The Challenges and Obstacles of Imposing Widespread Oil Sanctions Against Iran in Current Market Conditions

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Abstract

This article examines the world oil market in terms of structural features and developments happened during past several decades in order to assess the possibility of using oil purchase sanction by consuming countries against a major oil exporting country like Iran. One of examination methods is to study grand rules related to oil resources exploitation method and its supply and distribution in consumption market which called structural features of oil market. This article indicates that since early twentieth century, the world oil market has passed through three major developments, and there are some signs of entering a new phase which caused by relative shortage of supply and the intervention in markets by states. Consequently the geopolitical rivalries in the oil market have increased and exporting countries' acting potential has enhanced against importing countries in the oil market. The main question of this article is: given current conditions of oil market, how much is possible to impose widespread continuous sanctions against a major exporting country like Iran? The answer that has been raised as a hypothesis is due to relative shortage supply as a structural feature of current world oil market, imposing widespread continuous sanction against a great supplier country will culminate in many obstacles and costs, and it will not be possible easily. This article has analyzed many quantitative and qualitative data by using descriptive and analytical method in order to test the hypothesis.

Keywords: Structural Developments of the Oil Market, Period of Relative Shortage of Supply, Oil Purchase Sanction against Iran, Internationalization of the Oil Market, Costs of Imposing Sanction

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Introduction

Nowadays cheap energy is essential for the world economic system's function. Even food production needs oil. On the basis of calculations, 17 percent of energy consumption is for producing food (Gokay, 2006: 8). Therefore in nowadays world, oil is not only essential for moving industry but also it is vital for continuing present day life style. Beside production of energy, oil is regarded as the major resource of income and wealth in oil exporting countries like Iran. Oil trade constitutes ten percent of world trade which indicates the large sum of money circulating in oil and its products sale and purchase.

In present day world, oil is an important good which is produced and supplied within the framework of complicated relations and equations. The huge network of production, distribution and consumption of oil is intertwined with world equations of power and wealth. The complicated relations among the factors and rules of oil production and consumption cannot be depicted easily. Notwithstanding a simple way for explaining the complicated relations in the oil market is to examine the main rules and methods of exploiting oil and supplying to consumption markets. In fact, like other markets, oil market is constituted from two main sections of supply and demand which are called the basic factors of oil market. In this manner, the linking rules and procedures between these two major poles of oil market can be regarded as structure or the structural features of oil market.

As shown in this article, the structural features of oil market during the past decades have not been the same and many changes have been happened in these rules. The main question of this article is: given current conditions of oil market, how much is possible to impose widespread continuous sanctions against a major exporting country like Iran? The answer has been raised as a hypothesis according to which **"the structural feature of the world oil market is identified with relative limitation and shortage of oil supply so imposing widespread continuous sanction against a great supplier country will culminate in many obstacles and costs, and it will not be possible easily."**

For testing this hypothesis, first I explain the theoretical approach of the article which is based on the structure-agent pattern. Then the structural features of the world oil market in present day era are explained which have roots in 1970s developments. Afterwards, the article point out various data in order to indicate that in the first decade of new century, a new turn is happening during which the internationalized feature of market is being reinforced and oil has come back to the geopolitical rivalries' scene. In this period which is characterized by the relative shortage of supply, imposing oil purchase sanction against a major supplier will be very costly for consumer world.

Theoretical approach

This article considers the oil market as an entity constituted of a series of actors who interact within the framework of specific rules on both supply and demand side. Therefore a kind of agent-structure relationship is describable in this market. In this pattern, we can consider some of actors with different capabilities for impacting on market who act within a particular international structure. This structure is the grand game rule for these actors. In this manner, a two-sided tie is established between structure and agent, namely they have interaction. On this basis, actors (particularly great actors) while impacted by existing rules, in specific conditions may go beyond the existing rules and they may create new rules. The structure-agent pattern has been used in different fields of social sciences.

The agent-structure theory was initially raised in social science and sociology but expanded rapidly to the fields of international relations and foreign policy. As Friedman and Star have put it "in terms of ontology, the agent-structure relationship provides a meta-theoretical base for comparative analysis and it can be raised as a cornerstone for theories of international politics" (Friedman and Star, 1997, 133).

Notwithstanding there is not any theoretical consensus among the experts of international relations and foreign policy about explaining agent-structure relationship and its impact on the foreign policy of states. Kenneth Waltz maintains that the most important factor of forming the foreign policy of states is the structure of international system. According to him, unipolar, bipolar and multi-polar structures have different impacts on the behavior and foreign policy of states. In fact, Waltz regards the structure of international system as a more important factor when he analyses the factors of the foreign policy of states so his approach s called "structural realism" (Haji Yousefi, 2002: 109). Beskar and Jessop propounded the interactive relationship between agent and structure more seriously in their "critical realism". According to them, agent and structure should be considered as two metals in an alloy in which they are so blended that their distinction is not possible. It means that structure and agent are not theoretically separable and they are completely intertwined (Marsh and Stocker, 1998: 319-320).

In fact, structure means the rules and frameworks in which the agent's action is restricted and limited, and agent means those policies and strategies that enables actors to impact their environment and structures. The interactive approach to agent and structure means that "although the actors' actions are realized within structured environments, all actors have the capacity of changing structures through their actions. The impact of agent on structure may be consciously and wittingly or unwittingly" (Ibid, pp: 220-221).

The interactive relationship between structure and agent can be raised in relation with the world oil market as a very important structure that affects the actors' function. In this market, some actors have the ability of promoting their specific objectives in energy realm and going occasionally beyond structural obstacles of the oil market. Therefore we can consider a two-sided relationship among some of powerful actors of the oil market and the grand structures of this market. By structure we mean those rules and procedures in which the world oil reserves connect to the consuming markets (Mirtorabi, 2005: 155). In this two-sided relationship, the particular rules and procedures of market such as oil production, marketing, pricing and consumption in each period affect the market actors' function, and on the other side, the actors try to shape the rules and procedures of market according to their own interests. Here the actors of the oil market are categorized in a hierarchical framework in terms of affecting the rules and procedures of market. Naturally, the greatest actors of market enjoy the highest ability to shape and affect the rules and procedures of market. Thus we can say that the interactive relationship is more raised in relation with the great actors of market and generally the weight of structure is more important than agents in this two-sided relationship. In fact, structures restrict the agents' function. Consequently even the great actors cannot easily act beyond the structural rules and restrictions of the market. This rule will be discussed in details in this article in relation to the acts of great consumers against a great supplier country in present conditions in which the market is facing relative shortage.

On the basis of a classification, the greatest actors of the oil market can be categorized as the state actors, supra-state actors and supra-national actors. The US, Saudi Arabia, Russia, China and the EU (as a collection of great consumer states) are raised as the greatest state actors of the oil market. Iran, Iraq and Venezuela can be regarded as middle-range actors in the market. OPEC and the International Agency of Energy are the greatest supra-state actors of the oil market and represent a great range of top oil producers and consumers. The oil multi-national companies and oil burses are the greatest supra-national actors of the oil market (Ibid, pp: 187-237)

The two-sided relation among structures and agents of the oil market is obvious during several past decades. From 1920s to 1970s, the great multi-national companies called "Seven Sisters" as a monopoly dominated upstream and downstream operations of the world oil market and they determined the specific rules and procedures of production, marketing and pricing. In 1970s, after some developments which had started since two decades before, the monopoly of multi-national oil companies was broken and states, particularly major producer and consumer states that acted within the framework of OPEC and the International Agency of Energy (IAE) took the control of market. Particularly OPEC reached an unprecedented position for affecting the structures of the oil market (Odell, 1994: 206-210).

These companies played powerfully due to the protectionist policies of the greatest international powers namely the UK before WW2 and the US after the war. In fact, these companies imposed their dominance over the market within the framework of dominant international order supported by these powers. Thus the relative derogation of multi-national oil companies was related to the weakness of the US-backed financial and trade system called Bretton-Woods.

Thus the development that happened in 1970s paved the way for more serious role of these countries in the oil market through providing the possibility of controlling oil reserves, production and export. Another development at this period of time was the rise of oil price in 1970s. After two oil shocks, the oil prices raised from 2.5 $ in 1973 to about 40 $ in 1980, and oil exporting countries' revenues improved their position in the oil market and international economy. Thus we can claim that 1970s was a turning point during which the number of oil market actors increased and OPEC became an efficient actor in the market.

Although during the next years, particularly in early 1980s other structural developments happened in the market (Mirtorabi, 2005: 153-155) the situation did not returned to the Seven Sisters' era. Therefore the main oil exporting states maintained their position less or more in forming the developments of the oil market.

Structural features of oil market

At least from 1970s on, the oil market has indicated some structural features that include: 1) drastic oscillation of oil prices in the market, 2) dominance (or attempting at dominating) over the market by the hegemonic power (the US), 3) strategic nature of the exchanging good in the market, 4) the possibility of creating buffer reserves in the market, and 5) lack of geographical distribution proportion between reserves and consumption.

1) Drastic oscillation of oil prices in the market: nowadays it is obvious that the oil market has experienced many swings since 1970s. Two shocks resulted from intense rise of oil prices in 1973 and 1979 and one shock resulted from price decline in 1980s are examples of intense oscillation of oil prices in the market. In the following years, the oil prices continued these swings too. There are several evidence for the swing nature of oil price during past four decades including: drastic but temporary rise of oil price after Kuwait War in 1991, drastic decline of oil price in 1997 due to financial crisis in Asia, drastic and stair-like rise of oil prices from 2005 to 2008, and drastic decline of oil price in 2008 from 147 to 37 $.

Although in the oil market, the balance between supply and demand determines the price, it is not a competitive market. There are many purchasers and sellers in the market but the number of suppliers is less than buyers. Also some of the suppliers enjoy a special capability in decreasing or increasing their production competence in order to impact the price. In economic language, the oil market has an oligopoly (semi-monopoly) character and some of exporting states which have placed in an unstable region have a high competence for affecting oil prices. This situation has intensified the unstable character of the market (Noreng, 2006: 58).

2. **Dominance (or attempting at dominating) over the market by the hegemonic power (the US)**: After the Cold War, the US has paid special attention to the world oil market and tried to impose its control on

it. This policy has been implemented particularly in relation with the Persian Gulf as the main reserve of world energy and the main throat of oil export. In this direction, the US has tried to prevent its rivals from dominating the Persian Gulf oil resources (Telhami, 2003: 3). In other words, it has tried to control these resources exclusively.

One of significant approaches to international political economy that explains the US behavior is the theory of "hegemonic stability". According to this theory, as international relations is a stage for competition and rivalry of nation-states over power and since power is a relative phenomenon, the international economy is also subject to power equations and it is not realized with invisible hand. The best power distribution is hegemonic distribution in which the hegemonic power imposes the rules of liberal economy in order to gain the consent of weaker states (Najafi Sayar, 2010: 27). According to the theory of hegemonic stability, world stability needs a stabilizer that is a hegemonic power. Hegemonic leader of the world should enjoy following features:

1. Promoting liberal economy against protectionist economies
2. Controlling raw materials (and oil as one of the most important materials), capital market and exchange rate
3. Controlling conventional and unconventional weapons in the world
4. Invoking universal ideals such as human rights and democracy (Ghanbarlu, 2005: 19-20)

As seen in this theory, controlling raw materials and oil is one of the most important pillars of the US hegemony.

In 1970s, the US lost its previous hegemonic position in the oil market. A part of this hegemonic position resulted from the US unrivaled economic competence and its dominant money in financial exchange system, including oil trade. When it lost this dominant position, ambiguity and swing in the oil market increased. In early 1970s, the US floated its dollar due to diminishing economic power. Floating dollar culminated in floating oil prices in the market and at the same time, increased the playing capability of main oil producers in the Persian Gulf. In this period of time, the US had to compromise and accept the role of new actors. Nixon's twin pillars policy was raised in the same period of time, according to which the US gave Iran and Saudi Arabia a more active role in providing security of the Persian Gulf region.

3. **Strategic nature of the exchanging good in the market**: there is no doubt that oil and its products are of the most important exchangeable goods in contemporary world, and from 1980s on, the West's approach which is mostly propaganda-based has promoted this idea that strategic importance of oil has been vanished and this material should be exchanged in the market as an ordinary good like others. But this approach is not consistent even with the Western powers' performance in the oil market. It seems that propagating this idea is rooted in declining the US hegemony and weakening the western multinational companies' control on different sectors of oil market, not in realties related to energy sector. The reason for the claim is that the industrial world has not decreased its needs for oil and gas consumption, and slow trend of developing other energy resources during these years has culminated in providing two third of energy needs of industrial world by natural oil and gas.

On the other hand, petrochemical industry acts as a basic industry by producing tens of thousands of plastic and polymer goods, and supports other main industries. It is estimated that nowadays almost 90 percent of human life tools and facilities are made from petrochemical products directly or indirectly (Iranian National Oil Company website). According to Peter Odell, prominent oil expert, "With every criteria, the oil industry is the top of world industries and due to geographical separation between main regions of production and consumption, this industry has the first and most important situation in terms of international transportation and maritime in the world." (Everest, 1385: 38)

4. Creating buffer reserves in the market: during the past 150 years since establishing oil industry, oil production in the world has been fluctuating between great waves of production more than demand and periods of concern about ending resources. During concern periods, vast digging have been started in order to find new oil fields and in the periods of production more than demand, some measures have been implemented in order to reduce production and enhance oil prices (Gokay, 2006: 4).

Thus it seems that the oil market has needed a particular mechanism for regulating oil supply. From historical point of view, in different periods, different organizations have regulated supply in the market. Once "Texas Railway Commission" conducted oil production apportionment and supervision on portions so it caused oil price which had declined to ten cents per barrel, rose to higher than one dollar per barrel. The measures adopted by this commission played an important role in regulating oil prices in 1930s (Yergin, 1376: 443-59). After this period, great oil companies that played the role of a cartel in the market, implemented effective agreements regarding controlling production and oil prices which continued until early 1970s. From early 1970s on, OPEC took the responsibility of regulating supply in the market. In 1980s in which the market faced overproduction, OPEC adopted a specific apportionment system in order to impact oil supply and oil prices.

5.Lack of geographical distribution proportion between reserves and consumption: By lack of geographical distribution proportion I mean in that part of the world that huge resources of oil is available, oil consumption is inconsiderable but the main oil consumption is in that part of the world that has very small oil resources. This lack of geographical distribution proportion between reserves and consumption causes oil to connect with power relations in the world scene because on the one hand, there is an advanced and rich world that needs oil and on the other, there is a less developed world that has a lot of oil to supply for advanced world.

This problem is the origin of many oil problems of the world, and without considering this reality it is not possible to analyze oil problems of the world. World industrial life depends on oil therefore oil problem is the problem of life and death for industrial states so it is natural that they cannot neglect the Persian Gulf region. This condition has prioritized the concept of "supply security" for the industrial world (Derakhshan, 1383).

Structural developments of oil market through time

The structural features which were mentioned for the oil market were mainly related to recent conditions of oil market which is rooted in 1970s. But the structure of oil market has not always had similar features and it has experienced many changes through time. Knowing these changes helps us understand nowadays features of the oil market and its internal changes.

When examining the structural features of the world oil market, we can distinguish three distinct periods of time. The first period can be considered from 1920s to late 1960s. The second period started from 1970s and the third period in early 1980s. According to another classification about the oil industry and market development, we can classify the history of oil developments into three distinct stages: a) Age of colonial oil monopolies (1901-1950) b) Age of transition and change (1950 – 1972) and c) Post-cartel age and globalization era from 1974 on. Given early exploration of oil in the US (1859) this classification may be different when applying on the region but the following classification consists it too: a) Age of classical cartelization and early oil trusts (1870 – 1910), Age of neo-cartel control 1911 – 1972 and c) Globalization era from 1974 on. According to Sirus Bina, these historical stages are not arbitrary but they show the development of capitalist social relation in the world oil industry (Bina, 1985: chapter three).

1. Age of great oil cartels (cartelization of the market)

As mentioned before, we can consider three distinct historical periods for developments of the world oil market. The first period started in the circumstances of post World War I. In this period of time, initially a hostile rivalry happened among the world great oil companies for possessing oil resources of different regions. The states of these companies also entered into this drastic rivalry and tried to expand the realms of their oil companies explicitly or implicitly. In sum, these hostile rivalries over possessing oil resources and markets of the world imposed considerable losses on great oil companies that resorted to various tricks in order to dislodge their rivals. Intentional decreasing prices of oil products in the market and prices war were prevalent in this period of time.

We should notice that the main part of the costs of these rivalries was practically on the oil producing states because prices war culminated to decreasing royalties or taxes that these companies should pay to the host states. This situation caused that oil companies, under leadership of British government sign an agreement entitled Achnacarry (As-Is Agreement) about dividing oil fields and the issues of pricing, production and division of markets. In this period of time, the main part of oil resources of the world, except for the US and the Soviet Union, were under possession or control of great oil companies that were called "Seven Sisters" later. These companies monopolized all activities in the oil market including exploration, extraction, transportation, refining, marketing and sale of oil products. The Achnacarry Agreement which was a secret one lasted for two decades (see Yergin, 1997: 205 – 241).

In this period, these companies exploited the oil within the framework of royalties that had specific features including limited number of cartel privileges owners at the world scale and paying low ownership shares to the oil owner states (Bina, 2006: 9).

After the World War II, when anti-colonial movements reached zenith and anti-trust laws raised in the metropoles, the oil companies had to change their mode of activity. On the basis of anti-trust law, collusion among oil companies for controlling production and oil price in the markets became forbidden. Nationalist and anti-colonial movements challenged the activities of oil companies. Thus the great companies understood that they could not continue their activities as before. Consequently the form of activities changed namely operating companies substituted for former oil companies and oil resources were divided among these companies. For instance, before this period, Anglo–Persian Oil Company (later became British Petroleum) was the main agent but after this period, a consortium consisting of several oil companies entered Iran. At the same time, all these companies were informed about the activities of each other within and outside Iran and they were coordinated with each other. The circumstances continued less or more until 1970s (Mirtorabi, 1384: 150 – 151).

In this stage, we withness the coexistence of declining cartel mechanisms and procedures and proliferation of market forces. Some of the basic features of this period of time are as follows:

a) Arbitrary division of profits and oil rents started by 50 – 50 profit sharing

b) Omitting "imaginary cost of oil transportation" from the Mexico Gulf in spite of production venue and determining the second fixed departure in the Persian Gulf

c) Oil nationalization (in 1951) and de-nationalization (in 1954) in Iran

d) Formation of OPEC (Organization of the Petroleum Exporting Countries) and

e) Emergence of independent oil companies and gradual collapse of Achnacarry Agreement (Bina, 1985: 21 – 35)

The period after 1954, contrary to previous period of oil patents, is called the period of oil consciousness in the Middle East. This period is characterized by the growth of state bargaining power against oil companies that culminated in increasing state's revenues. The growth of state bargaining power started with failing attempts at oil nationalization in early 1950s and it reached its zenith as the result of controlling oil industry by states in mid- 1970s. OPEC was established in such an atmosphere and upgraded its position in the market (Karshenas, 1382: 128).

2. Period of dominating state actors on the oil market (internationalization of market)

The second period of historical development in the world oil industry is mainly related to 1970s. Notwithstanding we should notice that the context and circumstances of this period were created from many years before. One of the main factors that helped this period emerge was anti-colonial and nationalist movement in oil producing countries. The main factor for this was structural weakness of oil owning states against great oil companies and their powerful supporting states. In the next years, a series of other factors culminated in changing ties between great states and great oil companies. This issue helped oil nationalism in oil owning countries in 1970s.

In 1960s, some changes happened in great states' policies towards oil-related issues. Some great oil importers such as France, Italy and Japan noticed that their oil supply has been dependent on oil multinational companies. So national oil companies were established in these countries and enjoyed particular rights which were monopoly rights to some extent. We can say that in this period of time, a kind of oil nationalism was being formed in consuming states too. The rationale for this kind of oil nationalism was the rise of concerns about oil supply and pessimism about multinationals (Blair, 1976).

1970s started with serious concern about oil resources and oil production in the world; concerns that informed of serious developments in the market. In 1970, in the US, oil production reached its peak and declined as was predicted. On the other hand, two decades of cheap oil had aided a quick industrial growth in the US, Europe and Japan and it had increased the demand for oil. This increasing demand was mainly responded by the Persian Gulf oil and four states i.e. Iran, Saudi Arabia, Iraq and Kuwait produced 1.5 fold of the US (See Vaziri, 1380: 367).

At the time, serious concerns emerged regarding energy crisis and the exhaustion of oil resources of the world. The Club of Rome, a research institute, warned that the oil reserves of the world will finish until 2000 and serious measures should be adopted in order to use substituting energies. The scholars of the institute believed that rising oil prices is one of solutions for facing energy crisis. They pointed out that the oil price should not be less than 60 dollars a barrel in order to use substituting energies (Rais Tusi, 1363: 48 – 49).

The scope of quick consumption and diminishing supply competence raised some serious concerns in the market particularly that the US, as the greatest producer and consumer of the world entered its declining production phase at the time. This condition increased concerns about oil supply in the future and eventually highlighted the role of governments in the oil industry and market of the world. Thus after a series of negotiations with oil companies, the OPEC member states controlled their oil resources. The negotiations culminated in nationalization of the upstream assets of multinational companies in the main oil producing countries. These developments caused that oil producing states, entering in the market as producers, control the prices. A series of next events, including 1973 oil shock accompanied by using oil as a political tool, showed that how deeply the consuming states are vulnerable in the new circumstances. The issue caused that consuming states intervene more in the oil sector.

Thus in 1970s, the world oil market gained new and unique features including:

a) Oil nationalism

b) Price controlling by oil producers

c) Using oil as a political tool at oil producers' hands and also a tool for distributing world wealth

d) Collective response of oil consuming states to the threats of producing states (including formation of International Energy Agency, taxation on energy consumption, creating strategic reserves of energy, and ratifying anti-sanction bill (Haji Yousefi, 1379: 753 – 754)

3. Period of globalization of oil market

During 1973 oil shock, the world oil market was reorganized and conformed. At the time, the mechanisms of controlling oil price were set aside in the US that acted within the framework of Texas Oil Commission. The price of the US oil production became the regulating price for all prices in the industry all over the world and paved the way for formation of a unified world market. Meanwhile the drastic difference between production cost in the US and the Middle East culminated in increasing revenues in this region. The 1973–74 crisis must be considered as the mirror of much larger manifold transformations, namely (a) the worldwide unification of oil industry—from the lowest to the highest cost structure—under one pricing rule, (b) the de facto nationalization and concurrent transnationalization of oil against the International Petroleum Cartel by the oil rentier states, (c) the decartelization of U.S. oil and rationalization of the U.S. oil industry, (d) the universal valorization of the landed property and competitive formation of global differential oil rents, (e) the transformation of OPEC from a rudimentary rent setter to a full-fledged rent collector, (f) the proliferation of global oil markets, abolition of posted prices, and formation of global oil spot prices, and (g) the redundancy of the unmediated access and dependency on a particular oil region because oil market became integrated and conformed (Bina, 2006: 16 – 18).

From early 1980 new developments emerged in the oil industry that were rooted in the fundamental developments of the previous decade. In fact, diminishing role of state actors in the market revealed the integrated nature of oil market more and more. The present nature of world oil market has been also shaped by these developments. In general, two main developments are identifiable: the first concerns expansion of unit load transactions and future oil markets, and the second development consists of the return of multinational companies to the stage of oil production at world level. This return emerged as the result of increasing number of oil producing countries and reopening of upstream industries in the oil owning states towards the activities of oil companies. From early 1980s, these two non-governmental forces (oil companies and oil exchange markets) played a major role in the world oil industry and the role of states diminished in shaping oil market developments (Mirtorabi, 1384: 153 – 154).

The development of oil exchange markets pawed the way for emerging oil stock exchanges and popularized a widespread spectrum of transactions between oil producers and consumers. The development of these markets meant that the control of oil price is dependent on supply and demand mechanism in the market. In other words, as the result of emerging these markets oil was no longer a good whose price determined by great companies or oil producers but it was considerably reposed to the market mechanism (Haji Yousefi, 1379: 755). It means that the role of supply and demand currents as the fundamental factors of market increased in determining oil price, and the impact of other actors' measures on oil price depended on the impact of those measures on the fundamental factors of market.

The trend of privatization and deregulation of oil sector which started from 1980s in the main oil producers helped reinforce market mechanism in this sector. Parallel with this trend, state intervention in oil sector decreased and national oil companies were also reposed to privatization trend and at least a part of the stock of these companies were sold to the private sector. Diminishing state intervention in the oil market and limiting scene for activities of national oil companies were accompanied by new conditions for private oil companies, including oil multinational companies (Morse, 1999).

Thus we can say that since early 1980s, great structural developments happened in the world oil industry and market during which non-state actors such as oil stock exchange markets and oil private companies upgraded their position in the oil market. In the meantime, states limited their interventions in the oil sector compared with 1970s and established new relations with active non-state forces in the oil sector.

In fact, the oil shocks of 1973 and 1979 that increased oil price from 2.5 $ to about 40 $ during several years, caused drastic changes in the oil market. The second oil shock quickly decreased the oil proportion in providing world's energy needs. In 1978 oil proportion in providing the energy needs of the industrial states was 53 percent which decreased to 43 percent in 1985. Not only oil proportion in consuming energy declined but also energy needs decreased in terms of volume. The latter resulted from increasing efficiency in consuming energy. For instance, until 1985, the US increased its efficiency in consuming energy up to 25 percent. From 1973 to 1985, Japan also became more efficient in terms of consuming energy 31 percent and in terms of consuming oil 51 percent (Yergin, 1376: 1214 – 1215).

This situation culminated in drastic cut of demand for oil consumption. Until 1983, namely the first year of passing through economic crisis, the impacts of thrift and enhancing energy efficiency had been quite evident. In that year, oil consumption in the non-communist world reached 45.7 million barrels per day which indicated 6 million barrels decrease a day compared with 1979 in which the daily consumption was 51.6 million barrels a day. We should notice that at the time, oil production outside OPEC also increased up to 4 million barrels a day. The oil companies were seeking to get rid of their huge and costly oil reservoirs. The factors caused the demand for OPEC oil decreased up to 13 million barrels a day (43%) compared with 1979 (ibid, pp. 1214 – 1215). All of these factors contributed to decreasing oil prices in 1980s and 1990s because in these two decades, contrary to 1970s structural features of oil market faced the perspective of extra supply.

4. Signs of new turning point in the oil market

The first years of the new millennium witnessed many developments in the oil market, including drastic increase of oil price in the market, intensification of anxieties about providing future demands, and the probability of increasing oil prices to higher than 200 $ a barrel. In parallel with these developments, a reverse wave of nationalization of oil sector started in such countries as Venezuela, Ecuador and Russia, and state intervention increased in the oil sector. At the same time, the situation of national oil companies as the symbol of being state-run oil market improved compared with multi-national oil companies. In fact, these developments are very similar to the trends of 1970s. In the period, concerns about oil supply increased, oil prices increased several folds, a wave of oil sector nationalization was created at the world scale, and state intervention increased in the oil market.

In this framework, it seems that rivalry of great powers and the US is intensifying over controlling oil resources of the Persian Gulf. On this basis, controlling oil resources of the Persian Gulf has become the cornerstone of the US national security strategy more than before. In his book entitled "The New Imperialism", David Harvey describes the position of oil in the world economy and the US hegemony after September 11th as follows: "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, 2003: 19). A nearly universal belief in china is that US policy in the Middle East is essentially about seizing control of that region's oil in order to coerce countries dependent on that oil, as part of a drive for global domination (Alterman and Garver, 2008: 12). On the other hand, the West is also accusing such states as Iran, Venezuela and Russia of using oil as a political tool for promoting their own goals so that some experts have talked about "oil mercantilism" in these countries (See Smith, 2009).

Evidences of decreasing oil supply in the world oil market

In fact, in the first years of new millennium, there is much evidence of relative shortage in the oil market and decreasing oil supply at the world scale. At the same time, some experts, particularly the experts of Association for study of Peak Oil (ASPO), a credible research centre for energy, have heralded the peak of oil production which means that oil production in the world has reached its highest level and there is no possibility for increasing production and covering additional demand.

In a study conducted in early 2008, Cambridge Energy Research Associate has indicated that oil production in 811 fields of world greatest oil fields decreases 4.5 percent (the average rate of field decline is 4.5% per year). IEA has also emphasized that performance analysis of largest 800 oil fields of the world has indicated that their annual production has decreased 6.7 percent per year. Of course, these centers have added that new production plans in new fields will compensate this declining trend (Carl, 28 July 2009).

Notwithstanding Kejell Aleklett from ASPO has emphasized that these kinds of estimations about production in new and developing fields are very optimistic (Aleklett, July 2009). Maximum conventional oil production fixation between 2006 and 2010 confessed later by IEA and this indicates that ASPO estimation about supply capacity in the market is more realistic.

As the most credible institution for energy at the world scale, in its 2010 report, IEA confessed to the emergence of conventional oil peak in the world. In fact, IEA in this report heralded this phenomenon in a silent way. IEA has emphasized that "until 2020 crude oil production will remain between 68 and 69 million barrels per day which is less than 70 million barrels per day in 2006 as the peak". Of course, IEA reassures that in this period of time "production of NGLs and unconventional oil will increase rapidly" (IEA World Energy Outlook, 2010) while the proponents of oil peak theory, particularly in ASPO have serious doubts about the possibility of rapid rise in conventional oil production.

According to one of experts in ASPO, peak oil is as real as rain, and it is here now. Oil production has been flat since 2005. This is not by choice but nature has caused it. The producers cannot increase production because new fields cannot keep pace with declining production from old fields. The plateau is the top of the global depletion curve. Furthermore, this end of energy growth only accounts for volume. Energy quality and net-energy are falling like stones as environmental devastation increases. Every producing oil field on earth is in decline, unless it is brand new, and peak discoveries are well behind us. Meanwhile, the aggregate decline rate appears to be about 5 per cent per year. To maintain world production, we would need to bring a new Saudi Arabia – equivalent to three billion barrels annually - into full production every three years. There exists on earth not one single promising field that remotely approaches those requirements (Weyler, 2012: 1).

In february 2010, the US Joint Force Command published a report entitled "Joint Operating Environment" in which they warned "By 2012, surplus oil production capacity could entirely disappear, and as early as 2015, the shortfall in output could reach nearly 10 million barrels a day." The report goes on "A severe energy crunch is inevitable without a massive expansion of production and refining capacity. While it is difficult to predict precisely what economic, political, and strategic effects such a shortfall might produce, it surely would reduce the prospects for growth in both the developing and developed worlds." (US Joint Forces Command Report, 2010: 28)

Continuation of rising oil prices around almost one hundred dollars amid the world worst economic and financial crisis since the Great Depression is a very nice evidence for this claim. We should notice that until five years ago, the world economy was experiencing a high growth rate and warnings about the conventional oil production peak and a price well above 100 dollars for every oil barrel, as we see now, was not taken serious.

Conclusion

In these current circumstances that demand for OPEC oil is rising, oil production is declining in the non-OPEC countries and in the main oil producing countries, states have increased their control on oil resources and limited private sector participation, we can talk about a new round in oil political economy. In this period, political and strategic rivalries have been increased in the world oil political economy due to rising concerns about the future of oil resources.

Table 1: relationship between oil structural features of oil market with periods of shortage and surplus supply and forming high or low oil prices

Period of time	Condition of oil supply in market	Structural condition of market	Mid oil price per barrel in market (US dollar)
1950s and 1960s	Relative surplus supply	Cartelization of market	Declining oil prices to 2 dollars
Early 1970s to early 1980s	Relative shortage of supply	Period of internationalization of market (globalization of oil market)	Increase of oil prices up to 35 dollars after two oil shocks
Early 1980s to early years of new millennium	Relative surplus of supply	Period of trans-nationalization of market	Decrease of oil prices to under 20 dollars
Early years of new millennium	Relative surplus of supply	New turn towards internationalization of oil market	Increase oil prices to over 70 dollars

Source: Yergin (1997) and BP reports about oil market (time periods of the table and oil prices are approximate in all periods)

Above table shows relationship between structural developments of oil market in previous decades and emergence of relative shortage and surplus of oil supply and consequently oil high or low price. The table shows that during relative shortage of supply, the oil market has moved towards internationalization and stat intervention has increased in it. These interventions are the symbol of concerns about oil supply after which oil price has increased several folds. Thus we can say that the market is nowadays in the period of relative shortage of supply and state intervention is increasing in the oil market. One of the most important consequences of this situation is the formation of a market in which oil producers have more bargaining power and affecting power on the market developments. Because of this, in 2011 amid the worst world economic and financial crisis after the World War II, oil price remained fixed at one hundred dollars per barrel. Libyan crisis and the obstacles of Libyan oil supply (not a great oil producer) in this year increased the oil price up to 120 dollars per barrel.

In sum, the concept of relative shortage of supply in market is not necessarily meaning real shortage of oil but it means that capacity of surplus oil supply has decreased drastically and supply peak has been approached demand peak very closely. In these circumstances, the market gets an inflame atmosphere and the smallest signs of disorder in oil supply may rise oil price to a considerable level. Therefore we can conclude that in the new conditions of oil market, there is not easily possible to impose oil purchase sanction against a great producer like Iran. Any kind of serious action in this regard can destroy the balance of the market and increase oil price considerably.

Imposing sanction against Iran's oil started in summer 2012. But we should notice that the imposed sanction is consisting of a part of Iran's exporting oil to Europe. We should notice that in imposing this sanction, the West has considered the fragile conditions of the market so that the costs resulted from the sanction do not increase drastically. In this regard, the US had to exempt the major Iran's oil purchasers from these sanctions. Meanwhile implementing the sanctions postponed to several nest months so that Libya and Iraq can compensate the supply shortage resulted from decreasing Iran's oil supply. These facts show that in today's market even omitting several hundred thousand barrels is impossible without compensating measures. Therefore moving towards widespread sanctions against Iran, even continuation of existing sanctions will involve high costs for consuming countries.

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