was readily met, creating a deeper sense of complacency among oil-consuming nations. ... Although oil-supply security was a major issue cementing the coalition, it could be assigned a back seat to issues of international order because of three critical factors: **1. Surplus Capacity ..., 2. Strategic Reserves..., and 3. Market Mechanisms** ... [emphasis in original][41]

These are the three elements—along with U.S. predominance in the Region—I have stressed as being at the center of the globalized petroleum security system. Here Morris, Jaffee *et al* say these three aspects of the system actually worked so well in reaction to the Iraq occupation of Kuwait as to create a worrisome "sense of complacency among oil-consuming nations."

After Iraq's transgression, the U.S. lost confidence in Hussein and the Ba'athist leadership to respect the system's norms in the future, and enforced sanctions on Iraqi oil production that kept Iraq outside the ranks of major players in the oil system for some 13 years. Throughout that time, together with Britain, the U.S. forcibly limited the rebuilding of Iraq's military by bombings, import sanctions, inspections, no-fly zones, etc. until an opportunity finally arose for "regime change." The aim of the occupation was to replace the government with one trusted by Washington to manage Iraq's

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[40] Daniel Yergin, "Ensuring Energy Security," *Foreign Affairs*, March/April 2006.

[41] Morse and Jaffe elaborate on these three factors as follows:

1. **Surplus Capacity:** The U.S. embargo on Iraqi and Kuwaiti oil was made possible by the existence of extensive surplus production capacity elsewhere. ... all of the lost production was made up through increases from Saudi Arabia, Venezuela, Abu Dhabi, and other OPEC nations ... willing to assist the coalition against Iraq. Previous surpluses also had cushioned the market with unusually high commercial stocks of crude oil and products.
2. **Strategic Reserves:** The more than 1 billion barrels of strategic petroleum reserves in International Energy Agency (IEA)-member countries loomed over the market, depriving OPEC or other oil producers of market power. It also restrained speculators, who would lose financially if those reserves were released. In the case of the Gulf War, the IEA system fulfilled its original mission to serve as a deterrent to market manipulation by adversaries during a crisis. Its very existence served to damp prices under the new market conditions.
3. **Market Mechanisms:** The deregulation of petroleum and refined product markets in the 1980s and the growth of futures and forward markets provided rapid and effective adjustment mechanisms. These developments facilitated refiners' orderly transition from Kuwaiti and Iraqi supplies to replacement oil from Saudi Arabia, Venezuela, and Abu Dhabi, whether those refiners were in East Asia, Europe, or the Western Hemisphere.

Edward L. Morse, Chair, Amy Myers Jaffe, Project Director "Strategic Energy Policy: Challenges for the 21st Century," Report of an Independent Task Force, Sponsored by the James A. Baker III Institute for Public Policy of Rice University and the Council on Foreign Relations; Council on Foreign Relations, 2001.

tremendous oil potential.[42] In the post-occupation arrangement that the U.S. leaves behind, post-occupation Iraq will not easily use proceeds from its soon-to-be-greatly-expanded oil revenues to again project power in the Persian Gulf Region, thereby undermining the world oil market to its advantage.[43] Today, after almost seven years of occupation and a bloody war, Iraq is quite different from under the Ba'athist Party and Hussein. The new Iraqi Armed Forces will maintain order within the country and defend Iraq's borders; but, they will be able to project power only as an appendage of U.S. forces in the Region. This was the bottom-line aim of the U.S.-British invasion, and it is roughly the final outcome of the conflict.

The aim of what has come to be known as "the new imperialism"[44] was never neo-colonial protection of concessions or of U.S. and British IOCs as it was in the U.S.-British reaction to the nationalization of Iranian oil some 40 years ago. It was enforcement of the one-global-barrel, market-centered oil-system—still carried out by regime change and armed force as deemed necessary, but with different end goals. Note that Libya, in the face of continued sanctions, and under increasing pressure about support for terrorism and against its nuclear program, did not wait to be invaded as Iraq had, but instead opted for a negotiated transformation to becoming a U.S.-British "ally". This leaves Iran the sole holdout among the Bush-Cheney-Rumsfeld-et-al group's "Axis of Evil" inside the OPEC high-absorber group. And, the logic of the U.S. confrontation with Iran is no different than it has been over the last twenty years with Iraq or Libya.[45]

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[42] In fact, it was this limited vision of the Bush-Cheney-Rumsfeld-Rice-Wolfowitz/neo-con group for the occupation that led to its being so underprepared for the complexity and intensity of the resistance to the occupation. In particular, it proved much more difficult to create a semblance of a consensus between the leaderships of the three religio-ethnic groups on sharing future Iraqi oil revenues than Washington had ever imagined. Each group could rather easily sabotage any deal it found unfair; in the midst of which, Al Qaida and other extreme jihadist groups initially flourished in the unstable situation. The neo-con group, in particular, exhibited adventurist notions of using Iraq to transform the international oil system rapidly towards a privatized system—an idea that the IOCs generally vigorously opposed as out of step with market and local-Iraqi realities.

[43] T. O'Donnell, "Understanding the Washington-Tehran Deals," PetroleumWorld.com for Latin America Sunday Feature, 17 February 2008 and, updated: Z Magazine Online April 2008. Access: http://www.petroleumworld.com/sf08021701.htm "These on-again, off-again talks involve partial deals about the mutual pacification of Iraq, not a 'Grand Bargain' that would finally end the very damaging U.S. sanctions on Iran's oil sector Without such an agreement, the danger of a military conflict remains very real"

[44] Harvey, *ibid.*

[45] To be clear, the Iraq war can certainly be termed an "imperial" war; however, in form and in its particular objectives, it had nothing to do with imperial projects found in the neo-/late-colonial era. To see what one might have found in that bygone era, one needs only turn to the analyses offered by the vast majority of left/progressive critics of the invasion. In practically every case, the U.S.-British invasion of Iraq was misunderstood as a return to the imperial violence of the neo-/late-colonial era. The U.S. was supposedly out to "colonize" Iraq, to "grab its oilfields" for its "own" "American transnationals." The invasion was even seen as part of an imminent "inter-imperialist rivalry", the "new great game" where the U.S. and its allies would confront China and/or other Great Powers to divide up Iraq's oil, mercantilist style, for delivery to their home markets. On the other hand, the other great error, at least in the first few years of the occupation, was to portray the Iraqi response as largely a "war of national liberation" against U.S.-British forces. The fact of the matter is that the U.S. aim was to transform Iraq into a reliable, "business-like" market player that would be guaranteed to never again be able to dominate another

(Venezuela, as indicated earlier, has no possibility of dominating another major oil producing state in its vicinity and has therefore never been so urgent a matter for the U.S. In any case, the inability, since 2003, of chavismo, with its sectarianism in scientific, technical and business matters, to re-organize the production of the national company, PDVSA, amounts to nearly the same effect that externally applied U.S. sanctions would have had since them.)

I have argued that the U.S. and its allies drove Iraqi troops from Kuwait to defend the market-centered oil-security system and that the 2003 regime-change was a continuation of the same goal. In a now-famous article entitled "Ouster of Hussein Crucial for Oil Security," Bob Woodward, the Washington Post reporter, describes an interview with Alan Greenspan in 2007, after he retired as the Federal Reserve chairman. What is recalled about this interview is that Greenspan admitted that oil was the motivation for both Gulf wars. However, he was more specific, emphasizing protection of "the market" as the rational for pursuing both wars. Greenspan told Woodward that he had:

> ... emphasized to the White House in private conversations before the 2003 invasion of Iraq" that "the removal of Saddam Hussein had been 'essential' to secure world oil supplies.
>
> If Saddam Hussein had been head of Iraq and there was no oil under those sands, 'our response to him would not have been as strong as it was in the first gulf war. And the second gulf war is an extension of the first. My view is that Saddam, looking over his 30-year history, very clearly was giving evidence of

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Persian Gulf state's oil and make a "plaything" of the global oil market. The many hundreds of thousands of Iraqis who died in the ensuing war did not die victims of a U.S. plan to revert to neo-/late-colonial control of Iraq, to establishing some sort of mercantilist relation to the U.S.-British home markets; rather, they died as victims of the U.S.-British violent reshaping of Iraq as a reliable player in the globalized, market-centered oil system. Thus, the U.S. and British, having accomplished the goals of the new, market-centered imperialism, are leaving Iraq (though U.S. troops and bases will in some fashion remain inside and/or nearby Iraq in perpetuity, and Iraq will remain dependent) in the hands of the leaders of its three dominant religio-ethnic factions. These factions are now accepting contracts and FDI from a plethora of foreign IOCs that will work in conjunction with the Iraqi national company (the first major service contracts are being bid on by 32 foreign IOCs on 29 June 2009). These contracts will enrich all three leaderships, and the IOCs, to varying degrees. But, there is no particularly egregious granting of contracts to U.S. and British firms at the expense of, say, Chinese, Russian or French firms, all of whom are also bidding on contracts there along with U.S. and British IOCs. The U.S. gains a certain necessary legitimacy among other powers and market players to act as the hegemon and protector of the globalized international oil system by acting to preserve a more or less level playing field for all sections of international capital, among which, of course, its own firms find ample opportunity to compete for a significant share. The logic of the "one global barrel" system, as we have indicated earlier, is such that it eliminates the immediate necessity of various consuming states, various Great Powers in particular, from directly clashing for proprietary/mercantilist possession of oil fields in producing states. For the U.S. (or Britain) to egregiously use its special position as the occupying powers of Iraq to promote its own IOCs holdings in Iraq would undermine the very logic of the system they invaded Iraq to re-affirm. Clearly, these distinctions are of no use to the hundreds-of-thousands of Iraqis who died in this criminally instigated war; however, one hopes, at least, that these distinctions may be of use in more effectively criticizing and preventing the initiation of any future war driven by the logic of this "new imperialism" against Iran or another oil-producing state.

> moving towards controlling the Straits of Hormuz, where there are 17, 18, 19 million barrels a day passing through.' ... given that, 'I'm saying taking Saddam out was essential. [46]

Woodward goes on to say that Greenspan, "... added that he was not implying that the war was an oil grab"[47] by the United States. In response to the suggestion that the Iraq war was an "oil grab" he replied emphatically:

> No, no, no.' Getting rid of Hussein achieved the purpose of 'making certain that the existing system [of oil markets] continues to work, frankly, until we find other [energy supplies], which ultimately we will.[48] (Bracketed phrases by Woodward in original)

Again, the particularity of energy security is bound up with "oil markets." The U.S. was not in Iraq for an "oil grab" for its own, home consumption or for its own IOCs as with the U.S.-British coup against Mossadegh in 1953 when Washington forced Britain to concede a large share of their concessions in Iran to U.S. national IOCs.[49] Rather, today it acts as protector of world oil markets, of the one global barrel, and, by doing this not only provides oil security to itself and its allies, but, it achieves power and influence (predominance, hegemony) well beyond the oil order in-and-of-itself by virtue of its

[46] Greenspan: Ouster of Hussein Crucial For Oil Security, Bob Woodward, Washington Post Staff Writer, Monday, September 17, 2007; A03.
[47] Woodward, *ibid.*
[48] Woodward, *ibid*
[49] To attain a full picture of the "new imperialism," one would not only have to look at the role of the U.S. in the oil sector, as we are here, but in other sectors, including especially technology, finance, military-industrial, culture, etc., and understand the historically specific structure of each sector and, from the sum of these studies one would get a concrete view of the role of the hyperpower vis-à-vis other powers in today's world. In the case of the relationship of Iran and other Persian Gulf states to the U.S., given Gulf states' special role in the international oil order, consideration of this one aspect gives us a very good idea of the essence of the relationship; but, it is, of course, an incomplete picture.

position at the center of the oil system. Concretely, this is the "new imperialism"[50] in the oil sector supplanting neo-colonialist forms.

Had it been militarily impossible for the U.S. to pacify Iraq, its plan was to "withdraw to the borders," and to "isolate" Iraq from the remainder of the Region, allowing the internal warring factions to fight it out until such time as it was possible to return and setup a pro-U.S. regime that the U.S. could trust with Iraq's oil.[51] Similarly, in its conflict with Iran, in the last years of the G.W. Bush administration, when it seemed the U.S. might lose control of the situation in Iraq, and Iran would gain the upper hand in the Region, the U.S. threatened to bomb Iran, in this instance not for the particular purpose of "regime change," but to inflict sufficient damage to destroy its ability to capitalize on the Regional situation. Hence, the calculus was, if the U.S., at least for the time being, lost the ability to dominate the region, it would insure no other power, Iran in particular, would be able to in its stead—a type of "scorched earth" policy.[52]

Sanctions, nukes and U.S. Gulf oil policy

In 1995, Iran's then-President Rafsanjani attempted to open the country to foreign direct investment (FDI) and a U.S. company, Conoco-Phillips, was to receive the first

[50] The expression "the new imperialism" gained popularity especially after the U.S. invasion of Iraq in 2002. It seems to have been coined by David Harvey of CUNY Graduate Center, NYC in his book-length essay, *The New Imperialism, (David Harvey,* Oxford University Press, January 2005). Harvey writes: "There is, however, an even grander perspective from which to understand the oil question. It can be captured in the following proposition: whoever controls the Middle East controls the global oil spigot and whoever controls the global oil spigot can control the global economy, at least for the near future." (Harvey, *ibid.*; Chapter 1, "All About Oil," p. 19.) Harvey did a service in left-intellectual circles by bringing the question of oil in Middle East affairs and in the invasion of Iraq in particular into respectability after years of post-modernist and critical-theory negation and prejudice against 'material interests' being seen as underlying such events. Harvey footnotes this passage, from his first chapter, called "All About Oil," with a reference to Michael Klare's *Resource Wars, The New Landscape of Global Conflict* (New York, Henry Holdt, 2001) saying Klare's book "provides an excellent overview of the geopolitics of oil." Unfortunately, Harvey's work does not continue on to make any concrete analysis of the functioning of the "new imperialism" at the level of political economy of the oil system and offers, therefore, no particular explanation of the material interests that might drive the U.S. to invade and change the Iraqi leadership. He instead develops a theory of continual "primitive accumulation" under capitalism as an explanation of the "new imperialism" exhibited by the U.S. in launching its new wars of choice. On the other hand, Professor Michael Klare, of Hampshire College, Mass., who coined the now oft-used phrase "resource wars" in this, his first of three books on this subject, presents a considerable amount of political-economic and historical research on the global oil system. However, his analysis provides the arch-typical example of confusion of the old, neo-colonial system with the new globalized international oil system. As a result, he represents conflicts over oil in the Persian Gulf and Middle East as a prelude to a new world war between China, the U.S. and other Great Powers; he believes these "resource wars" are driven by an actual dearth of oil resources (he accepts the notion of immanent "Peak Oil"); and he sees Great Power struggles being soon fought out to acquire reliable energy resources for their respective home markets, as if this were a mercantilist system, not a market-centered "one global barrel" system. This is, as I have endeavored to explain herein, emphatically not today's political economy of oil, and not the political or military relationships that have been fostered on that new basis. If in fact the "new imperialism" has involved a "resource war" in Iraq over the past six years, in the manner understood by Harvey and Klare, it would then impossible to understand how that war has come out as it has, or to understand the course of the ongoing U.S.-Iran crisis.

[51] O'Donnell, Petroleum World & Z Magazine, 2008. *ibid.*

[52] O'Donnel., Petroleum World & Z Maqazine, 2008. *ibid.*

contract to develop offshore oil. As can be seen in Figure 17, Iranian production suffered in the Revolution and especially during the Iran-Iraq war. Since the war, the Iranian national company (NIOC) had recovered a portion of the lost production capability; but, this increase looked to be reaching an asymptote, and NIOC was not capable of launching new projects. This was the background to Rafsanjani's attempt to open the sector to foreign involvement. Normally, a plan to partially open any OPEC state's nationalized oil resources to FDI, in particular to a U.S. IOC, would be warmly welcomed in Washington—and Houston—as a liberalization or "neo-liberalization" of the sector. However, both U.S. Democratic President Bill Clinton, and the Republican-controlled Congress—by an overwhelming bi-partisan majority—scuttled the deal, and began an oil-and-gas-focused sanctions regime against Iran, and Libya as well, adding these to the severe sanctions already in place on Iraq's energy sector. Amazingly, this meant that two countries, one with the second largest, and the other with third largest reserves in the world, and a third country with the largest reserves in Africa, were simultaneously having their ability to produce oil under sanctions by the U.S. And, these sanctions were rather effective. Iran's production today is only a bit above two-thirds what it was at its high point under the shah before the Revolution (Figure 17). This suppression of Iran's production potential has paralleled a significant increase in its population and in domestic consumption of petroleum. In Figure 17, the lower of the two lines represents Iranian domestic consumption, while the upper line represents production. The difference between the two is the amount of oil Iran has to export, which has clearly suffered under sanctions. In fact, the calculation in Figure 17 shows that Iran no longer exports significant oil to have an "oil weapon." Iran now exports only 2.3 mb/d; but IEA members' SPRs, including commercial stocks, total about 4.5 billion barrels. This means that there is enough oil in the SPRs to replace Iranian exports for over 4.5 years.

Even during the recent five-year period of extraordinary high oil prices, Iran managed to build up its financial reserves; nevertheless it still suffered chronic difficulties. In fact, the U.S. EIA has asserted that, at least up till 2006, the NIOC had not launched a single new oil field project on its own since the Revolution and could not afford to repair domestic refinery leaks given the economic burden of purchasing gasoline outside the country to meet the domestic demand for subsidized gasoline.[53] This situation was somewhat mitigated by high international oil prices up till summer 2008, and by recently introduced domestic gasoline rationing. The 2003-2008 price surge caused per capita export income rose significantly in spite of volume rising only slightly (the beginnings of this can be seen in Figure 13: Iranian per capita real income from oil exports passed $1000 per capita in 2005 for the first time since 1985; Figure 14 shows was maintained into 2008. However, the rapid fall in price due to the global economic crisis in June 2008 threatens a return to oil-income hardships for Iran if it cannot increase production significantly.

So too, Iran has not been able to develop large scale gas projects under sanctions, even though it is the world's second largest holder of proven gas reserves (Figure 16). Iranian has had shortages in the winter for cooking and heating, and Ahmadinejad has reportedly

[53] Previous DoE/EIA online Country Analysis Brief on Iran: EIA Iran Outlook, updated in January 2006; http://www.eia.doe.gov/emeu/cabs/Iran/Background.html, Access: April 2006.

distributed heavily subsidized gas, especially to rural areas. Natural gas is also the main source of Iran's electrical production, which has also suffered shortages in recent years; but, Iran also needs gas to inject into many older oil wells to maintain declining production levels. Complicating matters, gas deposits unassociated with oil deposits are largely located far across the country from where the bulk of the population is located, and pipelines would be a burdensome expense. In general there are many imperatives for Iran to develop this immense natural gas capability, but it has so far not proven able, and U.S. and U.N. restrictions on foreign technical and financial involvement are the major, though, again, as with oil, not the only factor.

In this circumstance, it appears that there is a reasonable case to be made for Iran to develop nuclear energy. At the same time, one certainly cannot underestimate the self-inflicted economic difficulties caused by the economic policies of the state's leadership, and the many economic distortions caused by notorious levels of corruption, populist clientelism, and cronyism.

Some have predicted that the sanctions-induced decrease in production levels, coupled with the trend of population increase, could lead to a point where Iran will eventually consume all its oil production domestically, inside the country, with zero barrels of oil to export. This was the prediction of an important empirical study by Stern who set this date at 2014-15.[54] While latter studies challenge the timeline predicted by Stern, it is important to realize that this zero-export date, while a dramatic nodal point should it be reached, is not where a sharp crisis would first come for the clerical state. The critical nodal point would actually come sooner, after a period where oil-export income had been so low that Iran's foreign monetary reserves became depleted. If the absolute number of barrels available for export as a function of time into the future were known, this data would then have to be integrated with a projected oil-price history to see when a combination of price and production histories would lead to a state bankruptcy. This would obviously arise well before the zero-export-volume point. However, even without reaching such a crisis, U.S. and U.N. sanctions-induced long-term reduction in income significantly weakens the state and presses it to oppose this geostrategic pressure by the U.S. and its allies.

In the face of the previous-Bush administration raising the specter of 'regime change' as a serious policy option, Iran sought to pressure the U.S. in several ways including its nuclear-program, its influence in southern Iraq, Lebanon and Palestine, and otherwise. Earlier in the G.W. Bush administration, after the U.S. invasion of Afghanistan and then of Iraq, the Iranian leadership offered a "grand bargain" to the U.S., in 2003, to normalize relations in exchange for a litany of Iranian concessions in the Persian Gulf and larger Middle East (these include relations with Syria, Hezbollah, Israel and Palestine,

[54] The Iranian petroleum crisis and United States national security, Roger Stern, Proceedings of the National Academy of Sciences, January 2, 2007, vol. 104, no. 1, pp. 377–382. Access: http://www.pnas.org/content/104/1/377.full.pdf. Stern concluded: *"Even if a relatively optimistic schedule of future capacity addition is met, the ratio of 2011 to 2006 exports will be only 0.40–0.52. A more probable scenario is that, absent some change in Irani policy, this ratio will be 0.33–0.46 with exports declining to zero by 2014–2015. Energy subsidies, hostility to foreign investment, and inefficiencies of its state-planned economy underlie Iran's problem, which has no relation to "peak oil."*

Afghanistan, the Iranian nuclear program, etc.).[55] However, the Bush administration rejected this overture. After this, the Iranian leadership re-invigorated its pressures on Washington related to its nuclear program, but thus far unsuccessfully (the author has characterized this program as a "gambit" where any weapons-like aspects are intended to be bargained away for lifting of U.S. sanctions.[56]), and this Iranian tactic has only led to the Security Council[57] now joining in imposing sanctions. During 2006-08, Iran traded away much of the leverage it had in southern Iraq so as to see the pacification of that country take place in a manner more consistent with its own strategic interests. (The present paper cannot trace this complex history in detail; however, the author examines this history elsewhere.[58])

Difficulties for Iranian national-democratic interests

This paper has focused on understanding "the role of oil" in the U.S.-Iran conflict. The nature of the question posed necessarily focuses on critique of the U.S. side of this confrontation—whose motivations in confronting Iran, as we have seen, are inseparable from the general motivations for its pre-emptive "war of choice" and occupation of Iraq. Nevertheless, this is not to absolve the present Iranian leadership, or the previous, criminal Iraqi leadership, of responsibilities for the course of these ruinous confrontations. The analysis developed here—that the particular objectives of U.S. geo-strategy in confronting Iran have to do with guaranteeing the the market-centered global oil-security system—in particular leading to U.S. insistence on Gulf hegemony and preventing Iran from projecting power in the Region, become clear. Of course, this U.S. insistence very likely would be judged as obnoxious to Iranians on either side of the great political divide that exists now in their country. However, there is reactionary nationalism and there is progressive nationalism. The present Islamic Republic's leadership, for its part, has often not engaged in serious negotiations during this confrontation, and many representatives, as a tactic, have engaged in chauvinistic and provocative behavior whose details are well known.

Yet, there is no guarantee that, if there were a change of leadership within the present framework of the Islamic state, or, for that matter, a wholly new and democratic leadership, more responsible in framing a consistent and principled geostrategic response to U.S. demands that the U.S. would easily settle this perpetual confrontation—though the Obama administration appears to be more open than the previous administration to finding a negotiated settlement. Nevertheless, the central issue remains: that there are specific material interests within the global oil system that drive this U.S. geo-strategy, and these will not soon be dissipated. The reality is, even if the Iranian national and democratic movement comes to power, it might still face unacceptable demands to abandon legitimate Iranian national interests in the Gulf Region.

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[55] O'Donnell, T.W., Petroleumworld, 2008. *Ibid.*

[56] O'Donnell, T.W., The political economy of the U.S.-Iran crisis: Oil hegemony, not nukes, is the real issue, Z Magazine, June 2006. P. 7 at: http://www-personal.umich.edu/~twod/writing/z_iran_28apr06c-wkg.pdf.

[57] U.N. Security Council Resolution 1737 (2006) . See: "Security Council imposes sanctions on Iran over uranium enrichment," U.N. News Service, 23 December 2006. Access: http://www.un.org/apps/news/printnewsAr.asp?nid=21102

[58] O'Donnell, T.W., Petroleumworld & Z Magazine, 2008. *ibid.*

The depth of the pressures any future democratic leadership would possibly face are indicated by the deference of European Union and other major states' leaders to U.S. interests and demands. Joschka Fischer, while German Foreign minister (he is now out of office), had responsibility for a number of years as negotiator for the E.U. with Iran. His candid perspective on this confrontation are of particular interest as they are not the predictable *realpolitik* assertions of a European reactionary, but of a left-of-center Green Party politician with a personal history as a progressive, anti-war activist. In 2006, he delivered a speech to students and instructors of the elite school of national security in Tehran, with various Iranian officials present. Among his comments were the following:

> Ladies and gentlemen, It seems to me that today Iran is confronted with the question of whether your country will follow hegemonial aspirations or become a driving force for peace, stability, and progress in the Middle East. [59]

Fischer used some version of the word "hegemony" seven times in this speech, each time to characterize not the U.S. role, but the strivings of the present Iranian leadership in the Gulf Region. This reflects, as I have described here, the preoccupation of the U.S. with Iranian ability to project power in the region, and confront the U.S.-enforced status quo. He continued:

> ... I strongly believe that a "Grand Bargain" is achievable, that is, a nuclear and a regional security agreement in exchange for full economic, technological, and scientific cooperation; full political normalization; and security guaranties. But all depends now on the decision of the Islamic Republic of Iran. A policy of nuclearization, of confrontation with the UN, and of destabilization of the Middle East will lead us into a dark tunnel, in which I can see no light on the other side.

This is consistent with the "Grand Bargain," as I described above, first proposed by the Iranian side in 2003, that focused on three issues in return for extensive Iranian cooperation in regional security matters of concern to the U.S.: (i) ending oil and other sanctions (i.e. also recognizing Iranian rights, within limits, to develop nuclear power, but not weapons), (ii) accepting Iran's right to project power in the Region (within negotiated limits), and (iii) security guarantees (i.e., against regime destabilization or regime change for the present Islamic leading groups). Fischer concludes:

> For many years Europe has been engaged in an effort to build a true partnership with Iran. ... But it should not be forgotten that all the other major powers also have vested interests in the Middle East. Whether anyone likes it or not, the United States is and will be the key player. It would be a dangerous misperception to think that the United States is weak because of the present situation in Iraq and Afghanistan. In the Middle East the United States is not

[59] Iran: High Stakes. Text of speech by Joschka Fischer, former German foreign minister (Green Party), in Tehran on August 1, 2006, to the Iranian Center for Strategic Research; translation printed by Dissent Magazine, Winter 2007. Access http://dissentmagazine.org/article/?article=726 .

only defending its interests and allies, but its role as the only global power. And it will continue to do this at any price.

This is a remarkably frank (i.e., undiplomatic) statement of the situation facing Iran, and, again, it is quite consistent with the situation I have described above: the U.S. insists on Regional hegemony, (with the support of European and other Great Powers because of their common interests in the role of the Gulf in the global oil system); however, in the case of the U.S., not merely as an end in itself within the oil system, but, as a major lever of its global hyperpower status. This statement is, of course, not simply a reflection on these realities by a retired foreign minister, but, a warning, and, what is more, a threat pointedly delivered on behalf of modern-day U.S. imperial interests and its European allies. This reality confronts not only the present Islamic state, which, under Ahmadinejad has succeed in exacerbating tensions without winning serious concessions from the U.S., but Iranian civil society as well, in its long struggle to realize the Iranian people's democratic aspirations without undue sacrifice of their legitimate sovereign national interests. The material basis for this conflict will remain operative under the Obama Administration, and under any leadership that comes to power in Iran. The underlying globalized, market-centered oil interests must be confronted to achieve any resolution of this crisis.

Figures

Figure 1 Schematic representation of the old, neo-colonial international oil system.

Figure 2 Schematic representation of the "one global barrel" contemporary market-centered, international oil system.

Figure 3 Schematic representation of the emergency inputs available to the "one global barrel": Saudi excess capacity, and the Strategic Petroleum Reserves (SPR) of the IEA states.

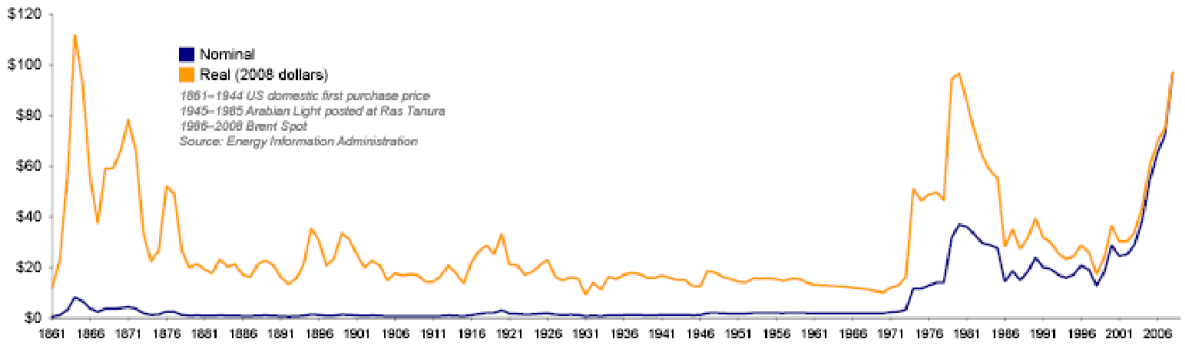


Figure 4. Oil Price History, 1861-2008. Source EIA. Graphic:
http://upload.wikimedia.org/wikipedia/commons/8/87/Oil_Prices_1861_2007.svg

Figure 5. Today 85 % of petroleum reserves are nationalized, 77% are held by OPEC states. 2006 EIA data.

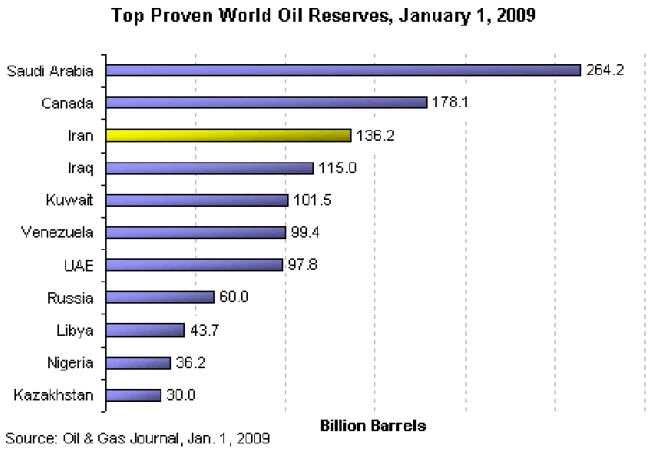


Figure 6. States holding the 11 largest proven oil reserves. Note, the great majority of Canada's are tar sands more expensive and difficult to produce than light oil as found in Iran and most of the Gulf States, though these tar sands are now economically feasible. So too, Venezuela has a high percentage of such extra-heavy oil, however, its warmer climate somewhat aids extraction.

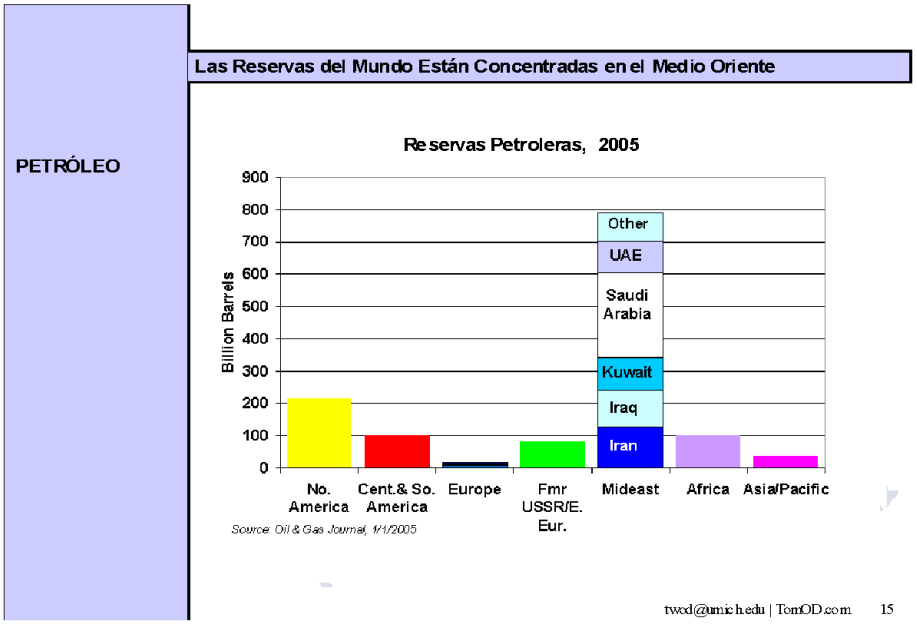


Figure 7. Petroleum Reserves in 2005, showing the great concentration in the Middle East, and in five Gulf Region states in particular. Note, the majority of N. American reserves here are Canadian tar sands. Source: Oil and Gas Journal, 1 January 2005.

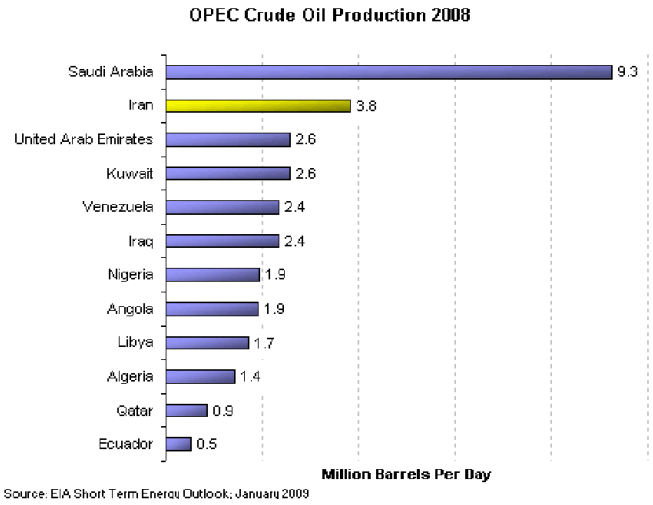


Figure 8. Crude production of OPEC states in 2008, latest data as of January 2009. Note the difference in rankings as compared to the relative size of their available reserves shown in Figure 6.

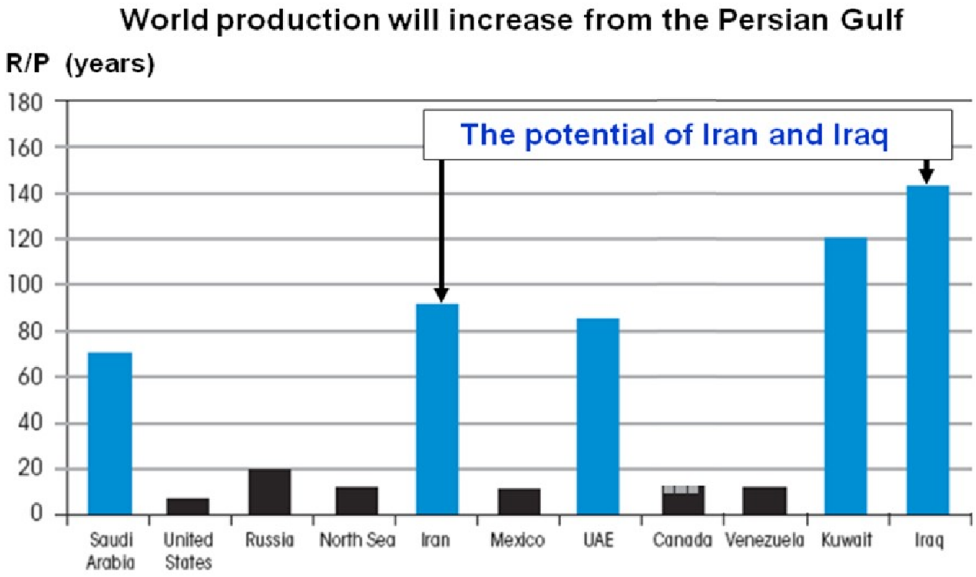
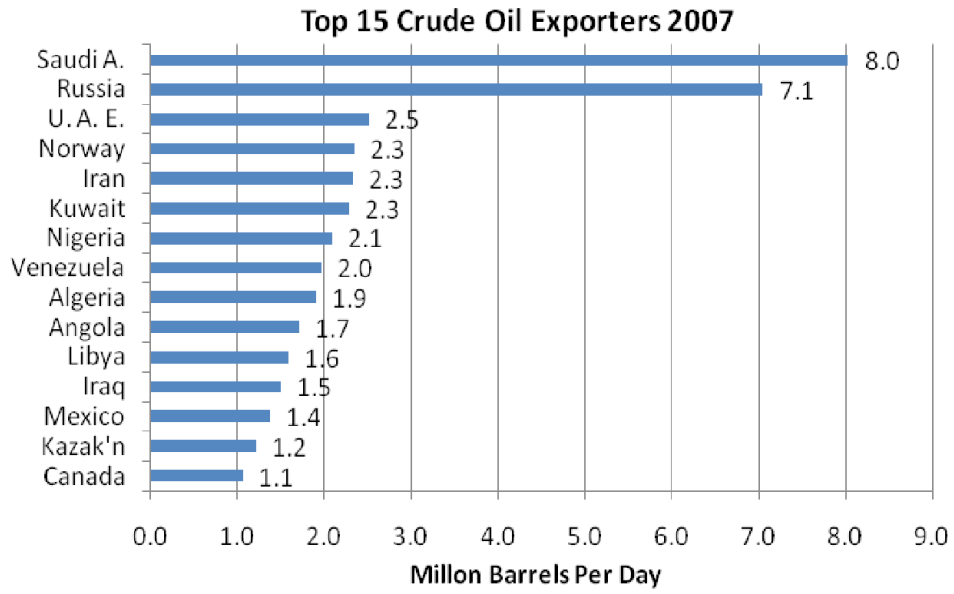


Figure 9. R/P Ratios (reserves-to-production ratios) for top 11 oil producers, showing relative potential (in years) for each to continue at its present production rate. Sources: calculated from Oil and Gas Journal, 1 January 2007 and international Energy Outlook, 2006, DoE/EIA Report #0484 (2006). Canadian and Venezuelan tar sands/heavy oil will significantly increase their R/P ratios; however they are much costlier to produce than conventional oil.



Source: EIA. Accessed June 2009
Figure 10. EIA data, Accessed: June 2009, at http://tonto.eia.doe.gov/country/index.cfm

Figure 11.

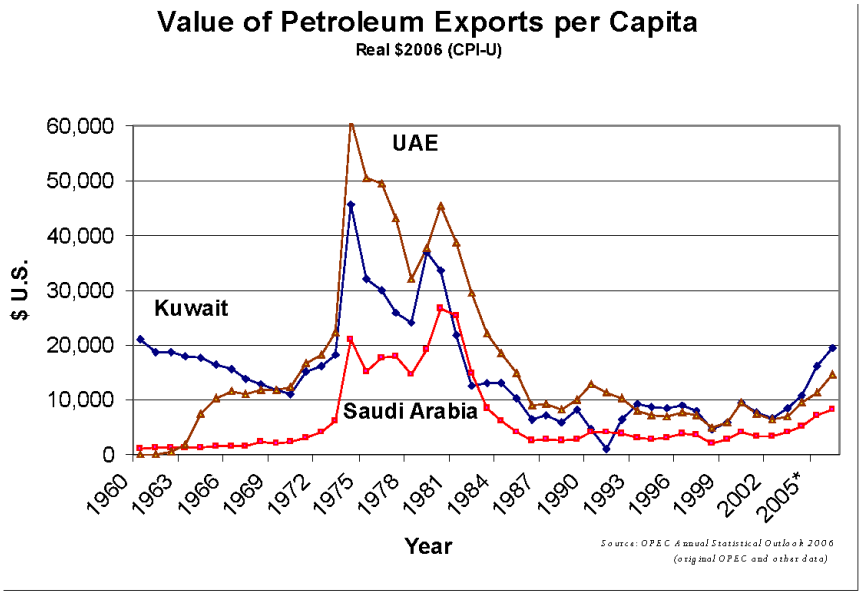
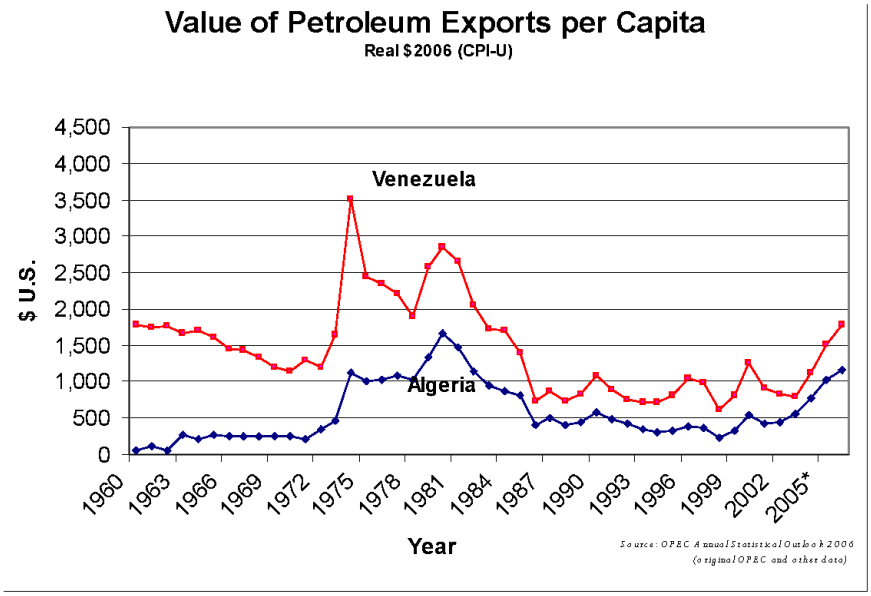


Figure 12.



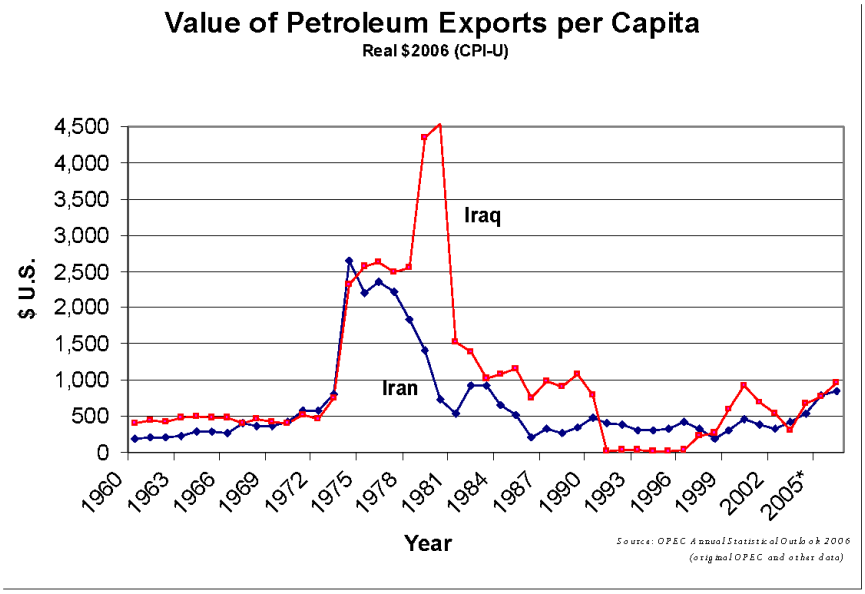


Figure 13.

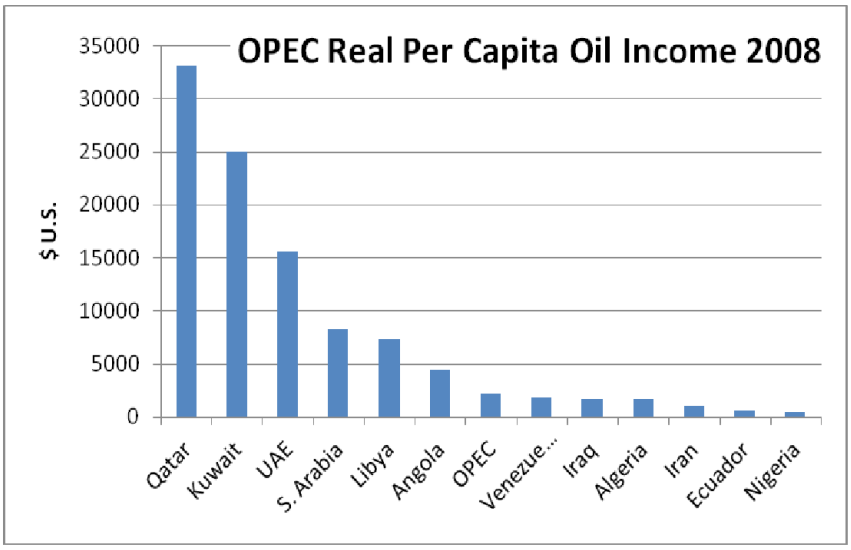
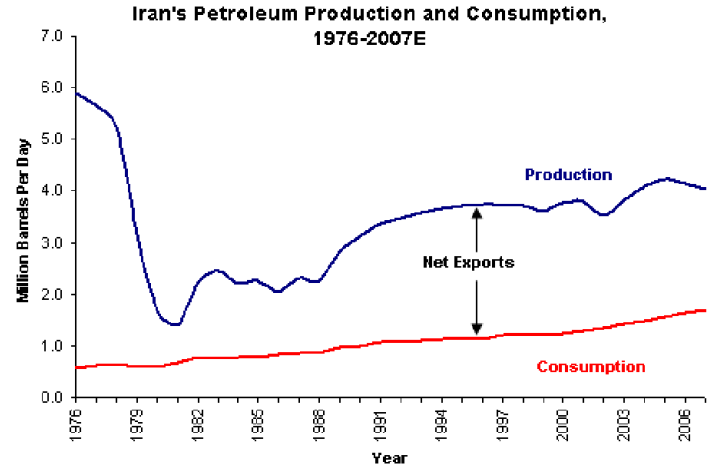


Figure 14. OPEC Real per capita oil income. From OPEC data, Access: June 2009.



Source: EIA World Petroleum Consumption & Short-Term Energy Outlook (January 2009)

Figure 15. Iranian production and consumption of petroleum, 1976-2007(Estimated). Access EIA Country Analysis Brief of January 2009. Accessed June 2009.

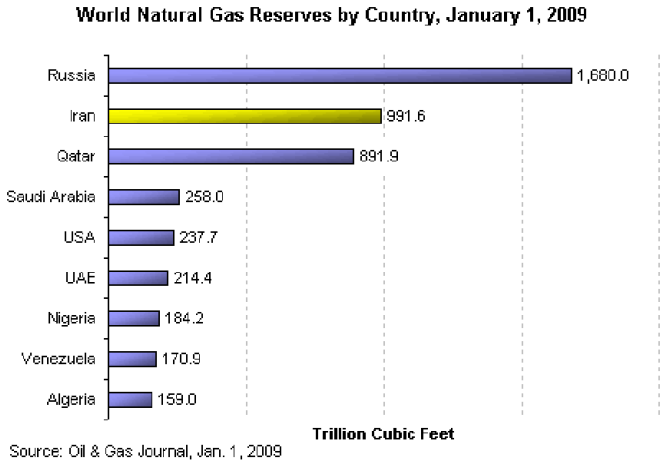
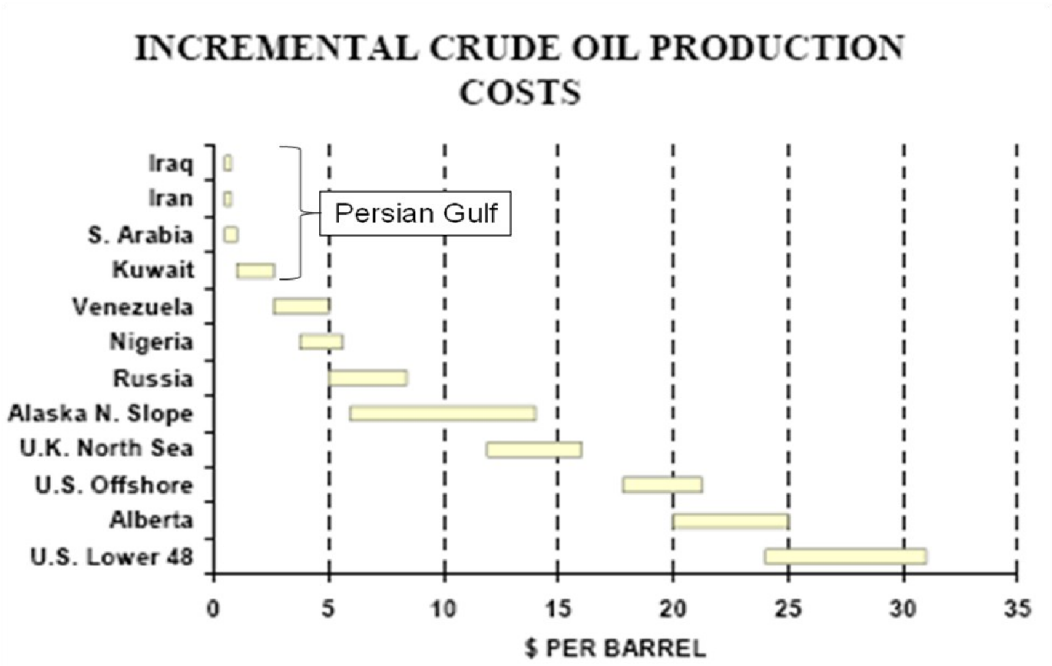


Figure 16. Iran has the second largest gas reserves in the world. They are largely unexploited.

Figure 17. Iran's oil production and consumption from 1971-2006(estimated) with significant periods indicated. Note, the production of oil is about two-thirds what it was at its high point before the 1979 Revolution. Under sanctions, Iran has never recovered from the Iran-Iraq War fully. Sanctions have had the effect of causing,

therefore, chronic economic proglems, and, secondly, they have undermined Iran's ability to cut off its oil as an "oil weapon" given the size of the reserves of Saudi Arabia and IEA member states.



Source: Thomas R. Stauffer, "Trends in Oil Production Costs in the Middle East, Elsewhere," *Oil & Gas Journal*, 92, 12 (March 21, 1994): 105-107; selected countries.

N.B.: Latest & best data U.S. Senate Committee could obtain, 2006.

Figure 18.