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Domestic and International Sources of Cooperation:
Oil Politics in the 1940s and 1970s

by

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Why do states cooperate with each other? Recent scholarship has answered this question by focusing on international factors. International influences, such as the distribution of power, the degree of external threat, the existence of global regimes and the structure of strategic interaction among states, are widely seen as the most salient forces in explaining cooperation. This paper challenges this view. International forces alone cannot explain why states agree to mutually adjust their policies. One must also examine domestic factors. More than this, I argue that international influences do not operate directly to produce cooperation, but rather indirectly through their effect on certain domestic factors. A focus on domestic variables is thus doubly necessary: first, to understand their independent impact on a state's foreign policy and second, to appreciate the influence of international forces on policy through them.

This paper has three tasks. First, it examines various salient theories about the international factors that influence cooperation among states. Second, it suggests why these theories are inadequate and why certain domestic sources must be considered. Third, it examines the cases of international cooperation over the control of oil in the 1940s to see the role domestic factors played. It concludes by suggesting how such an explanation can aid in understanding contemporary oil politics.

What is cooperation?

Cooperation can be defined as the mutual adjustment of policies by states so that each state's actions facilitate the realization of the others' goals. This adjustment process is assumed to occur through explicit policy coordination by governments.¹ Cooperation occurs only when states start out with interests that conflict and thus are likely to adopt policies that would hurt other states. Cooperation can be said to be successful when these initial policy preferences are modified so that policies less costly to other states are adopted. It is more difficult to identify cooperative behavior when it occurs as a result of tacit bargaining or anticipated reactions. Nevertheless, policy changes that occur without explicit negotiation or adjustment should not be ruled out as cooperative attempts.

International Explanations of Cooperation

Cooperation among states has been attributed to international influences in much recent scholarship. Factors that operate beyond the boundaries of the state -- that is, ones that do not involve the individual characteristics or motives of

1. Robert Keohane, After Hegemony, Princeton: Princeton University Press, 1984, pp 51-52.

a state or its society -- have been the central loci for explaining cooperation in the past decade.² Four such explanatory theories are frequently used. First, the distribution of power globally is hypothesized to influence the extent of cooperation among states. When and where a hegemonic power exists, cooperation is viewed as more likely. Hegemonic stability theory rests either on the coercive power of the hegemon or on the benefits derived from such cooperation, which the hegemon insures will occur, or on both motives.³ The much cited example of this is the U.S. in the post-war world and its management of the international capitalist economy.

Another explanation for cooperation is based on the existence of a serious foreign threat, which motivates states to cooperate in order to counterbalance the threat. A common enemy drives the states together, making mutual adjustment of their policies easier since they have a common goal.⁴ The strengthening of each state is not (so) worrisome here since it contributes to the security of the other. This argument is closely associated with balance of power ideas. In the attempt to deter the threatening state, cooperation among the balancing states is induced. The Soviet threat, for example, can thus be seen as a cause of NATO and of the OECD countries' other cooperative efforts.

A third set of international factors relates to game theoretic solutions to cooperation in the Prisoners' Dilemma. Here three systemic variables are commonly pointed to as influencing cooperation: the nature of the game (or structure of the payoffs), the number of players, and the number of iterations. In a Prisoners' Dilemma game, the fewer the players and/or the more infinite seeming the game (or the longer the "shadow of the future"), the more likely are states to develop cooperative outcomes. These types of international forces influence state behavior by making the gains from the mutual adjustment of policies more salient and certain.

2. This means of distinguishing between international and domestic factors is set forth by Kenneth Waltz in Theory of International Politics, Reading, MA: Addison-Wesley, 1979, p. 65.

3. See Charles Kindleberger, The World in Depression, Berkeley: University Press, 1973, for an emphasis on mutual gain and leadership; Robert Gilpin, US Power and the Multinational Corporation, NY: Basic, 1975, is more on coercive side; see Keohane, After Hegemony, too.

4. Stephen Walt, The Origins of Alliances, Ithaca: Cornell University Press, 1987.

A fourth international explanation of cooperation rests on the notion of international regimes -- that is, sets of principle, rules, norms and procedures around which actors' expectations converge.⁵ Regimes may provide mutual gains to the states involved; however, much of the work on regimes suggests that inherent conflicts of interest among states are overcome by a convergence of their beliefs and preferences. A "meeting of minds" and a common perspective come to dominate the interaction among states in an issue area. For instance, cooperation in the post-war Bretton Woods' regime is said to have relied on the development of a common ideology -- that is, "embedded liberalism" -- as the motivating force behind the regime.⁶ Agreement on this basic principle fostered the mutual policy adjustment among states in the trade and money areas in the post-war world.

These four general arguments locate the sources of cooperation in features of the international system. The distribution of power, sense of threat, structure of the game among states, and the existence of international regimes are all adduced as central factors in fostering mutual policy accommodation in international politics. These systemic arguments have dominated the recent literature on cooperation. Domestic sources have been largely neglected. But forces internal to states -- their characteristics and motivations -- are very important in explaining states' policy choices. The next section considers why these international explanations are not sufficient and why domestic factors must be examined.

Why is domestic politics important to international cooperation?

Why do we need to consider domestic factors in understanding cooperation? Don't some or all of these international factors provide a sufficient explanation? I will argue here that these four international variables alone cannot account for international cooperation. Each of the international factors logically works through domestic variables to have an impact on a state's preferences and policies. In addition, the arguments about international forces posit that all states react the same way to a similar situation. The logic of their international position, or of the system's structure, operates similarly on all states. Differences in their internal make-up do not override the weighty logic of the international system. This supposition

5. Stephen Krasner, ed., "International Regimes", special issue, International Organization, v.36 #2, Spring 1982, p. 185.

6. John Ruggie, "International Regimes, Transactions, and Change", pp.379-416 in Krasner, ed., "International Regimes".

can be challenged empirically. Is the compulsion of the external environment so intense that very different states react similarly to common international forces? Both logical and empirical challenges can then be levelled at such international explanations of cooperation.

In hegemonic stability theories, the constraints and opportunities provided by the distribution of power operate through domestic forces. Some domestic actor(s) must recognize and act on these constraints and opportunities. As one theorist in this school admits,

In seeking to develop a systemic theory of the behavior of individual nation-states, however, the question of how systemic constraints and opportunities are communicated into policy becomes central. In other words, it is no longer possible to abstract from domestic politics.⁷

One is forced back to the domestic system to understand how states perceive and respond to the incentive structure of the international system.

Secondly, one must ask whether all hegemons do indeed act alike. Do the imperatives of power prompt all states in positions of hegemony to respond in similar ways? Britain and the U.S. are the two most recent hegemons. They are usually seen as initiating and sponsoring open, liberal world economies. But did the two organize cooperation similarly? Some have cast doubt on this, disputing, for instance, whether Britain ever tried to organize the system.⁸ Moreover, would a hegemonic power without a liberal democratic domestic ideology act in the same way? Is Soviet hegemony in Eastern Europe analogous to the U.S.'s in the West? The domestic character and ideology of the hegemon is likely to have an important influence on its response to international forces.

For systemic arguments based on threat as inducing cooperation, the same two problems arise. The central issue is how objective or compelling the external environment is. As with the distribution of power, a sense of threat implies the

7. David Lake, Power, Protection & Free Trade, Ithaca: Cornell University Press, 1988, pp. 12-13

8. Arthur Stein, "The Hegemon's Dilemma", International Organization, v.38, #2, Spring 1984, pp355-86; Giulio Gallarotti "The Anatomy of Spontaneous Order" Ph.D. dissertation, Columbia University, 1988, on the monetary system.

existence of an actor capable of responding to it.⁹ In addition, the prediction that all states will respond similarly to a threat is questionable. In the postwar period, the West Europeans have perceived and responded to the Soviet threat differently: some joined NATO, some refused to join, and some joined and left. The question of how threatening the Soviets are also divides states internally, as the continuing debate between "hawks" and "doves" in the U.S. shows. As Jervis has argued, the degree of threat posed by another and one's response to it depend on evaluations of the others' motives and situation.¹⁰ "Our reaction to assistance, like our reaction to harm, depends on our explanation of the other's behavior", and this explanation is generated internally by states.¹¹ As they differ, so will it.

Arguments resting on game theoretic means to cooperation also depend on domestic forces. The payoffs from different choices, the number of players, and the length of the shadow of the future are directly related to internal features of states. The payoffs to a state which is highly dependent on foreign markets of choosing a protectionist policy are different from those of a less dependent country. The number of actors involved in an issue-area depends on how each state organizes policy-making in that area. Changes in such organization -- for example, through increasing centralization of policy-making -- can alter the number of players significantly. Finally, the discount rate that a state adopts has as much to do with internal dynamics and perceptions as it does with external forces. For instance, a government's time horizon will depend much on its electoral cycle and prospects. Systemic forces here too work through the domestic system.

Lastly, the influence of international regimes depends on the character of the domestic system. Regimes may alter the power, incentives, and/or opportunities available to states. But

9. It is unclear whether the notion of "threat" or "balance of threat" is really a systemic variable. A sense of threat depends on the perceptions and values of the actor. For instance, it is difficult to believe that "the perceptions of others' intentions" is a systemic variable, as Walt suggests. It depends much more on the internal character of values of the evaluating party. Walt, The Origins of Alliances, pp.25-28.

10. Robert Jervis, Perception and Misperception in International Politics, Princeton: Princeton University Press, 1976, pp 35-47.

11. Jervis, Perception and Misperception in International Politics, p. 42.

it is states and their decision-makers' perceptions and responses to these changes that determine whether cooperation results. Keohane, for instance, concludes his study by noting that neither hegemony nor regimes is necessary for cooperation; furthermore, he points out that domestic forces must be introduced to explain states' policies.¹²

Theories that focus solely on international variables to explain cooperation do not seem adequate. They implicitly rely on domestic factors, but they do this by making unrealistic assumptions about the state and its society. At this point, their explanatory power is undermined. A better understanding of the domestic forces involved in cooperation is necessary. Why and how do these forces affect cooperation among states?

Cooperation, as noted above, is the mutual adjustment of policies. Policies are formed by states and adjusted by them. This formation and adjustment will be influenced by factors internal to the state. Decision-makers are constantly concerned with the impact of their choices on the domestic environment: on popular support, on the regimes' legitimacy, on the state of the economy, on the internal resources available to them.¹³ As many have noted, central decision-makers are Janus-faced, concerned with the influence of and consequences of their actions for both the internal and external environments.¹⁴ Neglect of internal factors is unlikely, since it will tend to result in a loss of power and position for decision-makers.

Domestic and internal factors are surely both important in explaining policy adjustment. The recent tendency to radically separate the two levels of analysis has not always been

12. Keohane, After Hegemony, Chapter 10, and especially p. 240.

13. Attempts at economic cooperation through free trade pacts by the Canadians and Americans have throughout this century foundered because of domestic political concerns. The recent accord certainly suggests the salience of domestic politics in the process.

14. Snyder, Bruck and Sapin, Foreign Policy Decision-Making, New York: Free Press, 1962, pp 66-72 and 85-86; Robert Putnam, "Diplomacy and Domestic Politics", International Organization, v. 42, #3, Summer 1988, pp.427-60; M. Mastanduno, D. Lake, and, G.J. Ikenberry, "Toward a Realist Theory of State Action", ISQ, forthcoming, 1989.

helpful.¹⁵ The analytical distinction between domestic and international levels of analysis can have obvious heuristic benefits. But erecting a rigid dichotomy between the two may retard inquiry, especially as this distinction becomes harder and harder to maintain in reality.¹⁶

An Exploration of Ways to Understand Cooperation

Three variables that may help account for cooperation have been neglected in the literature. Domestic preferences, cleavage patterns, and international crises may be important factors in explaining policy accommodation among states. In particular, the interaction of international crises and the development of new preferences and cleavages among actors may explain bursts of cooperation, such as that occurring on the late 1940s. My main contention is that internal patterns of conflict and cooperation, generated in part by external forces, affect international patterns of such behavior. I will show that consideration of these three factors may provide interesting clues as to why states cooperate by looking at the international oil system in the 1940s.

Knowledge of the policy preferences of different states and non-state actors is important to understand cooperation. If the preferences of different states do not conflict, then cooperation is not a concern; harmony reigns. If, as realists assume, conflict of interest is the norm among states, cooperation is an issue and may occur only if interests can be aligned in certain ways. In this situation, threats that alter preferences and/or exchanges that bring mutual and roughly equal benefits may make cooperation possible. Whether this is feasible depends on the configuration of states' preferences.

How are states' preferences on an issue developed? The assumption here is that within each state different groups are likely to hold different preferences on any issue. The preferences of actors within states are often related to their tangible interests, which may be a function of their position vis-a-vis structural transformations of their societies. Large structural transformations, like industrialization, tend to create new cleavage patterns in societies; that is, they produce

15. Waltz, Theory of International Politics, of course, epitomizes this radical separation.

16. James Rosenau eloquently and presciently argued this point back in 1966. See his, "Pre-theories and Theories of Foreign Policy" in R. B. Farrell, ed., Approaches to Comparative and International Politics, Evanston, IL: Northwestern University Press, 1966.

groups of actors who internally have similar interests but who conflict with other groups.¹⁷ One cleavage should be noted in particular. This cleavage is related to another structural transformation -- the increasing internationalization of states' economies. This change has created a split between domestically-oriented and internationally-oriented interests within the state.¹⁸

Structural theories of foreign policy preferences (that is, about international trade and capital movements) do exist. For instance, Gourevitch explores the economic policy choices of countries by relying heavily on their "production profile: the situation of societal actors in the international economy, the actors' policy preferences, their potential bases of alliance or conflict with other forces, and the coalitions that emerge."¹⁹ How business, labor and agriculture are tied to the international economy, organized and how they interact have a significant impact on states' (foreign) economic policies. Ferguson, Freiden, and Milner also rely upon the domestic-international

17. For a classic argument on these lines, see Seymour Lipset and Stein Rokkan, "Cleavage Structures, Party Systems, and Voter Alignments" in Lipset and Rokkan, Party Systems and Voter Alignments, eds., NY: Free Press, 1967, pp1-64. In this work, the authors identify two structural transformations that created four sets of distinct "interest" groups, who depending on how they interacted in each country formed the stable cleavage patterns underlying current party systems. The rise of secular nation-states rent societies into two sets of opposing interests: local versus central political actors and church versus state. The second transformation, industrialization, also split societies in two ways. Rural versus urban (agriculture vs. industry) divisions sprouted, as did class conflict (owners versus workers). These cleavages shaped twentieth century party systems, and hence are the basis for political conflict and cooperation in advanced industrial societies. In this scheme, actors' preferences are derived from their structural position as they faced each of these transformations. This provides a compact model for exploring domestic politics.

18 See my argument in Resisting Protectionism, Princeton: Princeton University Press, 1988.

19. Peter Gourevitch, Politics in Hard Times, Ithaca: Cornell University Press, 1986, p. 59.

cleavage to explain trade and monetary policy choices.²⁰ The ascension of the internationalist group within this central split dividing both capital and labor is seen as explaining the growth of open, liberal foreign economic policies after the 1930s.

While the nature of differing policy preferences and cleavages within societies is important, so too is the domestic pattern of divisions that develops around issues. Are there internal divisions on an issue? If a country's preferences are fairly unified on an issue and its "position" conflicts with other states', cooperation is less likely to emerge. If actors internally are divided on an issue, cooperation may be easier depending on the nature of the divisions. Three types of divisions tend to promote cooperation.²¹ One is where the internal divisions in State A allow certain groups to form coalitions with actors in State B who have similar preferences. These transnational coalitions, whether tacit or explicit, may foster mutual policy adjustment among states. A second case is where internal divisions fragment parties that oppose policies promoting cooperative outcomes; fragmentation of such groups weakens their ability to forestall policy accommodation. Third, cooperation may be more likely when the internal divisions on an issue do not replicate fixed lines of antagonism on other issues among the states. If preferences over international trade and monetary issues raise the same divisions among groups that say security issues do -- that is, all those wanting a "hawkish" military posture also oppose freer trade and cooperative monetary arrangements -- then cooperative outcomes will be less likely. Here cross-cutting cleavages internally, as in theories of domestic politics, make international cooperation more likely, since the different groups will be able to bargain with each other over mutually advantageous outcomes in the different issue-areas. When any of these types of societal cleavages are reflected in intragovernmental divisions, cooperation will also

20. Thomas Ferguson, "From Normalcy to New Deal", International Organization, v38, #1, Winter 1984, pp.41-94; Jeff Frieden, "Sectoral Conflict and US Foreign Economic Policy", International Organization, v.42, #1, Winter 1988, pp59-90; Helen Milner Resisting Protectionism.

21. Ideas about these divisions and their effects can be found in Karl Deutsch, Political Community and the North Atlantic Area, NY: Greenwood, 1969 (original is Princeton University Press, 1957); Ernest Haas, The Uniting of Europe, Stanford: Stanford University Press, 1958; Robert Keohane and Joseph Nye, eds., Transnational Relations and World Politics, Cambridge: Harvard University Press, 1971, and Putnam, "Diplomacy and Domestic Politics".

be more likely.²² Bureaucratic political divisions when linked to societal groups that favor cooperation provides actors in different countries having complementary interests with "friendly" state actors who can promote policy adjustment across national boundaries. All of this suggests that the existence of internal divisions on issues and especially of cross-cutting ones may foster international cooperation.

A third variable that may help illuminate the sources of cooperation is international crises. Three key types of crises are identifiable: international economic crises (for example, hyperinflations or depressions), large-scale wars (or the threat of them), and revolutions.²³ All three of these produce great dislocations at the domestic and international levels. States and the international system itself may be reorganized by them. Crises exert great strain on systems, pushing them to, or over, their limit of endurance. They also provide substantial opportunities for pursuing new and different courses of action in the future. Crises do not always lead to new behavior; sometimes they merely serve to further entrench and rigidify societies. But they may unblock old patterns and ways of thinking, eventually leading to a reorganization of the system.

How may crises influence international cooperation? Logically, one could argue that they either promote or forestall cooperation. If the crisis threatens states in a similar way (for example, they are both attacked by another state), they may decide to work together. On the other hand, if the crisis sharpens the competitive, zero-sum nature of their interaction, as a severe depression might, growing conflict is more likely. How the crisis has its effect will depend in part on its influence on the domestic system. The way the crisis affects domestic preferences and cleavage patterns can tell us much about its consequences for the international system. Crises may imply structural transformations. While considered a short-run phenomenon, crises viewed in the long run may be the catalysts for deep structural changes in systems. Thus crises may begin the alteration of domestic preferences and cleavage patterns.

In general, crises have been seen as affecting only one type of the cleavage patterns. Crises, especially wars, have been hypothesized to increase the capacity of central state institutions and actors relative to both nonstate actors and

22. Putnam, "Diplomacy and Domestic Politics" suggests this about the importance of "bureaucratic politics" (divisions within the state).

23. One could also consider natural disasters, such as plagues, floods, greenhouse effects, as international crises.

local political institutions. Tilly, Skocpol, and Peacock and Wiseman all see wars as promoting the strength and reach of national governments in one way or another.²⁴ Fighting wars tends to strengthen states vis-a-vis their societies. In the local-national cleavage, the latter is advantaged by crises such as war. The effect of crises on the other cleavages is less discussed. How crises reshape, for instance, international-domestic cleavages is an interesting but understudied area.²⁵ The effect of crises on this cleavage is particularly interesting. Will international crises sever states' relations with the international system and push them to develop greater internal self-sufficiency? Or will crises lead domestic actors to engage ever more with the international system in the hope of gaining greater control over it? Both reactions might, of course, ensue. But the latter reaction may prevail. On balance, it is likely that crises will prompt actors to reach even further out into the international system in an effort to control it and prevent future shocks.

Crises may also affect the nature and degree of cleavages within societies. Again, one could argue that crises either multiply or reduce divisions in a state. An external shock may draw groups together. Lewis Coser has suggested that outside conflict will strengthen the internal cohesion of a group.²⁶ The "rally 'round the flag" effect exemplifies this tendency. In contrast, international crises can also exacerbate internal cleavages. In particular, the crisis may fragment existing coalitions, as economic depressions may do to capital-labor coalitions. The effect of a crisis in the short-run is probably to reduce divisions within a society; however, in the longer run crises are more likely, I would hypothesize, to create new divisions and exacerbate old ones.

This examination of how preferences, cleavage patterns, and

24. Charles Tilly, ed., The Formation of National States in Western Europe, Princeton: Princeton University Press, 1975, esp. ch.1; Theda Skocpol, States & Social Revolutions, Cambridge: Cambridge University Press, 1979; A. Peacock & J. Wiseman, The Growth of Public Expenditure in the United Kingdom, Princeton: Princeton University Press, 1961.

25. Arthur Stein, the Nation at War, Baltimore: Johns Hopkins University Press, 1978, for some ideas on effect of war on society.

26. Lewis Coser, The Functions of Social Conflict, Glencoe, IL: Free Press, 1956, pp.87-110.

international crises may affect international cooperation is preliminary. Some ideas for how they might affect policy adjustment among states have been suggested; but few testable hypotheses are presented. Each of the three does, however, seem important for a better understanding of the sources of international cooperation, as the following examination of the politics of cooperation in oil in the 1940s will try to show.

Anglo-American Cooperation in Oil, 1940s

Toward the end of World War II, the problem of oil assumed critical dimensions for Western governments. The US and Britain eventually embarked on negotiations to develop a system for managing the postwar international petroleum market. These negotiations were first discussed in 1943, begun and then resolved in 1944. The international agreement forged, however, was never implemented; since the US did not ratify it. The failure of this attempt at cooperation was due largely to the differing preferences and cleavages of actors within the US and UK.

The preferences and divisions among the key actors involved in the negotiations need to be examined first. The U.S. oil industry was divided into two parts. It was composed first of five large international firms, who after 1919 moved increasingly abroad by expanding into the Middle East. This area was controlled by the British and their oil firms. But after much activity and U.S. diplomatic pressure, several U.S. majors--SONJ and Socony-Vacuum--were able to negotiate access to the area under the Red Line agreement of 1928.²⁷ These moves gave the American companies a small foothold in the otherwise British-dominated Middle East. As more oil was discovered there, all the American majors sought to increase their capacity to control this oil, pushing for "equal access" to Middle Eastern concessions and for the revision of the Red Line and other restrictive agreements

27. Louis Turner, Oil Companies in the International System, London: Allen-Unwin, 1978, pp. 26-27; John Blair, The Control of Oil, N.Y.: Vintage, 1976, pp. 29-31; Irvine Anderson, ARAMCO, the US, and Saudia Arabia, Princeton: Princeton University Press, 1981, pp. 18-21. This non-governmental agreement among the French, British and American firms regulated the production and sale of Middle Eastern oil. While enabling the two U.S. firms to enter the area, it also denied them access to any other parts of the area. In contrast, the other three majors were not limited by this agreement, and they developed other areas in the Middle East. Most importantly, SOCAL and Texaco negotiated a large concession in Saudi Arabia in 1933.

favoring the British.²⁸

The second group in the U.S. oil industry were the domestic producers, who tended to be small and numerous. Unlike the majors, they derived their profits from domestic production and were unable to control oil production and prices without government help. After a series of oil discoveries in the 1930s, fears of an oil glut arose and led the domestic independents to rely upon the Texas Railroad Commission to regulate oil production in order to keep prices high.²⁹ The domestic firms' interests thus were intrinsically opposed to those of the majors. The former opposed the importation of large quantities of cheap foreign oil, since this would drive oil prices down and put domestic producers out of business. The international firms, on the other hand, made vast profits from their cheaply produced foreign oil; and, while not wanting to undermine high oil prices, they did lead the movement to "conserve" domestic oil by replacing it with foreign oil.³⁰

The interests of these two groups then were mixed; cooperation was necessary to maintain high prices, but conflict over how much of whose oil--foreign or domestic--would be sold was endemic. In addition, the two groups had different channels of access to the U.S. government. The international majors were tied into the executive branch, especially the Departments of State and the Interior and later the Petroleum Administration for War (PAW). The independents, in contrast, had close friends in Congress, namely, the members from Texas and Oklahoma--big oil-producing states. This international-domestic cleavage within the U.S. industry had critical consequences for the Anglo-American oil agreement.

The British industry had two firms. One, half Dutch, was the giant international firm Royal-Dutch-Shell; the other was a creation of the British government, established to develop the oil fields of Iran in 1909--the Anglo-Iranian Oil Company (AIOC).³¹ These two companies tended to have common interests,

28. Anderson, pp. 46-49; Michael Stoff, Oil, War and American Security, New Haven: Yale University Press, 1980, pp. 43-61.

29. Sampson, pp. 89-90.

30. Blair, pp. 156-65; Anderson, pp. 10-13.

31. Sampson, pp. 65-67, 74.

namely controlling the international supply of oil to keep prices high and to prevent other companies from gaining access to international oil fields. The relations between the British government and these firms were very close.³² The government saw the firms as the means of promoting its national interest in having a large, secure supply of oil, since Britain had no domestic reserves at the time. Thus, unlike the U.S. industry, the British one was well-established worldwide (even before WWI), was internally unified with the experience of a long-running cartel, and had close relations with the British government.

Prior to WWI, the U.S. federal government was not much interested in, or involved with, the oil industry. The war, however, changed this by causing oil shortages. Concern about such shortages in the future arose since U.S. firms were shut out of foreign oil markets by the British cartel.³³ After WWI, the U.S. government decided to aid its international firms by helping them diplomatically to gain access to Middle Eastern fields.³⁴

During World War II, the US government saw petroleum as a vital, strategic resource; control over oil was "an instrument of national survival."³⁵ Interest in access to foreign oil--especially the vast resources of Middle Eastern oil--heightened. The promotion of foreign oil production became a central goal for U.S. policy-makers in the early 1940s as fears of shortages rose to crisis levels. The Departments of State and the Interior, the Joint Chiefs of Staff (JCS)--led by the Navy--and the Petroleum Administration for War (PAW) all saw the need to increase the exploitation of Middle Eastern oil and favored attempts to "conserve" U.S. domestic supplies.³⁶ These goals were similar to the interests of the majors. The key issue, however, was how best to meet these ends.

Three different approaches were tried. The first involved

32. Sampson, p. 67.

33. Sampson, p. 73; Blair, p. 32.

34. Sampson, pp. 78-81; Blair, pp. 33-34.

35. Aaron Miller, Search for Security, Chapel Hill: University of North Carolina, 1980, p. 62.

36. Miller, pp. 63-64; David Painter, Oil and the American Century, Baltimore: Johns Hopkins University Press, 1986, p. 47.

direct government participation in the oil industry, an approach favored by Harold Ickes, Secretary of the Interior and head of PAW, and the JCS. Ickes and the Navy felt the U.S. government should protect its oil interests abroad by owning a direct stake in them. Ickes thus developed a plan in 1943 for a government-owned Petroleum Reserves Corporation (PRC), which was to buy 100 percent ownership of SOCAL's and Texaco's interests in Saudi Arabia, thereby establishing a secure U.S. supply of oil in the Middle East.³⁷

This plan generated widespread opposition. While Ickes was able to get Roosevelt's support for his plan, the domestic firms, some of the majors, Congress, the British, and the Department of State all opposed these ideas. The domestic independents felt the PRC was government intervention at its worst. Not only did they not want intervention that might challenge their system of collusion--i.e., the Texas Railroad Commission and other state-run efforts to set oil prices--but they also saw this intervention as favoring the majors.

The British government was angered by the PRC since they saw it as a direct challenge to British companies' interests in the area. The British viewed it as an aggressive unilateral act by the U.S. But they did not want to get into an overt conflict with the U.S. in this area because it might damage their essential war-time cooperation, and it might give the Saudis a means of playing the two off against one another to obtain more aid.

The State Department opposed the PRC less directly and for a number of different reasons. Primarily, Cordell Hull, Secretary of State, saw ending Ickes' PRC plan and promoting negotiations with the British as being in his interest; these moves would return control over oil policy to the State Department. Bureaucratic infighting thus had a hand in the initiation of the Anglo-American oil agreement.

Finally, the majors were not happy with the PRC and pipeline plans. The firms that would not directly benefit from them--SONJ and Socony-Vacuum--opposed them as giving unfair advantages to SOCAL and Texaco,³⁸ while SOCAL and Texaco did not want to lose their interest in Saudi Arabia to the U.S. government, since it was immensely profitable. By the time SOCAL and Texaco reluctantly agreed to sell a third of their interest in Saudi Arabia to the PRC, Ickes' plan faced so much opposition that he

37. Anderson, pp. 50-55; Miller, pp. 73-78.

38. Anderson, p. 62.

ended negotiations.³⁹ Thus died the PRC, and the government's first option for promoting its goals via direct federal intervention.

The British government had long been concerned with both oil and the Middle East. The British saw the Americans as threatening in these areas. They felt their imperial ties, vulnerability in oil, and earlier commitment should make the Americans respect their oil interests in the Middle East. But the British also realized that the balance of power globally was changing, that the Americans were growing more powerful daily, and that in time they would have to make concessions.

The British government thus by 1943 was interested in a cooperative solution to managing the world oil situation. The government did not want the U.S. to take unilateral action, like the PRC plan, since they knew the U.S. would prevail in the end. It also could not afford overt conflict with the U.S. The British favored a negotiated settlement with the U.S. over the management of international oil markets.⁴⁰ They hoped such a settlement would enable them to preserve their position in the Middle East, thus slowing the changing power relations between the two countries.

Ickes' plans for the PRC and pipeline led to the convergence of a number of different groups' interests in a bilateral government agreement over oil. Plans for a negotiated settlement surfaced even before Ickes' PRC plan. The idea of a bilateral agreement was initially broached by the British and gained steam through a tacit transnational coalition.

During the war the Americans worried about petroleum shortages in the future, while the British feared that the postwar world would be plagued by an oil glut. Leaders of the AIOC, in particular, saw the companies unable after WWII to resist ruinous price wars. During 1943, then, the AIOC proposed that the U.K. seek a bilateral agreement with the U.S. The Foreign Office liked the idea, but Churchill felt that the Americans had to initiate it.⁴¹ In response, the AIOC raised the issue with several American firms and with representatives of the PAW. The State Department also started looking into the idea of bilateral negotiations in 1943, after prompting by several U.S.

39. Anderson, pp. 62-63.

40. Miller, pp. 85-89; Stoff, pp. 104-7.

41. Anderson, pp. 71-72.

oil companies.⁴² Thus, by the fall of 1943, both PAW and the State Department were developing the idea of bilateral negotiations.

Several months of bureaucratic infighting between Hull and Ickes followed. Finally in December 1943, without the approval of Roosevelt, Hull proposed talks to the British ambassador in order to preempt Ickes.⁴³ Soon after, Hull informed and received consent from the president to open negotiations. Ickes, feeling outmaneuvered, decided to go over Hull's head to regain control of oil policy-making. He thus proposed to Roosevelt that the negotiations be held at the cabinet level--not at the technical level, as Hull proposed--and that he lead the U.S. negotiation team.⁴⁴ Hull objected to these changes; and Roosevelt compromised, keeping the negotiations at the cabinet level but putting Hull in charge and Ickes as second in command.

This bureaucratic infighting between Ickes and Hull had two deleterious consequences. First, discord within the U.S. government meant that little attention was paid to the views and interests of the U.S. oil industry. No formal consultations were held with the industry in this initial period.⁴⁵ Second, this bureaucratic infighting annoyed the British. The British wanted to retain tight control over the negotiations; they did not want to be forced to change their restrictive policies or give up their oil concessions in the Middle East. When Ickes prompted Roosevelt to alter the level of negotiations--to make them more political--the British feared losing control over them.

A vigorous debate within the British government over how to respond to the U.S. negotiation offer followed. An exchange of cables between Roosevelt and Churchill and various concessions by the US were required to get the British to conduct the talks on American terms.⁴⁶

42. Anderson, p. 70.

43. Anderson, pp. 75.

44. Anderson, p. 83.

45. Anderson, p. 77.

46. Anderson, p.85. Roosevelt promised that "we are not making sheep's eyes at [British] oil fields in Iraq or Iran", thus relieving British fears of a change in the status-quo.

The U.S. government's goals in the negotiations were three: 1) to conserve domestic oil by increasing Middle Eastern production, 2) to develop secure sources of supply abroad, and 3) to help U.S. companies obtain "equal access" to oil abroad.⁴⁷ It is unclear to what extent the U.S. government desired to remove British restrictions and/or alter British concessions in the Middle East. The third objective and the State Department's general philosophy opposing discrimination against U.S. firms abroad suggest that this may have been part of the impetus for negotiations. This goal was consistent with the U.S. oil majors' position, which involved two objectives: 1) an end to British restrictions in the Middle East and renegotiation of the concessions in Kuwait and Iraq and 2) the development of an "orderly" system for managing the production and sale of oil internationally.⁴⁸

The British government and companies opposed the former but approved of the latter objective. Although seeking bilateral cooperation to regulate oil prices and supplies to avoid a glut and price wars, both the companies and the government were intent upon preventing any changes in the existing pattern of Middle Eastern oil concessions, which favored the British. The British refused to negotiate before Roosevelt and others assured them that their position in the Middle East would be respected.

The first round of negotiations from April to May 1944 went smoothly. The British succeeded in making no specific commitments, giving nothing away, and framing a very vague set of principles for a bilateral commission to guide petroleum development.⁴⁹ The result of these negotiations was a "Memo of Understanding," signed in May 1944. While the British and American governments reacted favorably in general to the memo, some opposition within each country arose. Within the British cabinet, the memo created dissension. Lord Privy Seal Beaverbrook was its most bitter opponent. After a month long battle within the cabinet, Churchill decided on the negotiations but appointed Beaverbrook to head them. Britain would thus be unlikely to give anything important away in the negotiations.⁵⁰

The U.S. government was on the whole pleased with the memo.

47. Painter, p. 59.

48. Stoff, pp. 91-93, 119; Painter, p. 48.

49. Stoff, pp.155-56.

50. Anderson, pp.92-93.

It was baffled and annoyed by the slow British response. Not knowing of the divisions within the British cabinet, the U.S. negotiators felt the British were stalling to gain advantage. In addition, the delay allowed the terms of the memo to become public and thus gave time for opposition to form. Two points of contention were apparent. First, for the international oil firms, their support for the agreement hinged on the inclusion of an antitrust waiver in the agreement. The operation of a binational oil cartel would receive the cooperation of the majors if and only if they were protected from the government's own laws and agencies designed to prevent such collusion.⁵¹ For the independents, the agreement was one more attempt at federal government intervention in the industry.⁵² Worse yet, they feared the joint commission might seek to take over the job of the various state commissions--like the Texas Railroad Commission--that regulated supply domestically. For these reasons, the independents sought to have their friends in Congress derail the agreement.

Despite this opposition within both states, the negotiations resumed in late July 1944. These cabinet-level negotiations proceeded smoothly. On August 8, 1944, the agreement was signed by the two nations.

This oil agreement ran into intense, immediate opposition in the U.S. Four groups within the U.S. opposed it strongly, while its supporters were initially lukewarm and later nonexistent. The domestic independents felt the language was so vague and general that the joint commission could challenge state control of domestic oil; they felt it favored the majors; and they believed it would lead to the flooding of the U.S. market with cheap foreign oil and thus the erosion of their profits.⁵³ The independents used Congress to oppose the agreement. They had an ace up their sleeve in this case. The head of the Foreign Relations Committee was none other than a Texas man, Tom Connally. Connally fought for the independents. His first step was to force the State Department to alter the status of the agreement from an executive order to a treaty, requiring hearings and Senate ratification.⁵⁴ This proved the kiss of death for the agreement, which not only annoyed senators from oil states but

51. Anderson, p. 91.

52. Painter, p. 62; Anderson, pp.96-99.

53. Anderson, pp.96-99, 104; Stoff, p. 181.

54. Anderson, p. 103; Stoff, pp. 180-81.

also smacked of further federal intervention and was thus opposed by anti-New Deal members as well.⁵⁵

Within the U.S. government, opposition was also apparent. The Justice Department thought the antitrust clause inserted at the major's request was, like the agreement itself, too general. The department intervened then to write a narrow, technical exemption.⁵⁶ At this point, the agreement lost its only U.S. domestic supporters--the majors. Finally, dissension over the agreement arose within the State Department, where some felt that the agreement favored one group of firms over another.⁵⁷

This opposition within the U.S. killed the agreement, despite British enthusiasm for it and the bilateral accord achieved. With the demise of this bilateral government agreement, the third option of a private industry-run cartel emerged as the solution to the postwar problem of managing the world oil market.

Preferences, Divisions, and the Oil Agreement

Divisions among state and societal actors in the two countries influenced their capacity for cooperation in three ways. Mutual policy accommodation on oil was initially promoted and later undermined by these domestic divisions. First, the Anglo-American oil negotiations were initiated by a tacit transnational coalition of internationally-oriented actors. The British oil company, the AIOC, stimulated interest in the idea after talking about it to the British Foreign Office, American majors, and the American government (the PAW). The AIOC's discussions raised the issue on both sides of the Atlantic and helped the different groups realize the convergence of their interests. All four groups -- the British and American oil majors and governments -- had a common interest in some sort of cartel that regulated supplies and promoted the "orderly" marketing of Middle Eastern oil worldwide. From there, their interests diverged with the Americans hoping to alter the existing "property rights" set up by the British in the Middle East during their period of hegemony. The British wanted to hold back the rising tide of American influence and retain their position in the Middle East. The AIOC was aligned with the British government, while the American majors envisioned cooperation with their government only if antitrust exemptions were given. A mixed set of common and conflicting interests,

55. Anderson, p. 96.

56. Anderson, p. 105.

57. Anderson, p. 105.

then, pushed this transnational coalition to start negotiations.

A second form of division--namely, bureaucratic infighting--hurt efforts at cooperation. The battle between Hull and Ickes for control of the negotiations almost ruined their prospects. The new conditions Ickes attached to the negotiations nearly forestalled British participation in them. Moreover, Ickes' seizure of control over the negotiations effectively undercut the State Department's support for them. Also, infighting within the British cabinet over the "Memo of Understanding" stalled the process and puzzled the Americans. The several months' delay in the spring and summer of 1944 allowed opposition within the U.S. to increase and organize, thus dooming the agreement. Divisions within each government thus affected the agreement.

The terms of the agreement were related to these divisions. While satisfying a common interest in promoting and controlling Middle East oil production, the agreement was closer to British preferences than American ones. The vague principles, lack of mention of the Middle East, failure to challenge British restrictions in the area, and advisory status of the joint commission satisfied British demands at the expense of American ones. Why did the British prevail when the Americans were clearly "hegemonic" in this issue-area, controlling about 70% of world oil output? Putnam suggests at least one reason why a state may have greater bargaining power; however, this argument does not fit the oil case. He hypothesizes that a "stronger" state at home -- one more autonomous from domestic pressures -- may have less international bargaining power.⁵⁸ In this case, Britain would appear to have a "stronger" state vis-a-vis oil policy. But it seemed to wield much greater capacity to have its conditions adopted in the negotiations. The greater bureaucratic infighting and societal divisions in the US may have weakened its negotiating leverage.

Finally, the agreement failed because of divisions within US society. The international-domestic split within the American oil industry prevented cooperation with the British. For many reasons, the Anglo-American oil agreement had a high chance of being enacted. Oil was perceived by both governments to be a high priority issue; it was seen as a vital, strategic commodity, and each government had established special executive agencies to deal with it. Both Churchill and Roosevelt felt strongly about the issue and paid attention to it. A cooperative solution was also likely given the recent experience of war-time cooperation and the desire to cooperate in other issue-areas. Moreover, the two sides had strong common interests in the area and relatively close bargaining positions on many issues. The international

58. Putnam, pp. 448-49.

environment then did not obstruct the agreement's conclusion.⁵⁹

The oil agreement failed because of involuntary defection by the U.S. government. The executive branch could not get Congress or key domestic actors to ratify it. Several features of the domestic political situation doomed the bilateral accord. First, the structure of the U.S. oil industry was most important. The divisions between the international majors and the domestic independents created problems. The interests of the independents were not served by the promotion of international production and domestic conservation. The goals of the two industry groups diverged here, and the independents were very powerful in Congress. It was their opposition and pressure on the Senate that killed the agreement. The unity of the opposition to the agreement and the existence of overlapping cleavages, rather than crosscutting ones, undermined policy accommodation by the US. The approaches that Ickes adopted to deal with the oil problem--namely, the PRC and the binational commission--unified opponents of cooperation. The threat of federal government intervention and New Deal-type practices embodied in the these approaches brought congressmen, independents, and others together in their opposition to the oil agreement. Second, divisions within the U.S. government created problems. Not just the traditional battle between Congress and the executive, but also the fight between Ickes (Interior) and Hull (State) lowered its possibility of ratification.

This raises an interesting point about how internal divisions affect an international negotiation. Here certain types of internal divisions reduced the chances for successful ratification and hindered the striking of a deal internationally. Divisions within the U.S. government in this case weakened its ability to overcome societal pressures, and divisions within the oil industry undermined the agreement.

Conclusions

⁵⁹ Indeed, one could argue that international conditions were highly favorable to the emergence of such cooperation. In terms of three commonly cited conditions for cooperation internationally, the oil case was highly propitious. The structure of the game for the two states was one of mixed motives, both common and competing interests; harmony was not apparent. Moreover, the game resembled Chicken with mutual defection (both sides disagreeing and producing oil at will) being the worst outcome. The game was also iterated since the two would have to deal with each other on many other issues in the postwar world. And the number of players was small -- two countries. The international conditions for a successful cooperative agreement were evident.

The Anglo-American oil agreement shows the influence that internal preferences and divisions can have on efforts at international cooperation. Knowledge of the preferences of domestic actors--both state and societal--seems crucial to understanding how cooperation evolves, as argued earlier. The existence of internationally-oriented firms in the US and UK meant that attempts to devise a cooperative solution to the oil problem had some domestic support. But because of domestic groups with interests opposing federal intervention in oil and with access to and influence over key state actors (eg., Congress), international cooperation would have powerful opponents.

Divisions within the two countries along the international-domestic cleavage also had important effects, as hypothesized. A transnational coalition uniting groups on the international side in the countries helped initiate cooperative efforts. But the nature of the divisions ultimately forestalled cooperation. The unity of opposition to the binational agreement and the overlapping cleavages raised by the oil issue helped prevent successful cooperation between the British and Americans.

Finally, as suggested, the crisis-like atmosphere surrounding the oil issue influenced the process. The two world wars pushed the US and UK and their oil firms to realize the importance of petroleum for modern economies. The wars, especially World War II, prompted both groups to engage further with the external world in an attempt to control it better. The firms and various state actors were driven to the realization in the aftermath of World War II that some kind of international cooperation in oil was necessary to promote their interests.

Can any of these three factors illuminate the process of cooperation in oil among the OECD countries after the 1973 embargo? The oil shocks of 1973-74 and 1979-80 certainly seemed to draw most OECD countries into closer engagement with the international system; the crises internationalized their concerns over energy. In addition, the preferences of and divisions among domestic actors played a role in the way mutual policy adjustment occurred or failed to. In most of the OECD countries, domestic political concerns outweighed the "international" influences of the International Energy Agency (IEA), set up to promote cooperation among oil consumers. For instance, in the US domestic political considerations meant that the US could not reach a workable bargain with other OECD countries in the IEA. As one analyst noted, the failure of US efforts at international cooperation "lies in the relatively weak position of the US regarding its domestic energy policy. Domestic linkages, the political constraint which stops governments from pursuing a policy of restraint through pricing, have been particularly

apparent in the United States."⁶⁰

In the US, domestic policy in energy in the 1970s conflicted with the aims of the IEA and other OECD countries. US policy involving crude oil price controls and entitlements held down the price of domestic crude and in effect subsidized the import of foreign petroleum. This policy conflicted with IEA goals, which entailed raising the price of oil to decrease consumption and promote the use of substitutes and to reduce imports. Because of US policy, a workable sharing scheme among the OECD countries was not negotiable. As one study of oil politics states, because of price controls, "even if other nations had agreed to a collaborative program of import restraint, the United States could not have lived up to its part of the bargain."⁶¹ These domestic policies were, moreover, related to internal divisions. The policies benefited three groups--oil importers, refiners, and consumers--at the expense of one group--namely, domestic crude oil producers.⁶² In fact, the biggest winners were probably the large US international oil firms, who were the main importers and refiners. While it is not clear that the international firms opposed the IEA goals, existing US policies did benefit them at the expense of their domestic rivals.⁶³ This suggests that certain internal divisions may have had an influence on the failure of cooperative efforts in the 1970s, as they did in the 1940s. The full story of these domestic politics remains to be written. Overall, the oil cases suggest that understanding cooperation and conflict among states necessitates examining both domestic politics and the links between these internal cleavages and international ones.

60 Ann-Margret Walton, "Atlantic Relations: Policy Coordination and Conflict, Atlantic Bargaining over Energy," International Affairs, 52, April 1976, pp.195.

61 G. John Ikenberry, Reasons of State, Ithaca: Cornell University Press, 1988, p.101.

62 Joseph Kalt, The Economics and Politics of Oil price Regulation, Cambridge: MIT Press, 1981.

63 The US international oil companies ("majors") made huge profits in the 1970s. But they also liked the cooperative efforts of the IEA, since it adopted a loose norm of equal cutbacks to all countries in the face of shortages. This norm was one promoted by the majors, and it relieved pressure on them from their home countries to favor them in times of shortage.

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