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The Political Risk of Oil and Gas Mega Projects

A Descriptive Empirical Analysis

Master´s thesis in Globalization: Global Politics and Culture

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Abstract

Two elements can be seen to evolve progressively with globalization: political risk and mega projects. Although a fair amount of research has been carried out in regards to political risk and mega projects as separate units of investigation, few studies have attempted to combine the two. This thesis fills a void in the existing literature by providing a specialized approach to political risk, focusing on political risk of oil and gas mega projects in particular. Drawing on a comprehensive dataset of political risk in developing countries, the investigation consists of three constituent parts: a descriptive empirical analysis of 90 cases of political risk between 1998 and 2005; a comparative analysis with 240 cases of political risk across all affected industries within that same period; and three case studies. My intention is to illustrate the conceptual framework and to establish the causal mechanism at play. The findings of this text highlight the need for a more thorough and current political risk- and mega project theory, one which incorporates the important aspect of globalization and consequently sees political risk as a multidimensional phenomenon. The findings support the relevance of the obsolescing bargain mechanism, challenge the proposed significance of non-governmental activism and environmental issues, and, perhaps most decisively, accentuate the importance of the need of a social license to operate.

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IDB	Inter-American Development Bank
LNG	Liquefied Natural Gas
NGO	Non-Governmental Organization
OBM	Obsolescing Bargain Mechanism
PKN Orlen	Polski Koncern Naftowy Orlen (Polish Oil Group Orlen)
SLO	Social License to Operate
TGP	Transportadora de Gas Peruano (Peruvian Gas Transportation Company)
TNC	Transnational Corporation

CHAPTER 1: INTRODUCTION

In 2001, armed youth, ostensibly angered by environmental degradation and economic neglect attacked, and attempted to overtake, Shell's southern Nigerian flow station, resulting in 18 months of reparations and a loss in production of 40.000 barrels of oil per day.[1] On a different note, in 2004, Venezuela's President Hugo Chavez announced that the royalty paid by foreign oil companies would increase from 1 percent of the sale price to 16.6 percent. The purpose of this change, according to Chavez, was to secure control over the country's energy reserves; he boldly stated that "we are no longer going to give our oil away for reasons that no longer exist, if they ever did." No warning had been given to the affected companies and projects.[2] Moreover, in 2003, Canadian firm Talisman withdrew from its 25 percent stake in an oil exploration and pipeline project in Sudan following prolonged pressure from non-governmental organizations (NGOs), shareholders, and foreign governments.[3] Talisman was accused of providing the Sudanese government with oil revenues used to finance the civil war, as well as "turning a blind eye to atrocities committed by government security forces and their allied troops against local people in the name of protecting the security of oil-producing areas."[4] These examples perfectly demonstrate the investigation of this thesis, namely the negative effects a socio-political event may have upon an investment, popularly referred to as political risk. This text, however, will provide a more specialized examination by focusing on the amalgamation of two increasingly important and relevant elements: the oil and gas industry and mega projects.

Political risk is subjected to several interpretations and definitions. Yet, in regards to mega projects it can be deemed to constitute socio-political events with the potential to negatively and significantly affect the goals of a project. In the last few months we have seen dramatic upheaval in oil rich countries like Libya and Iran, and combined with continuous 'business difficulties' in

[1] "Nigerian Shell facility destroyed," *BBC News*, 29 September 2001, <http://news.bbc.co.uk/2/hi/africa/1570037.stm>.
[2] "Venezuela raises oil drilling tax," *BBC News*, 11 October 2004, <http://news.bbc.co.uk/2/hi/americas/3732224.stm>.
[3] "Talisman pulls out of Sudan," *BBC News*, 10 March 2003, <http://news.bbc.co.uk/2/hi/business/2835713.stm>.
[4] "Oil firms accused over Sudan abuses," *BBC News*, 4 May 2000, <http://news.bbc.co.uk/2/hi/africa/736013.stm>.

Nigeria, Russia and Venezuela, as well as ongoing instability in Iraq, political risk is undeniably a highly relevant subject. There are several reasons to why this is both an interesting and valuable issue of investigation. As will be pointed out in more detail later in this thesis, even though a fair amount of research has been carried out in regards to political risk in general, existing literature has not adequately dealt with political risk in regards to oil and gas mega projects in particular, and this study hence addresses a gap in the existing research. What is more, as separate entities, both the oil and gas industry and mega projects are identified as being particularly vulnerable to political risk. Drawing upon that assumption, this thesis will seek to unveil how political risk is manifested in oil and gas mega projects.

Political risk is not a new phenomenon. One of the most well-known incidents took place in Mexico in 1938, when the Mexican government expropriated most of the foreign oil industry. This was a key event in that a developing nation showed its power in the face of powerful foreign interests. Regarding expropriations, Jones (2005) points out that until the 1960s and 1970s, it was a relatively rare occurrence and although it increased during this period, only a small percentage of foreign-owned firms in developing nations suffered this fate. What is interesting, however, is that among the companies that were affected, a large proportion was engaged in resource extraction, with petroleum and mining standing out as two key industries. This shows that natural resource extraction in general, and the oil and gas industry in particular, has a long history of political risk vulnerability.

A mega project, on the other hand, can be seen as a complex, politicized, and scrutinized venture of more than USD 1 billion, carrying great risk and uncertainty, and with the potential of greatly affecting the local community and environment. Even though mega projects are not a new phenomenon it is nevertheless an increasing occurrence and we are experiencing a trend where mega projects are initiated across the globe. The issue of political risk, however, is most prevalent in regards to developing countries and the units of investigation are thus restricted to the classification of these. Seeing that mega projects are deemed to have a substantial impact upon the local community and the environment, the ‘real world’ relevance of this study is also significant.

But why is political risk important to oil and gas mega projects? Successful assessment, handling, and understanding of political risk are important factors in achieving the goals of a project simply because political risk effects, which constitute the actual realization of political risks (Jakobsen 2007, 2010), have the potential to negatively affect project objectives. The initial objective of a project is "to deliver a physical asset with specified functionalities and capacities to accomplish some business purpose" (Rolstadås & Schiefloe 2010:4). In regards to oil and gas mega projects, the principal business purpose is profit. From this point of view, political risk is a potential obstacle to the revenue of a project and is hence addressed in order to minimize this risk.

The study of the political risk of oil and gas mega projects ought to be of interests to a number of different actors. First and foremost, the oil and gas industry in general, and partakers in oil and gas mega projects in particular, obviously benefit from having a strong focus on political risk and the consequences it may have upon their ventures. Also, the political risk insurance industry, which habitually pays foremost attention to single country analysis, would arguably profit by specializing their approach to include, at the very least, industry specific risks. Furthermore, it can also be of interest to organizations, associations, and institutions concerned with the improvement of developing countries and how investments in the oil and gas industry in general, and oil and gas mega projects in particular, can shape the host country.

This thesis, then, will seek to answer three specific research questions:

- Why are oil and gas mega projects considered to be specifically vulnerable to political risk?
- How does political risk differ for oil and gas mega projects compared to projects in other industries?
- Which effects, actors, and sources of political risk are most prevalent for oil and gas mega projects?

The text draws upon Jo Jakobsen's doctoral thesis titled 'Political risk for multinational companies: Sources and effects'. His dataset is utilized to extract 90 incidents of political risk of oil and gas mega projects between 1998 and 2005. This does not imply, however, that I am repeating the study of Jakobsen. Rather, with the utilization of his dataset, I am able to build upon a thorough summary and a comprehensive coding scheme of political risk in developing countries and thereby specialize on a feature not paid particular attention to by Jakobsen, namely the

presentation of a comprehensive empirical analysis of the political risk of oil and gas mega projects. The dependent variable of this investigation, then, is realized political risk effects, or operationally speaking, events count. The independent variables are the underlying sources of political risk and the actors through which these are realized.

This thesis is divided into four sections excluding this introduction. Chapter 2 draws attention to existing political risk- and mega project theory and research, the causal framework employed for the investigation of this text, and specific hypotheses based on these. Chapter 3 presents the methodology, including operational challenges and limitations. Chapter 4 presents a descriptive analysis of the political risk of oil and gas mega projects as well as a comparative descriptive analysis of oil and gas mega projects and the remaining cases of Jakobsen's dataset. Chapter 4 also includes a discussion of the findings, incorporating the conclusions of the hypotheses. Chapter 5 highlights three specific oil and gas mega projects (Sakhalin II in Russia, Mazeikiu Nafta in Lithuania, and Camisea in Peru), with the purpose of illustrating the conceptual framework of political risk and to establish the causal mechanisms at play. Lastly, Chapter 5 presents a conclusion of the main findings, its implications, limitations, and recommendations for further research.

The conclusions of this thesis support the view of oil and gas mega projects as particularly vulnerable to political risk. The study also provides new and interesting material regarding the causal mechanisms involved. Whereas political risk- and mega project theory pays foremost attention to political institutions and government intervention as essential elements of political risk, this thesis highlights the need of a social license to operate as an equally relevant factor. A social license to operate (SLO) can be defined as a project's ongoing approval from the stakeholders involved, and especially from the location's local community and citizens. Realized political risk effects such as sabotage, kidnapping, and protests are well represented in the dataset. Even though existent theory recognizes the impact the oil and gas industry in general, and mega projects in particular, may have upon the local community and environment, the afore-mentioned components have not received much focus. On a more general note, the significance of globalization is underlined in regards to the importance of approaching political risk as a multidimensional phenomenon, denoting that not only local, but also regional and global

conditions must be taken into consideration. This is epitomized by the relevancy of foreign states as an important actor through which political risks are realized. Regarding the characteristics of the political risk of oil and gas mega projects compared to other industries, they are comparable along both main dimensions and sub-categories, although the distribution for oil and gas mega projects is more concentrated along specific sub-categories.

CHAPTER 2: THEORY

2.1 Mega projects and globalization

Globalization is one of the major catchphrases of recent years and is often employed to signify perceived negative, as well as positive, changes in world affairs. Though frequently used as an explanatory factor, a coherent understanding of the phenomenon is lacking and definitions vary across different schools of thought. Notoriously difficult to define and grasp, it is hard to disagree with Dicken (2007:3), who claims that "'globalization' is one of the most used, but also one of the most *mi*sused and of the most *con*fused, words around today". Others also point to the elusiveness of this phenomenon (e.g., el-Ojeili & Hayden 2006:1; Held & McGrew 2002). Skeptics argue that much of the globalization literature fails to identify "the spatial referents for the global" and as a consequence of this, the term becomes so broad that it is impossible to operationalize empirically and consequently meaningless as a way of making sense of the world (Held & McGrew 2002:4). Whether or not globalization is a label given to something that is not much more than a natural evolution of society is not a debate this thesis will engage in, however. It is rather the analysis of its effects that is of interest. The purpose of this section, then, is to seek an inclusive definition of globalization from which its consequences on political risk and oil and gas mega projects can be investigated.

One basic definition of globalization sees the phenomenon as "the expanding scale, growing magnitude, speeding up and deepening impact of interregional flows and patterns of social interaction" (Held & McGrew, cited in el-Ojeili & Hayden 2006:13). But how is the process of globalization relevant to the two main elements of this study, mega projects and political risk? As pointed out by Flyvbjerg, Bruzelius & Rothengatter (2003:3), infrastructure plays a very important part in this age of globalization, and megaprojects are central to this development because "infrastructure is increasingly being built as megaprojects". When talking about infrastructure projects, it is perhaps airports, bridges, highways and railways that first spring to people's mind; one might, therefore, question the relevance of oil and gas in this regard. Gigantic pipeline systems, refineries, and seaport distribution plants, however, also fall under the umbrella term of infrastructure and the relevance of these must not be eluded. The importance of oil and

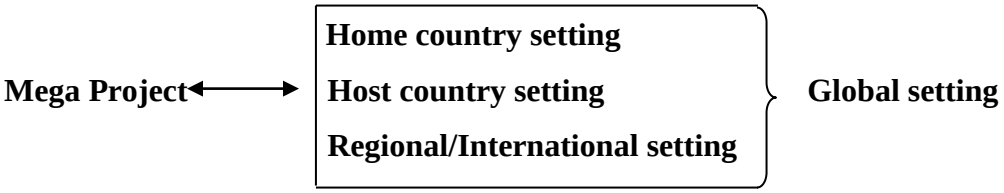
gas mega projects in the global infrastructure development is supported by Orr & Kennedy (2008:112) who argue that there is a considerable need for investment in energy exploration, production, and distribution to accommodate predicted global demands. Furthermore, Douglas (2005:1) argues that "globalization needs global-size project" where expectations of size and production are intensified with each new project.

Belgrave (1985) draws attention to one very important aspect in relation to the globalization of world affairs. He argues that a project might be highly capable in regards to technology or funding, but failure to address and assess geopolitical trends and elements might still result in project failure. The importance of globalization is also highlighted by Jarvis (2008:16) who argues that "while political risk is obviously a function of political activity in domestic settings, it is increasingly experienced as a function of globalization and interdependence." With the flow of globalization it is also extremely important to point out that many, if not all, oil and gas mega projects are characteristically either international or global in nature, and that is a very important factor in determining the political risks involved in a given project. Notwithstanding the debate of whether or not globalization is making the world more similar or more divergent, it is nevertheless clear that the process of globalization corresponds to a growing amount of stakeholders involved in a given project, and especially so for mega projects. More stakeholders equals to more complexity which in turn leads to a greater potential of realized political risk effects, an element that will be highlighted through the presentation of the Camisea project in the case analyses section of the paper. Furthermore, mega projects are frequently established in locations outside of the actors' home country, naturally increasing the level of uncertainty involved. This is popularly referred to as the 'liability of foreignness' (Javernick-Will & Levitt 2009).

Furthermore, with the continuous search for new investments, mega projects are initiated in just about every corner of the world, and this naturally entails an increasing awareness and knowledge of the possible risks this constitutes. It is also extremely important to keep in mind that whenever a new investment takes place, it is not only entering the political, social and economic environment of the host country. It also becomes part of the regional and *global* environment in which all players are operating and the position of all actors concerned must be investigated in

order to obtain a complete overview of the potential political risks involved (Simon 1984). What we can denote from this observation is that political risk in mega projects is far from being a mere project ↔ host country relationship; it is rather a multidimensional aspect which can be laid out in the following manner (drawing upon Simon, 1984):

Figure 2.1: The multidimensional aspect of political risk



This figure points out the important multidimensional aspect of political risk, where different settings, or environments, are intertwined, and where incidents in one setting have the potential to cause reactions in another, which of course is a key characteristic of globalization. It is clear, then, that the nature of political risk has changed and now constitutes a "highly complex, multidimensional phenomenon" (Jakobsen 2010:482). Having drawn attention to the importance of including globalization as a key element in the investigation of mega projects and political risk, the next step is to look deeper into these two central components.

2.1.1 What constitutes a mega project?

In order to make sense of the notion of a mega project in particular, it is first and foremost important to comprehend the idea of a project in general. Drawing upon Müller & Turner (2007:7) a project can be described as "a temporary organization to which resources are assigned to undertake a unique, novel and transient endeavor managing the inherent uncertainty and need for integration in order to deliver beneficial objectives of change". The view of a project as particular and unique is also supported by Kreiner (1995); Löwendahl (1995); and Shenhar et. al (2001). Mats Engwall (2003), on the other hand, is careful to point out that earlier experience, simultaneous events, and future intentions also affect how a project is carried out. Despite some varying definitions within the existing literature it seems fair to argue, then, that although not being a completely unique and incomparable event, a project is deemed to be highly specific and individualistic.

Having discussed the nature of a project, what, then, constitutes a mega project? As pointed out in the introductory part of this paper, existing mega project theory is rather limited and a clear definition is found wanting. Classifications vary across different sectors, and characterizations are frequently laid out in such a manner that any operationalization or generalization is impossible. A good example of the discrepancy that exists within the literature is that the term 'mega project' is not universally made use of. Koivu, Levitt & Pulido (2003:1) have taken the term mega project one step further and they have come up with a new classification altogether, so-called 'Global Change Projects.' These are defined as "large, multinational projects that are the vehicle to enable strategic change for corporations, governments and foundations". Examples they include are the development of a multi-country gas pipeline in Central Asia and the US-Mexico cross-border water projects. Hobbs & Miller (2005:43), on the other hand, employ the label 'large complex projects' which they see as marked by "high uncertainty and high risk," as well as great scrutiny, including social and environmental acceptability.

The fact that Hobbs & Miller (2005) employ the characterization 'large complex projects' is very interesting as the element of complexity can be seen to form a division in existing mega project characterizations. Among those who do not pay specific attention to the aspect of complexity are Altshuler & Luberhoff (2003) and Gellert & Lynch (2003). Altshuler & Luberhoff (2003:2) define mega projects as "initiatives that are physical, very expensive, and public" with a cost of at least USD 250 million (real 2002 dollars). Gellert & Lynch (2003), for their part, define mega projects as ventures which "transform landscapes rapidly, intentionally, and profoundly in very visible ways." On the other hand, the importance of including complexity in defining a mega project is emphasized by Kovaka (cited in Zhai, Xin & Cheng 2009:99); Zhai, Xin & Cheng (2009:99), who argue that "the size of the project is always defined in terms of such variables as the scale of investment, the number of project staff, the social impact of the project, and the complexity of the project"; Flyvbjerg (2009); and Rolstadås & Schiefloe (2010).

Rolstadås & Schiefloe's (2010) definition of mega projects is particularly shaped by the inclusion of project complexity as a key factor, meaning that a USD 10 billon project is not necessarily classified as a mega project while a USD 1 billion project might be, depending on the level of complexity involved. Regarding a specific threshold value for constituting a mega project,

esteemed mega project scholar Bent Flyvbjerg operates with different standards in different publications. Bruzelius, Flyvbjerg & Rothengatter (2002), though, sets USD 1 billion as a general threshold value. Flyvbjerg (2009) is careful to point out, however, that 'mega' also denotes the magnitude of the tasks involved in developing and organizing projects of such a scale. He hence lends support to Rolstadås and Schiefloe's approach of including complexity as a vital variable. Seeing that project complexity can only be measured through the identification of project challenges and the quality of the organization in regards to the project in question, such a classification of mega projects necessitates in-depth knowledge of a project before categorizing it as mega or not. This will be drawn further attention to in the methodology section of this thesis. Flyvbjerg, Bruzelius & Rothengatter (2003:9) also argue that "megaprojects are increasingly becoming highly public and intensely politicized ventures drawing substantial international attention with much potential for generating negative publicity" and with a significant impact on the local community as well as the environment. Kovaka (cited in Zhai, Xin & Cheng 2009:99) and Hauswirth et al. (2004) also draws attention to the impact of mega projects on the local community and on the consequent risk faced by such projects as a result of public scrutiny.

2.2 What is political risk?

In order to understand the concept of political risk it is helpful to first be familiar with the concept of risk in general. According to Giddens (2002:21); "risk refers to hazards that are actively assessed in relation to future possibilities" and "presumes a society that actively tries to break away from its past – the prime characteristic, indeed, of modern industrial civilization." The concept of risk, then, can be seen to evolve progressively with the process of globalization. Before embarking upon the actual presentation of political risk in relation to petroleum mega projects in particular, it is necessary to draw attention to some important aspects of political risk analysis in general. A wide array of literature is dedicated to the concept of political risk. As far as a uniform definition and application is concerned, though; no agreement has yet been reached. There are many scholars focusing of political risk as an important element to business in more general terms (e.g., Bremmer 2005; Bunn & Mustagaoglou 1978; Chase, Khule & Walther 1988; Clark 1997; Fitzpatrick 1983; Hofer & Haller 1980; Jakobsen 2005, 2006, 2007, 2010; Jarvis 2008; Kobrin 1979; Miller 1992; Schroeder 2008; Simon 1984, 1985). There is also a substantial amount of literature focusing on political risk in relation to specific projects (e.g., Bruzelius,

Flyvbjerg & Rothengatter 2002; Dikmen, Birgonul & Han 2006; Frynas 1998; Khattab, Anchor & Davies 2007; Lam 1999; Pinto 2000; Westerfeld 2002). Studies with specific focus on big oil and gas project are less common, however, with some valuable exceptions (e.g., Dey, Tabucanon & Ogunlana 1994; Frynas & Mellahi 2003; Walls & Dyer 1996).

Many of the above mentioned authors touch upon similar question in regards to political risk. Though not all of the information provided is relevant to political risk in petroleum mega projects in particular, it is nevertheless valuable in regards to gaining an enhanced awareness of political risk in general. Political risk has been a popular topic of investigation since the 1970s; incidentally, that was the decade in which the concept of 'globalization' started to appear for real (Held & McGrew 2002:1). Without dwelling too much on this, it seems feasible to argue along the lines of Giddens (2002), that risk tends to evolve progressively with globalization.

The early literature on political risk was mainly concerned with political events in the host country (e.g. Robock 1971, Bunn & Mustafaoglu 1978). Robock (1971:7) argued that

> "political risk in international business exists (1) when discontinuities occur in the business environment, (2) when they are difficult to anticipate and (3) when they result from political change. To constitute a 'risk' these changes in the business environment must have the potential for significantly affecting the profit or other goals of a particular enterprise".

Bunn & Mustafaoglu (1978:1558) argued that a political risk effect can be seen as any outcome in the host country which, if it occurred, would negatively affect the success of a venture. Kobrin (1979) stated that even though these early definitions fell short of providing a thoroughly inclusive definition, they emphasized the important trait of political risk as a *potential* threat. Kobrin (1979:70) built upon this feature and argued that "one can say only that political events may affect the firm; whether they do so is a function of both environmental conditions and industry and firm-specific factors." The relevance of regarding political risk as industry- and firm specific, then, was established relatively early in the literature.

In 1984, Jeffrey Simon lamented the lack of theory in political risk analysis, while also drawing attention to the importance of expanding the focus from the host country to also include home

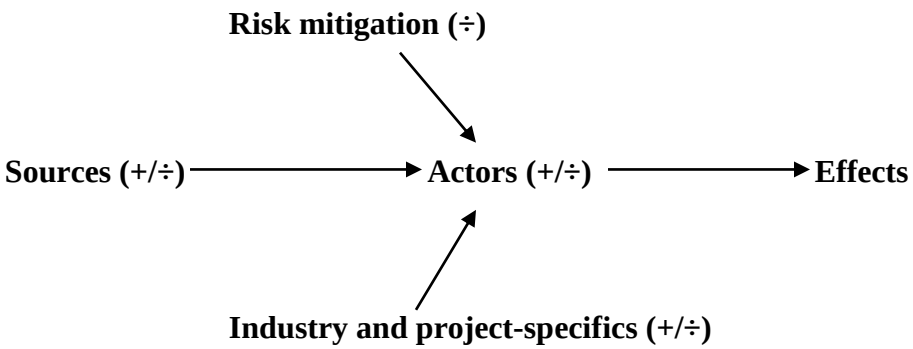
country and an international and global setting, which now forms an integral part of political risk theory (as indicated by Figure 2.1). Fortune & White (2005), in their review of 63 publications focusing on critical factors for the success of projects, found only scant congruity in the literature. The only factors linked to political risk, 'risks addressed/assessed/managed' and 'political stability,' were only cited in 13 and six publications respectively. Of these, seven were based on empirical data mainly obtained from surveys; eight were empirical studies with data mainly obtained from case analyses; and four were purely theoretical. It is important to point out that the 63 publications in question deal with projects in general and not oil and gas mega projects in particular. What it does tell us, however, is that generally speaking, political risk is not given the attention it likely deserves from business executives. The problem is not that political risk is not evaluated as part of an investment decision, though, because to a greater or lesser degree, it certainly is. The problem is *how* political risk is evaluated. The fact of the matter is that political risk analysis is still too often broken down into a mere country-analysis. With the tide of globalization sweeping across the globe, such an approach is no longer adequate, if it ever was.

The main deficiency in existing political risk theory, however, is the lack of empirical analyses. Jakobsen (2005:6) points out that "nationalism, ideology, and state preferences are theoretical constructs that are not easily measured and operationalized." The same can be said for many other aspects connected to political risk, making empirical investigations difficult. With a lack of empirical analyses in relation to political risk is general, it is obvious that it is very rare in regards to oil and gas mega projects in particular. The lack of empirical research means that the theory is not easily falsified, laying the groundwork for a position in which a web of reinforcing ideas are spun. By providing an empirical analysis of political risk events, that is a trend which this text seeks to evade. Having drawn attention to the theoretical foundation of this thesis, the following section will explain its practical approach through the presentation of the causal framework and its components.

2.3 The causal framework

As drawn attention to in the introductory stages of this paper, political risk is a multidimensional phenomenon. This entails that it is very seldom possible to track a distinct realized political risk effect from one single source and carried out through one specific actor. In addition to the fact that there are often both several sources and actors leading to a political risk effect, risk mitigation techniques are incorporated in the attempt to minimize the occurrence of realized effects, and some industries and projects might be more vulnerable to political risk than others. The following figure presents the causal framework created by Jakobsen (2007:27) (with the inclusion of industry-specifics as the only alteration), incorporating the multidimensionality of political risk and representing the practical rationale behind the investigation of this thesis.

Figure 2.2: The causal framework (Jakobsen 2007:27)



Notes: ÷ are factors which may reduce the likelihood of realized political risk; + are factors which may increase the likelihood of realized political risk.

Firstly, this section presents a general introduction to effects, actors, and sources, followed by an in-depth description of industry and project specific risks. Finally, based on the theoretical foundation already presented, and the upcoming industry- and project specific risk section, the hypotheses of this study will be presented. Seeing that the element of risk mitigation is not directly relevant to the investigation of this thesis, it will not be specifically touched upon. Note that much of the discussion herein is based on Jakobsen (2007). (A comprehensive list of political risk variables can be found in the coding schemes included in the appendix of this thesis.)

Effects naturally denote realized political risk effects and include elements such as sabotage, expropriation, cancelation of contracts, and NGO activism. The various effects are divided into three main categories: government intervention in or regulation of business; acts relating to war, terrorism, or social unrest; and other acts committed by non-governmental actors. A specific political risk effect, however, represents the intervention of a government or other socio-political actors. Actors signify the players involved through which a potential political risk may be realized. It is therefore important to be familiar with these in order to apprehend why and how a *potential* political risk becomes a *realized* political risk effect. Actors may include for instance host government, foreign state, a terrorist organization, or a multilateral organization, and can be divided into five main categories: central, regional, or local host government; rebel/terrorist organization; non-governmental activists; other companies; and foreign state or multilateral organization. Information on effects and actors, conversely, is not adequate in regards to understanding the multidimensionality of political risk. It is also necessary to understand the underlying sources of political risk and how they ultimately may affect a mega project. Sources may include elements such as political ideologies, company performance, environmental issues, foreign policy issues, and corruption, and they can be divided into three major sections: socio-political instability and grievances; political institutions; and preferences and attitudes. Having briefly pointed out the core of the causal framework, the following section, based on existing theory and research, will present project and industry specific risks particularly relevant to the investigation of this thesis. Firstly, a section dealing explicitly with the oil and gas industry will be presented, followed by elements deemed important to oil and gas mega projects, albeit with a special emphasis on mega project particulars.

2.3.1 Industry specific risks

There is a consensus in existing theory that the oil and gas industry is particularly vulnerable to political risk. But why is it that this industry is so prone to political hazards? Jakobsen (2005) points out that because of their need for big, fixed investments and long payback periods, oil and gas companies are commonly rather vulnerable to elements such as policy instability, intervention by the host government, and the obsolescing bargain mechanism (OBM). Oil and gas companies are also vulnerable to government corruption, accusations of unwarranted profits, and exploitation of the host country's resources (Jakobsen 2005). Natural resource projects, in other

words, are faced with an innate organizational vulnerability and "foreign investment in resource and infrastructure projects has long been among the most sensitive of all international corporate activities" (Moran 1998:70). This is also drawn attention to by Lax (1988) who argues that there is an inherent conflict of interest in the organization of foreign investment in oil and that political risk can be seen as a result of this conflict.

The OBM refers to the negotiation process between host country and foreign investors where the key element is that "initial agreements are reached under terms that subsequently become politically obsolete as the respecting bargaining strengths of the actors shift" (Lax 1988:141). Important aspects included in the OBM are ownership shares, tax rates, and the size of the investment. The outcome to a large depends on the "relative demand for the other's resources, as well as the stakes at play, the similarity of interests, and bargaining skills." (Jakobsen 2007:49). This is also pointed out by Dicken (2007), and although he is focusing specifically on the bargaining relationship between transnational companies (TNCs) and states in general, his conclusions can also be seen in relation to oil and gas mega projects in particular. Dicken (2007:234) argues that states have the possibility of influencing two key elements that are of vital importance to TNCs: "the terms on which TNCs may have access to markets and/or resources" and "the rules of operation with which TNCs must comply when operating within a specific national territory." The outcome of the discussions, then, can be seen as a consequence of two fundamentals: the cost of the host country's economy of losing the investment and the possibility of the host country in finding alternatives (Dicken 2007). The bargaining power of the counterparts can therefore be regarded as a combination of three essential components: "(1) the *relative demand* for each other's resources, (2) the *constraints* on the actors involved, and (3) "the *negotiating status* of the participants" (Dicken 2007:242). Concerning the relative demand for each other's resources, it is clear that technology plays an important part. When operating in countries where technology and the necessary 'know how' is lacking, the foreign petroleum company is often granted concessions. Technology, therefore, often constitutes a key bargaining chip for oil and gas companies (Lax 1988).

With basis in the OBM, one can expect that effects such as tax increase; back-tax claims; breach, termination, suspension of contract; and, possibly nationalization, expropriation, confiscation to

be well represented in the findings and naturally carried out by the host government. Also, seeing that oil and gas are extremely important commodities, one can expect foreign policy issues to be a relevant source of political risk. Furthermore, the oil industry is under continuous scrutiny from both NGO's and governments alike to fulfill certain environmental requirements. Failure to meet these requirements can result in negative publicity, fines, and even renegotiation of contract or expropriation (at least used as an excuse for such actions, see Sakhalin II in the case analyses section). Examples of how environmental disasters and environmental neglect can result in severe negative publicity include the recent BP accident in the Gulf of Mexico, Exxon Valdez in 1989, the Camisea field in Peru (as pointed out in the case analyses section), and numerous and ongoing issues in the Niger Delta in Nigeria. It is difficult to measure, however, the impact that such negative attention have upon the project and the firms in charge. Even though the immediate effects do not necessarily hamper the project in question, a negative impression might be attached to the companies, spurring increased negative attention to future projects.

The oil and gas industry, of course, is also vulnerable to industry wide policy changes and preferences and attitudes, with the interrelated phenomena of economic nationalism and political ideologies standing out as the two most interesting elements in this regard. Economic nationalism is a well-known 'problem' for the petroleum industry and it was such policies that sparked the focus on political risk in the 1970s. The best examples in present time are perhaps Venezuela, where the oil and gas industry has been hit hard as a consequence of the policies carried out by Hugo Chavez and his government, and Russia, since Vladimir Putin stamped his mark on the country (Houllerbergh & Zaslavsky 2004). It is also interesting to include the aspect of globalization in this regard. While on the one hand globalization can be seen to bring forth a standardization of world affairs, it can arguably also result in the exact opposite. Without going into any great detail regarding this debate, it seems fair to argue that in the face of globalization, some nations see the need to cement their own identity and preserve their own resources, both capital and human, and as a consequence follow a certain national ideology and implement certain economic policies (see Sakhalin II in the case analyses section).

2.3.2 Project specific risks

As many argue, political risk can be seen as highly project specific (e.g., Frynas 1998; Frynas & Mellahi 2003; Kobrin 1979). Project specific risks can be seen as a result of all elements relative to a specific project, and features such as location (e.g. onshore vs. offshore), size, complexity, management competence, and stakeholders obviously all matter. To briefly review existing theory; mega projects are considered to carry high uncertainty and risk and to be physical, expensive, public, politicized, scrutinized ventures with a substantial impact upon the local environment and community, and a potential for considerable negative publicity, both locally and internationally. With basis in these characteristics, it is clear that mega projects, at least hypothetically, carry more risk than normally-sized projects. Some specific elements stand out as especially applicable.

Seeing that mega projects affect the local community and environment, one can expect environmental issues and social unrest to be important sources of political risk. It is of course difficult to predict exactly which types of political risk effects this might contribute to, but protests/demonstrations, NGO activism, and social unrest are all possible outcomes. The element of stakeholders is also interesting in this regard and is well documented in existing literature (Aaltonen 2010; Aaltonen, Jaakko & Tuomas 2008; Javernick-Will and Levitt 2010; Pinto 2000). A stakeholder can be defined as a person, group, or organization that has an interest in the project, either directly or indirectly. Aaltonen, Jaakko & Tuomas (2008:513), in their study of stakeholder salience in global projects, argue that the project management is "likely to pay attention to and respond to the claims of those stakeholders that they perceive to have more salience, which is defined using three attributes: power, legitimacy and urgency." As a consequence of this, they argue, the various stakeholders will seek to increase their salience and this may contribute to the afore-mentioned effects.

Stakeholders, of course, are also those actors directly involved in the venture and it is not unusual that players from several countries work together on a project. The bigger the project, the more stakeholders are likely to be involved, and it is almost inevitable that some disagreements and conflicts will occur. What is more, with the increasing strength of state controlled oil companies (Energy Intelligence 2009), the various companies' home country rules and regulations, along

with foreign policy issues, should be treated as a potentially significant factor. Regarding foreign policy in particular, building alliances, both politically and economically, is an integral part of international politics and engaging in a mega project in the 'wrong' country can thus have severe implications. The power and influence of the US is obvious in this regard. A good example is Statoil's involvement in the Anaran field in Iran. Iran's failure to meet US demands in relation to their uranium program resulted in US sanctions against foreign companies involved in oil and gas extraction in the Iranian sector. As a result of this pressure, Statoil had to seize its activities on the field in 2007. The US is of course both a major player and market in the global oil and gas industry. Thus, the sanctions posed upon Statoil would be severe if they had failed to meet US demands.[5] Foreign states, then, can be expected to be a significant actor in regards to the realization of political risk effects.

With a classification of mega projects as expensive, public, and politicized ventures, it is also likely that political institutions and government intervention are significant elements to consider. Rule of law, regulations, level of bureaucracy and corruption, reforms and policy changes are all, to a greater and lesser degree, well documented in the existing literature (including Busse & Hefeker 2007; Henisz 2000; Wei 2000). The cost and size of a mega project may lead to bureaucratic delays, and with vast amounts of money being involved, corruption is a conceivable occurrence. What is particularly interesting to draw attention to, however, is the democracy – autocracy distinction. A wide range of literature touches upon to the relevance of a democratic form of government in relation to foreign direct investment. The bulk of this literature (e.g., Busse 2004; Feng 2001; Harms & Ursprung 2002; Jensen 2003; Oneal 1994) conclude that democracies provide for a better investment climate and therefore pose less political risk than autocracies. The core of the argument, as summed up by Jakobsen (2007) is that well working democratically governed countries provide for a stable and predictable environment. One might argue, on the other hand, that political risk only constitutes a risk when an unforeseen event occurs (Kobrin 1979). Mega projects are increasingly initiated in so-called risky areas but if it is predicted and calculated that something will occur, the likelihood that the risk will become

[5] "Usa truer Statoil for virksomhet I Iran," *E24*, 26 April 2010, <http://e24.no/utenriks/article3623089.ece>,
"Iran-marerittet vokser for Statoil," *Teknisk Ukeblad*, 10 December 2009, <http://www.tu.no/olje-gass/article231000.ece>.

realized is, at least in theory, minimized. An unstable political environment makes it potentially very difficult to predict the future, and predicting the future is in effect what political risk handling is all about. In theory, then, a stable non-democratic country does not necessarily pose any more risk than an unstable democratic country (Li & Resnick 2003; O'Donnell 1978). This statement is obviously somewhat superficial and fails to investigate important underlying features. The main point is nevertheless brought forward and it will be paid further attention to in the analysis section of this paper.

Regarding government intervention, Makhija (1991:532) provides an interesting rationale, arguing that the host government

> "pursue specific objectives with respect to multinational firms, either individually or collectively across an industry. Whenever information relative to these objectives suggests to the government that the objectives are not being furthered, the government is motivated to intervene. The manner in which it intervenes (or the type of intervention) is directly related to the desired objective. These objectives may be of an economic, social or political nature."

Although Makhija refers to multinational firms, it is also relevant to petroleum mega projects. Jakobsen (2007) is also careful to point out the importance of the political institutions in question, arguing that the majority of mass expropriations in the 1960s and 1970s were linked to underdeveloped institutional frameworks. The grounds for this presumption are that without a proper institutional framework in place, it is easier for influential opportunistic individuals to act in their self-interest. Political institutions should thus be regarded as a significant source of political risk of oil and gas mega projects.

Having paid attention to the nature of political risk one can expect to experience in connection with oil and gas mega projects, three main elements stand out as particularly important: (1) the obsolescing bargain mechanism, (2) the need of a social license to operate, and (3) a view of mega projects as carriers of high risk and public scrutiny with a substantial impact upon the local community and the environment. With main focus on these features, the following hypotheses can be made:

Hypothesis 1: Oil and gas mega projects are more prone to political risk than other industries.

Hypothesis 2: Non-democratic countries do not carry more political risk for oil and gas mega projects than democratic countries.

Hypothesis 3: Government intervention is the most prevalent political risk effect for oil and gas mega projects due to the working of the obsolescing bargain mechanism and mega projects' large size and complexity.

Hypothesis 4: Social unrest is more prevalent for oil and gas mega projects that ventures in other industries given the need of a social license to operate.

Hypothesis 5: NGO activism is significant for oil and gas mega projects due to the need of a social license to operate.

Hypothesis 6: Political institutions are the most prevalent source of political risk for oil and gas mega projects due to the working of the obsolescing bargain mechanism.

Hypothesis 7: Environmental issues are significantly more prevalent as a source of political risk of oil and gas mega projects than for ventures in other industries.

Hypothesis 8: Foreign states are significant actors responsible for carrying out political risk for oil and gas mega projects.

Based on the theoretical foundation of this study, it is clear that several hypotheses could be added to this list. The stated hypotheses, however, comprise the factors one can expect to be of most importance and, although some elements have been left out, the analysis section of the thesis will touch upon other features drawn attention to by existing theory and research.

CHAPTER 3: METHODOLOGY

This section presents the methodology employed in the investigation of political risk of oil and gas mega projects. The section is divided into three sub-sections. Firstly, the method of data collection is presented, followed by the operationalization of key terms, and finally methodological issues.

3.1. Method of data collection

Jakobsen's dataset is based on 330 cases of realized political risk events in developing countries between 1998 and 2005. He relied on secondary sources for his data collection and, more specifically, two major news journals, namely *BBC News Online* and *The Economist*. An important element in such a content-analysis endeavor is of course the coding guidelines. Seeing that I have not altered Jakobsen's approach in this regard, it is necessary to reiterate the most important factors behind his categorization. First and foremost it is important to stress that the dataset only includes developing countries (based on the definition of the United Nations Conference on Trade and Development in 2002), and it also includes economies in transition. The fact that Jakobsen relied solely on developing/transitional economies is positive for my investigation for two main reasons: (1) as pointed out by Jakobsen, political risk is deemed to be most prevalent in the mentioned economies; (2) a vast amount of the world's oil and gas reserves are located in countries (or areas belonging to countries) with economies that can be deemed developing or transitional.

Furthermore, although standard financial theory highlights that risks might entail both opportunities and problems for firms, only political risk incidents which negatively affect the companies or projects involved are included in the dataset. Regarding more detailed specifications, it is also worth mentioning that: (1) threats are included as long as they are deemed serious and credible enough; (2) when events causing problems for a company are several and bound together in a process, these are counted as one incident; and (3) a so-called macro event, where one intervention affects several companies or industries, is recorded as one single act, regardless of how many players it affects (Jakobsen 2007). When deemed necessary,

Jakobsen relied upon supplementary news media in order to uncover sources of political risk but information regarding effects and actors were taken exclusively from BBC News Online and The Economist.

Regarding the actual coding process, based on the information from the sources, a specific case of political risk is given one code or value. This is the case also if a project or company experiences several types of interference, given that they belong to the same fundamental process. The reason behind this, of course, is to avoid counting several times an event that to all intents and purposes is one and the same occurrence. Regarding sources and actors, on the other hand, a different strategy applies. As specifically drawn attention to, a political risk effect is not always the result of one specific source carried out by one specific actor. It is rather a multidimensional phenomenon; one specific effect can be the result of several actors and sources, necessitating the inclusion of multiple actors and sources where applicable. This aspect will be drawn closer attention to in the upcoming analysis section. Also, it is important to underline that the dataset is informative in regards to "the frequency of a specific intervention relative to other kinds of intervention" (Jakobsen 2007:89), but not so much in regards to total frequency or total losses (for further information, see Jakobsen 2007, Ch. 4).

Having drawn attention to the methodological implications of Jakobsen's system of data collection and analysis, the purpose of the following section is to disclose the rationale behind my own selection and classification of mega projects as included in Jakobsen. From the outset, one of the planned investigations of this study was to compare the political risk of oil and gas mega projects with the oil and gas industry in general. Based on Jakobsen's dataset, though, 90 out of 113 cases involving the oil and gas industry are deemed to constitute mega projects. Seeing that such a large percentage falls into the category of mega projects, such an analysis is fruitless. The objectives of the analysis of this thesis, then, is threefold: (1) to compare oil and gas mega projects with political risk across all industries included in Jakobsen; (2) to provide a descriptive statistical analysis of political risk in oil and gas mega projects; (3) to provide case studies of three oil and gas mega projects with the purpose of identifying the causal mechanism involved, and to exemplify how political risk may affect a mega project in practice.

There are primarily three reasons for the utilization of Jakobsens dataset for this thesis. The first is that it presents a very thorough account of realized political risk events. As commented on earlier, the lack of empirical data on political risk is a serious hinder to the development of the field; Jakobsens's study therefore stands out as an important contribution to its progression. The second main reason for relying upon his dataset is that the creation of a comprehensive dataset is extremely time-consuming. As an alternative to the construction of a far less inclusive dataset for this thesis, it is more valuable to utilize an already existing dataset which undoubtedly stretches beyond what I would have been able to produce for this thesis. Thirdly, even though the oil and gas industry is well represented in his data, there is no special classification of oil and gas mega projects. In fact, quantitative analysis of oil and gas mega project in the existing political risk literature is, as far as I have uncovered, missing altogether. Drawn from Jakobsen's dataset, then, a distinct oil and gas mega project dataset is created, consisting of 90 events of realized political risk.

Keeping in mind that the analysis is of a descriptive nature, there is no weighing of the different incidents, and all events are thus treated equally. This also affects the assessment of the hypotheses of this paper, as laid out in Chapter 2. Seeing that the analysis is descriptive, the testing of the different hypotheses will not be subjected to the stringency of a regression analysis, where a five percent significance level is often employed. They will rather be subjected to a qualitative assessment including an evaluation where they are deemed either 'supported,' 'partly supported,' or 'rejected.' This obviously means that the robustness of the findings is somewhat diminished. Yet, recognizing that the main idea is to establish the causal mechanisms of political risk and not to analyze the particular characteristics of each individual event, this is not an impediment to the investigation. The study is clearly of a quantitative nature, with the dependent variable being realized political risk effects, or event count, while the independent variables are the various sources and actors leading up to a realized political risk event.

3.2 Operationalization of key terms

In order to carry out a meaningful empirical analysis, it is necessary to operationalize the key concepts into measurable entities. The two main concepts of this thesis are, of course, political risk and mega projects. The concept of political risk has, as pointed out earlier in this thesis, been

subjected to thorough evaluation, and numerous approaches and definitions exist. Since this thesis will draw upon the data of Jakobsen (2007), however, it is necessary to follow his definition of political risk as "*those events, actions, processes, or characteristics of a socio-political nature that have the potential to – directly or indirectly – significantly and negatively affect the goals of foreign direct investors"* (Jakobsen 2007:3-4; emphasis is in the original). For the present text, '*affect the goals of foreign direct investors'* can be substituted with '*affect the goals of an oil and gas mega project.'*

Concerning mega projects, existing theory is, as drawn attention to in Chapter 2, rather inconclusive in regards to the establishment of a uniform definition and threshold value. Although the approach of Rolstadås and Schiefloe (2010), as specifically pointed out, certainly makes sense in relation to investigating mega projects as case studies, it is largely unworkable in regards to a larger quantitative analysis. In order to carry out a methodologically viable investigation, then, mega projects will have to be classified purely according to their size rather than a combination of size and complexity. Project size refers to the costs involved but, as pointed out above, a fixed threshold value has not yet been agreed upon. Renowned mega project scholar Bent Flyvbjerg is frequently relied upon for a classification of mega project but even Flyvbjerg operates with different figures in this regard. Bruzelius, Flyvbjerg & Rothengatter (2002:144), however, characterize mega projects as "high investment expenditures of USD $1 billion and more." This thesis, too, will rely on USD 1 billion as the threshold value. Such a methodological 'short cut' obviously means that valuable distinctions and project specific variables are not included in the equation. Yet, in order to carry out any research in the social sciences it is necessary to 'cut some corners' and make generalizations. Hence, this paper is not a negative deviation from the norm, but rather a follower of common practice. Regarding the other characteristics of a mega project, it is obviously more difficult to arrive at a specific threshold value but it is reasonable to argue that any project surpassing USD 1 billion is so large that it automatically fulfills the requirements of being highly public, involving a great deal of uncertainty and risk, and having considerable effect on the local environment and community, whether positive or negative. It is nonetheless important to point out that the threshold value of USD 1 billion is not exclusively followed in regards to each individual case. There are two interconnected reasons for this: (1) in certain cases, the exact cost of the project has not been

identified and; and, (2) there are different components to mega projects. Even though platforms, refineries, flow stations, or pipelines may constitute mega projects in their own right, they do not operate in isolation. This means that even though the cost of a pipeline project may be USD 850 million, which does not meet the required threshold value, it is naturally part of other components which combined may add up to more than USD 1 billion. On the basis of the mentioned classification, 90 cases of oil and gas mega projects are extracted from Jakobsen's dataset, forming the basis of the investigation of this paper. Seeing that the 90 cases extracted from Jakobsen constitute a substantial amount of his total units of analysis, I have recreated his dataset exclusive of these 90 events in order to perform a meaningful comparable analysis. The tables and figures of this restructured examination can be found in the appendix of this paper.

3.3 Methodological issues

One of the key issues for this thesis is the utilization of news media for data collection, which many argue is valuable (Jakobsen 2007; Henisz & Zelner 2005; Simon 1985). Still, there is a debate regarding the applicability of this type of data collection. One of the key concerns regarding the use of news journals is obviously the aspect of biased reporting. Molotoch & Marilyn (cited in Franzosi 1987) argue that mass media can be seen to reflect the practices of those holding the power to control the experience of others. This is an interesting and valid point, though "there is no *a priori* reason to believe that data collected from newspapers would be less valid than other commonly used sources" (Franzosi 1987:7).

One key element in regards to possibly biased reporting is naturally whether or not the information is faulty or insufficient (Franzosi 1987). Relying upon BBC News Online and The Economist, faulty information is therefore not a great cause of concern, and it is rather insufficient reporting, then, that stands out as a potential obstacle. Based on the investigation of this thesis, however, it is reason to believe that inadequate reporting do not pose a significant problem. The vast majority of oil and gas mega projects involve one or more major companies (predominantly based in Europe and North America); one can hence be reasonably confident that issues involving these ventures are covered in major news journals like the BBC and The Economist. This is especially so given that huge foreign investment projects rarely escape attention from the media Franzosi (1987). Considering that mega projects form the units of

analysis of this thesis, it seems fair to argue that relevant events have been covered by BBC News Online and The Economist and consequently been included in Jakobsen's dataset.

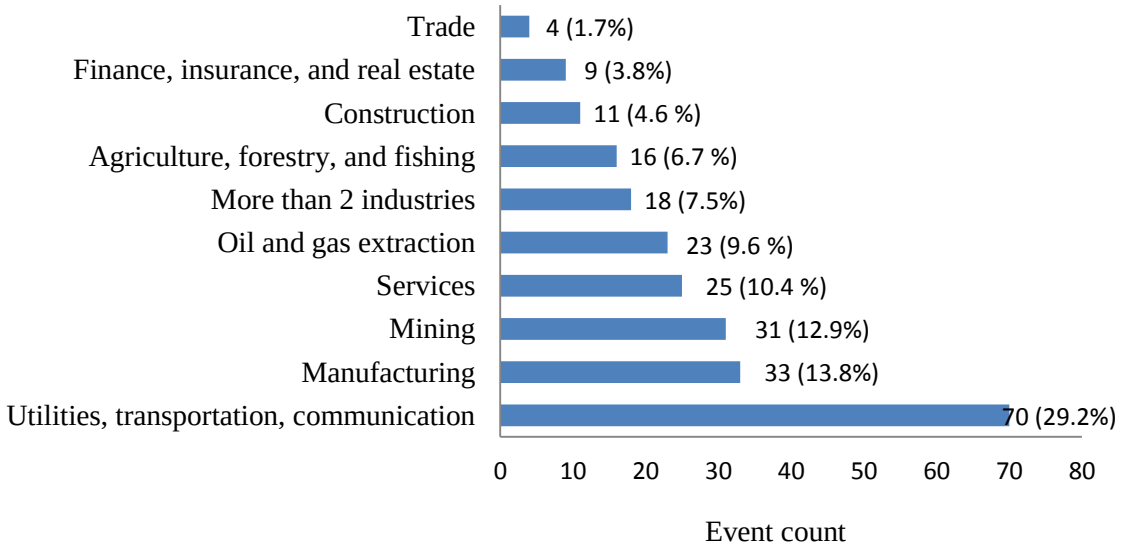
Barranco & Wisler (1999) identify four potential problems in relation to utilizing newspapers/news journals as a means of data collection and they are worthy of closer examination. The first problem relates to the suggestion that news value can be seen as proportional to the number of participants involved. Fifty kidnapped workers are more newsworthy than one kidnapped worker, but judging from the cases of my analysis where numerous events include relatively few people, this is not a major concern. The other apprehensions of Barranco & Wisler (304) are "the identity of the news media on news selection," routines of journalists in presenting stories, and "power rather than culture to explain the news selection process". These are all valid concerns and, according to Barranco & Wisler, there are primarily two ways to combat such validity issues: select the most renowned or comprehensive newspaper, or rely on a number of sources to cancel out possible bias (301). By relying upon BBC News Online and The Economist, it is clear that the recommendation of depending on renowned news sources is met. Another important element of this paper is coding. Regarding coding guidelines, Franzosi (1987:9) argues three criteria should direct the groundwork of a coding scheme when relying upon newspapers and news journals: "(1) categories should have a direct link, individually or in a group of other categories, to one or more of the hypotheses of interest; (2) categories should be mutually exclusive; and (3) categories should maintain a close resemblance to the language used by the newspapers." These the three conditions set by Franzosi for a meaningful utilization of news media as a source of data collection are arguably all applicably incorporated.

Another crucial methodological element of this thesis is the selection and classification of mega projects as extracted from Jakobsen. As highlighted earlier in this chapter, the reasoning behind their selection is based on a combination of a set threshold value and a logical broadening of that fixed value. Although it is clear that specific elements are being neglected as a result of this approach, the case analyses section of this thesis works to address these shortcomings. Based on the yielded information, then, it is clear that there are some methodological issues to this thesis, but thorough measures have been taken to keep them restricted.

CHAPTER 4: ANALYSIS

This chapter will present a descriptive statistical analysis based on the 90 examples of oil and gas mega projects extracted from Jakobsen (2007). The complete dataset utilized for this analysis can be found in the appendix; only the most relevant tables and figures will be included in this section. The purpose of this analysis is twofold: to compare my findings with Jakobsen's dataset in general, and to evaluate the accuracy of existing mega project- and political risk theory. It is important to keep in mind that all references to Jakobsen's data are based on my modification of his dataset. This modification excludes the 90 cases forming the basis of my investigation: it hence consists of 240 cases from the original 330. Before embarking upon the actual analysis, it is useful to briefly draw attention to the content of the altered dataset, so as to make clear what I am comparing my findings with. Figure 4.1, as laid out below, shows the distribution by industry of the 240 remaining cases of the dataset. 'Utilities, transportation, communication' is by far the biggest component with 29.2 percent but it is worth mentioning that 'oil and gas extraction' still constitutes 9.6 percent of the cases. It is therefore clear that the oil and gas industry formed the largest part of the original dataset, lending support to the established theoretical perception that natural resource extraction in general, and the oil and gas industry in particular, is especially vulnerable to political risk.

Figure 4.1: Industry overview for modified dataset



Firstly, it is beneficial to instigate the data analysis by presenting the overview of political risk effects by country. An interesting observation is that a vast majority of the listed countries appear to be characteristically non-democratic. One explanation to this is that well-working democracies are more common in developed countries, which fall outside the units of investigations of this thesis. Another striking observation is the fact that Nigeria is represented with 28 cases, 24 of which are related to war, terrorism and social unrest. The Nigerian cases hence have a substantial effect on the investigation and will be drawn further attention to later in this chapter.

Table 4.1: Political risk events by country

Country	**Total**	**Gov.**	**War.**	**Nongov.**
Nigeria	28	3	24	1
Colombia	8	0	8	0
Ecuador	6	1	4	1
Venezuela	6	5	1	0
Indonesia	5	1	3	1
Russia	5	5	0	0
Bolivia	4	3	1	0
Peru	3	1	1	1
Yemen	3	0	3	0
Sudan	3	1	1	1
Iraq	2	2	0	0
Kazahkstan	2	2	0	0
Saudi Arabia	2	1	1	0
Iran	2	1	0	1
Afghanistan	1	0	1	0
Myanmar	1	0	0	1
Libya/Iran	1	1	0	0
Lithuania	1	1	0	0
Sao Tomé & Prin.	1	1	0	0
Argentina	1	1	0	0
India	1	1	0	0
Bangladesh	1	1	0	0
Pakistan	1	0	0	1
Ukraine	1	1	0	0
Falkland Islands	1	1	0	0

Notes: 'Total' signifies the total amount of political risk effects; 'Gov' signifies government intervention in or regulation of business; 'War' signifies acts relating to war, terrorism, or social unrest; and 'Nongov' signifies other acts committed by non-governmental actors.

Regarding the question of whether or not non-democratic countries pose more or less risk than democratic countries, it is necessary to present a classification of the countries of this study. There are several ways of measuring the level of democracy in a country but this thesis relies upon Freedom House for its characterization. (The exact methodology employed by Freedom House can be found on their web page www.freedomhouse.org.) Freedom House rates countries as 'free,' 'partly free,' and 'not free' through a combination of two general sets of characteristics: political rights and civil liberties. As with the classification of developing countries from the United Nations Conference on Trade and Development, the information is taken from their 2002 data, placing it in the center of the investigation of this thesis. With basis in their classification, the following table can be made:

Table 4.2: Countries classified by level of freedom (Freedom House, 2002)

Free	Partly Free	Not Free
Bolivia	Nigeria	Yemen
Peru	Colombia	Sudan
Lithuania	Ecuador	Iraq
Sao Tomé & Prin.	Indonesia	Kazahkstan
India	Russia	Saudi Arabia
Falkland Islands	Argentina	Iran
	Bangladesh	Afghanistan
	Ukraine	Myanmar
		Libya
		Pakistan

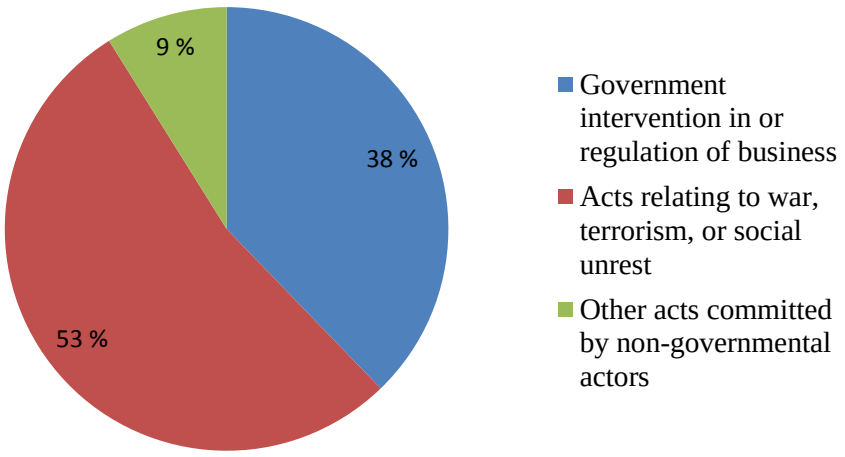
As we can depict from Table 4.2, 'not free' countries are most prevalent, followed by 'partly free,' and 'free' countries. The distribution of actual political risk effects, though, does not follow the same distribution. 'Free' countries represent 11 cases (12.2%), 'partly free' 46 cases (51.1%), and 'not free' 22 cases (36.7%). From this distribution it is clear that 'partly free' and 'not free' countries constitute far more political risk than free countries; the hypothesis that non-democratic countries do not carry more political risk for oil and gas mega projects than democratic countries can hence be rejected. What is particularly interesting, though, is that partly free countries constitute more than 50 percent of the cases. Although the Nigerian examples make up a majority of these, it is nevertheless worthy of a closer examination. Stability can arguably been seen as key in this regard. Although Lax (1988) poses that political instability has little impact on foreign

oil companies, it seems clear that it indeed does have a marked effect on political risk effects. Even though one should be careful in drawing any definite conclusions, one might argue that 'partly free' countries are more unstable than 'free' and 'not free' countries, thereby making it more difficult to predict the political risk environment of 'semi-democracies.' This contention, to be sure, fits relatively well with other research of the non-linearity of political regime type with respect to stability (Gates et al. 2006; Merkel 2008). Having briefly pointed out the distribution of political risk events across the relevant countries and highlighted the dissemination in regards to political rights and civil liberties, the ensuing sections will focus on the presentation of more in-depth descriptive analyses, logically divided into categories of effects, actors, and sources.

4.1 Political risk effects

The following figure indicates the distribution of political risk effects along the three main dimensions. Constituting 53 percent of the incidents, 'acts relating to war, terrorism, or social unrest' is by far the most common occurrence for oil and gas mega projects, followed by 'government intervention in or regulation of business' with 38 percent, and 'other acts committed by non-governmental actors' with only 9 percent. The hypothesis that government intervention is the most prevalent political risk effect for oil and gas mega projects can hence be rejected.

Figure 4.2: Distribution of political risk effects by main dimensions



The results from my modification of Jakobsen's dataset, as laid out in the appendix, shows that 'government intervention in or regulation of business' is the largest component, accounting for 51 percent of the cases; 'acts relating to war, terrorism, or social unrest' accounts for 34 percent; while 'other acts committed by non-governmental actors' adds up to 15 percent. For both sets of data, 'other acts committed by non-governmental actors' constitute by far the smallest component. Figure 4.2, of course, only tells us about the distribution along the three main dimensions. In order to present a coherent and meaningful analysis, it is also necessary to explore the distribution along the sub-categories. The following table shows the dissemination of political risk effects across all sub-categories. (For the purpose of an orderly presentation, the five most significant variables are highlighted in red and included in a separate table.) For my modification of Jakobsen's dataset, only the five most significant variables are presented, while the table in full can be found in the appendix.

Table 4.3: Distribution of political risk effects by sub-categories

	Count	Percentage
1. Government intervention in or regulation of business		
Breach/termination/suspension of contract or license	9	10.0
Corporate tax/royalty increases	5	5.6
Back-tax claims or disputed tax claims	3	3.3
Bureaucratic/political delays	3	3.3
Intervention/sanctions by foreign government	3	3.3
Grand or petty corruption	2	2.2
Blocking of investment	2	2.2
Forced or unwanted contract renegotiation/revision/review	2	2.2
Fine	1	1.1
Other intervention/policy change/dispute	1	1.1
Ownership restrictions	1	1.1
Price controls/tariff freeze/cap on profits	1	1.1
Regulations/taxes/bans on trade, production, investment, sales	1	1.1
2. Acts relating to war, terrorism, or social unrest		
Sabotage and terrorism/armed attack	24	26.7
Kidnapping or hostage taking	15	16.7
Severe social unrest	4	4.4
War threat or severe instability and threat to physical safety	3	3.3
Protests, demonstrations, blockades against company	2	2.2
3. Other acts committed by non-governmental actors		
Potentially detrimental lawsuit/compensation claims related to activism	4	4.4
NGO activism	3	3.3
Corruption	1	1.1
Total:	**90**	**100**

Notes: As opposed to sources and actors, there is only one specific effect for one case. The numbers presented above are hence accurate and the percentage precise.

Among the five most significant variables, three are unsurprisingly associated with 'acts relating to war, terrorism, or social unrest'. Accounting for 24 incidents, or 26.7 percent of total realized political risk effects, sabotage is by far the most common occurrence, with the majority being sabotage on oil and gas pipelines. The Canon Limon pipeline in Colombia is notorious in this respect as it was bombed a record 170 times in 2001. Rebel groups such as the Revolutionary Armed Forces of Colombia (FARC) and National Liberation Army (ELN) demand foreign companies to pay taxes so as to avoid rebel violence. The bombings in 2001 occurred as

Occidental Petroleum refused to meet the groups to discuss extortion demands.[6] Kidnapping or hostage taking is also an alarmingly common event, with Nigeria and South American countries topping the chart. Examples in this regard include the kidnapping of 12 oil workers in Ecuador in 1999 by a Colombian kidnapping gang which for long had been targeting tourists and foreign workers;[7] and the kidnapping of eight oil workers in 1998 employed by Texaco by militant youths (who allegedly wanted oil companies in the area to invest more in local communities) belonging to the Ijaw community in the Niger Delta.[8] The need of a SLO, then, is clearly reflected in the type of political risk effects carried out.

Table 4.4: Top 5 effects

	Count	Percentage
Sabotage and terrorism/armed attack	24	26.7
Kidnapping or hostage taking	15	16.7
Breach/termination/suspension of contract or license	9	10.0
Corporate tax/royalty increases	5	5.6
Severe social unrest	4	4.4
Potentially detrimental lawsuit/compensation claims related to activism	4	4.4

Note: Seeing that 'severe social unrest' and 'potentially detrimental lawsuit/compensation claims related to activism' each are represented in 4.4 percent of the cases, both are included in the table.

What is interesting and perhaps somewhat surprising, is that NGO activism only represents 3.3 percent of the cases and is hence not ranked among the top five effects. Considering that mega projects are very public and therefore attract a lot of attention whenever something goes wrong, one should expect to see a higher percentage of NGO activism. The reason that numbers are relatively low can arguably be seen in connection with the high rate of acts of sabotage and kidnapping/hostage taking. It seems fair to argue that if a similar study was undertaken in

[6] "Colombia considers 'war tax." BBC News, 7 March 2002, <http://news.bbc.co.uk/2/hi/business/1859431.stm>

[7] "Oil workers freed in Ecuador," *BBC News*, 20 December 1999, <http://news.bbc.co.uk/2/hi/americas/572017.stm>, "Colombia busts kidnapping ring," *BBC News*, 23 June 2001, <http://news.bbc.co.uk/2/hi/americas/1403616.stm>.

[8] "Oil workers kidnapped in Nigeria," *BBC News*, 11 November 1998, <http://news.bbc.co.uk/2/hi/africa/212623.stm>, "Oil workers in Nigeria released," *BBC News*, 17 November 1998, <http://news.bbc.co.uk/2/hi/africa/216187.stm>.

developed countries, the rate of NGO activism would be much higher, while sabotage and kidnapping/hostage taking would be much lower. The rationale behind such an argument is twofold: (1) people in developing countries do not have the same opportunities to express themselves, either through NGO activism or otherwise, as people in the developed world (despite being labeled as 'free' or 'partly free' by Freedom House, the labels are only generalizations and do not account for substantial internal division); (2) poverty, lack of a 'trickle-down' effect, and environmental deprivation lead to desperation which, in combination with point one, may result in acts of sabotage and/or kidnapping and hostage taking. Such a view is also supported by Garver (2009), who highlights people's access to information and means of communication as a tool to make their voices heard and, consequently, to increase the capability to raise their degree of influence. In support of this proposition, many of the cases involving NGO activism also include NGOs based outside of the home country. Good examples are the Camisea gas project (see the case analyses section) and Chevron Texaco in Ecuador, a project which was hit with a USD 1 billion lawsuit by Ecuadorean Indians in 2003. Backed by several NGOs, including Amazon Watch, they accused the company of destroying the rainforest and contaminating rivers and streams.[9] Tables 4.1 and 4.2 are helpful in highlighting the afore-mentioned theoretical conception, and the following table indicates the distribution of the 56 cases of 'war' and 'non-gov' effects along the classification of Freedom House.

Table 4.5: Distribution of 'war' and 'non-gov' effects by level of freedom

	War	**Non-gov**
Free	2	1
Partly Free	39	3
Not Free	6	4

Number of events

Notes: 'Gov' signifies government intervention in or regulation of business; 'War' signifies acts relating to war, terrorism, or social unrest; and 'Nongov' signifies other acts committed by non-governmental actors.

[9] "Ecuadorean Indians sue Texaco," *BBC News*, 8 May 2003, <http://news.bbc.co.uk/2/hi/americas/3009201.stm>, "Texaco faces $1b lawsuit," BBC News, 22 October 2003, <http://news.bbc.co.uk/2/hi/americas/3212698.stm>.

As we can see from this table, 'partly free' countries account for the majority of acts related to war, terrorism, or social unrest. Events related to non-governmental actors are rare in all three categories, but the difference in distribution is undeniably most prominent in regards to 'partly free' countries. Without going too much in-depth regarding this observation, one might argue that countries with a certain degree of freedom are most prone to acts of war, terrorism, or social unrest because they are not quite free enough to carry more non-governmental effects, and not so authoritarian that any response at all is deemed difficult. It is important to point out, however, that a substantial amount of the cases in the 'partly free' category can be found in Nigeria where most of the kidnappings of personnel and hijackings of platforms and flow stations are carried out by local groups protesting against a lack of trickle-down effect and environmental degradation.

Other points warranting further examination are 'breach/termination/or suspension of contract or license' and 'corporate tax/royalty increases,' both of which can be seen as connected to the OBM. Recall from Chapter 2 that the OBM refers to the process of negotiation between foreign investors and the host country where agreements become obsolete as the bargaining power changes. The rationale is that host countries often agree on unfavorable conditions in order to attract foreign investment. Once the investment is in place, though, they seek to increase their revenue (Jakobsen 2006). This is closely linked with the idea of oil and gas as part of a nation's patrimony because as soon as the host country recognizes that their national belongings are being taken away under unfavorable conditions, the rules will change and the foreign operator may face potential risks. Lax (1988) points out that the state plays an assertive role in every important oil producing country in that they link oil and gas policies to the wider goals of the state. In order to do this, they must also control their own oil and gas resources. This will be drawn further attention to through the presentation of Sakhalin II in Chapter 4. Other examples, as included in the dataset, are BP in Russia, which in 2005 was hit with a back-tax claim of USD 936 million[10], several industry-wide tax increases in Venezuela in 2001 and 2005,[11] and the cancellation by the

[10] "TNK-BP gets $936m Russia tax bill," *BBC News*, 11 April 2005, <http://news.bbc.co.uk/2/hi/business/4433517.stm>.
[11] "To the barricades," *The Economist*, 22 November 2001, <http://216.35.68.200/displayStory.cfm?Story_ID=E1_RSSPVQ>, "Chavéz squeezes the oil firms," *The Economist*, 10 November 2005, <http://www.economist.com/node/5149299>.

Iraqi oil ministry of a USD 3.7 billion oilfield development deal at the hand of Russian company in 2002.[12]

As regards Table 4.6, compared to the top five effects of the modified dataset, we can see that the top three effects are identical. It is still important to take notice of the fact that there are rather dramatic differences in regards to percentage. While there is a relatively even distribution among the most important effects in Jakobsen's data, the distribution in regards to oil and gas mega projects is far less dispersed.

Table 4.6: Top 5 effects (my modification of Jakobsen's dataset)

	Count	Percentage
Sabotage and terrorism/armed attack	30	12.5
Kidnapping or hostage-taking	26	10.8
Breach/termination/suspension of contract or license	24	10.0
NGO activism	22	9.2
War threat or severe instability and threat to physical safety	16	6.7

One possible explanation to the disparity in the data can be that Jakobsen's data stretch across a number of different industries, leading to a more leveled distribution. Focusing on one specific element within one industry, on the other hand, is likely to produce more particular results. What is interesting, however, is precisely the fact that the top three effects are identical, suggesting that political risk effects for oil and gas mega projects in particular and foreign investment in general share many characteristics. To understand how political risk effects become exactly that, though, it is necessary to draw attention to the actors through which political risks are realized as well as the underlying sources.

4.2 Actors through which political risks are realized

Figure 4.3 points out the distribution of actors by the main dimensions. The most striking observation is undeniably the almost indistinguishable elements of 'central, regional, or local host government' and 'rebel/terrorist organization.' Again, the link to the OBM and the need of a SLO

[12] "Iraq cancels Russian oil deal," *BBC News*, 12 December 2002, <http://news.bbc.co.uk/2/hi/business/2570757.stm>.

is evident. Based on the analysis of political risk effects where NGO activism and its related sources are not ranked among the most important elements, it is rather unexpected that 'non-governmental activists' constitute 28.9 percent of the actors responsible for carrying out political risk. It is important to highlight, however, that there can be several different actors involved in one specific event, meaning that although non-governmental activists might not very often be solely responsible for carrying out realized political risk effects, they are nevertheless a frequent contributor.

Figure 4.3: Actors through which political risks are realized by main dimensions

Notes: Due to the existence of multiple actors, the total number of registered actors exceeds the number of cases in the dataset. The numbers in the figure are in relation to the number of cases (90) in the dataset and reflect the count and percentage of cases where the actor in question is regarded as having contributed to a realized political risk effect.

When differentiating actors by sub-categories, however, we can see that the main category of non-governmental activists includes both 'NGO/activists' and 'local communities/citizens,' with the latter being the most significant of the two. 'Local communities/citizens' and 'NGO/activists' can, to all intents and purposes, be seen as a non-violent equivalent to rebel movements and acts of terrorism. Classifying all of these incidents as non-violent, however, may be something of an exaggeration. Even though they are not labeled as rebels/militants or terrorist, many of these

cases involve rather violent protests and demonstrations, for example in countries like Bolivia, Ecuador, and Nigeria.[13] Violent or non-violent, though, the link to the need of a SLO is evident.

Table 4.7: Actors through which political risks are realized by sub-categories

	Count	Percentage
1. Central, regional, or local host government		
Central government	27	30.0
Political parties/politicians	4	4.4
Judiciary/police	3	3.3
Regional/local government	1	1.1
Military	1	1.1
2. Rebel/terrorist organization		
Rebel movement/militants	29	32.2
Terrorist organization	2	2.2
Criminal organization	2	2.2
3. Non-governmental activists		
Local communities/citizens	20	22.2
NGO/activists	8	8.9
Worker/labor union	4	4.4
Shareholders/investors	2	2.2
4. Other companies		
Employee or local/HQ management of own company	3	3.3
Domestic private partner/supplier/financer/offtaker/customer	1	1.1
Domestic non-private partner/supplier/financer/offtaker/customer	1	1.1
5. Foreign state or multilateral organization		
Foreign state	9	10.0

Notes: Due to the existence of several actors in certain cases, the total number of registered actors exceeds the number of cases (90) in the dataset. The percentages indicated in the figure are in relation to the number of cases in the dataset.

As specified in Table 4.8, we can see that 'rebel movements/militants' and 'central government' stand out as the two most significant actors; followed by 'local communities/citizens' with 22.2 percent; in turn followed by 'foreign state' and NGO/activists' with 10 and 8.9 percent

[13] "Bolivia's gas fires new movements," BBC News, 17 October 2004, <http://news.bbc.co.uk/2/hi/americas/3744194.stm>,
"Compromise on Ecuador oil crisis," *BBC News*, 24 August 2005, <http://news.bbc.co.uk/2/hi/americas/4177190.stm>,
"Shell declares 'force majeure' in Nigeria," *BBC News*, 9 October 1998, <http://news.bbc.co.uk/2/hi/africa/189807.stm>.

respectively. Regional/local government, on the other hand, only represents 1.1 percent of the cases. It is difficult to draw and definite conclusions from this observation but one reason could be that regional and local governments in many developing countries are not institutionally strong enough to represent any significant risk for oil and gas mega projects. The fact that local communities/citizens and 'rebel movements/militants' are well represented in the data might lend some support to this theory, in that local and regional governments are not able to lay the groundwork for a well-functioning society. The central government, in many cases, is also not able to provide for a stable and functioning society but, as opposed to regional and local governments, they hold the power to significantly affect oil and gas mega projects. As highlighted in the 'effects' section, breach, termination, or suspension of contract or license are the most common effects in this regard - and the OBM is therefore a key element.

Concerning NGO/activists, the figures from the 'effects' section show that actual NGO activism is of little importance. 8.9 percent of the cases, though, include NGO/activists as an actor responsible for carrying out political risk. As will be drawn attention to in the presentation of the Camisea gas project in the case analyses section, a possible explanation to this uneven relationship can be that NGOs often assist local communities and citizens in their plight to make their voices heard. Although NGOs are not often directly involved in the realized political risk effects, they are frequently and indirectly assisting organizationally weak groups to raise their level of influence. Thus, the hypothesis that NGO activism is significant for oil and gas mega projects is at least partly supported.

Another noteworthy observation is that 'foreign state' appears in 10 percent of the cases, lending at least some support to the hypothesis that foreign states are deemed to be a considerable contributor to political risk for oil and gas mega projects. Linking back to the theoretical part of this thesis, globalization can arguably be seen as a contributory factor, in that mega projects are likely to include stakeholders from a variety of different countries. Specific mega project characteristics are also significant in this regard, and the growth of mega projects in general can also be seen as linked to the process of globalization. Seeing that mega projects are considered to carry high public scrutiny, increased risk, and substantial costs, it is clear that the involved companies home countries will go to great lengths to protect their investments. This is

particularly true for state controlled oil and gas companies. Another important factor, and more closely linked to the oil and gas industry in general, is obviously the tremendous economic importance of these commodities. Oil and gas is the grease that keeps the wheels of our modern civilization running and securing a steady long-term inflow is naturally high up on the agenda for most countries. What is more, sanctions and restrictions posed upon some oil producing countries also contribute to the importance of foreign states in regards to oil and gas mega projects. German company BASF Wintershall's involvement in Libya is a good example in this regard. In 1996, the US enacted a law threatening foreign firms with penalties for investing in Libya. BASF Wintershall bid for Libyan oil concessions in 2001 was consequently strongly opposed to by US officials. The German company's bid was also deemed to threaten US economic interests in the region and, seeing that several other foreign companies had escaped US sanctions, it is reasonable to argue that this played a major part in the US decision to intervene.[14]

Table 4.8: Top 5 actors

	Count	Percentage
Rebel movement/militants	29	32.2
Central government	27	30.0
Local communities/citizens	20	22.2
Foreign state	9	10.0
NGO/activists	8	8.9

As we can see from the results of Jakobsen's dataset in Table 4.9, the top five actors are exactly the same, although in a different order and with different percentage distributions. Once again, then, the similarities between my modification of Jakobsen's dataset and my own findings are notable. Regarding the total number of actors contributing to the realized political risk effects, the difference between the two datasets is minimal. For oil and gas mega projects, a total of 117 actors are recorded, amounting to 1.3 different actors for each case. For my modification of Jakobsen's dataset, a total of 355 different actors are recorded, amounting to 1.5 actors for each case. What we can note from this is that there are less actors contributing to a political risk effect for oil and gas mega projects than for ventures in other industries. The difference is so minimal however that it does not warrant further investigation.

[14] "BASF faces Libyan sanction fines," *BBC News*, 9 May 2001, <http://news.bbc.co.uk/2/hi/business/1238713.stm>.

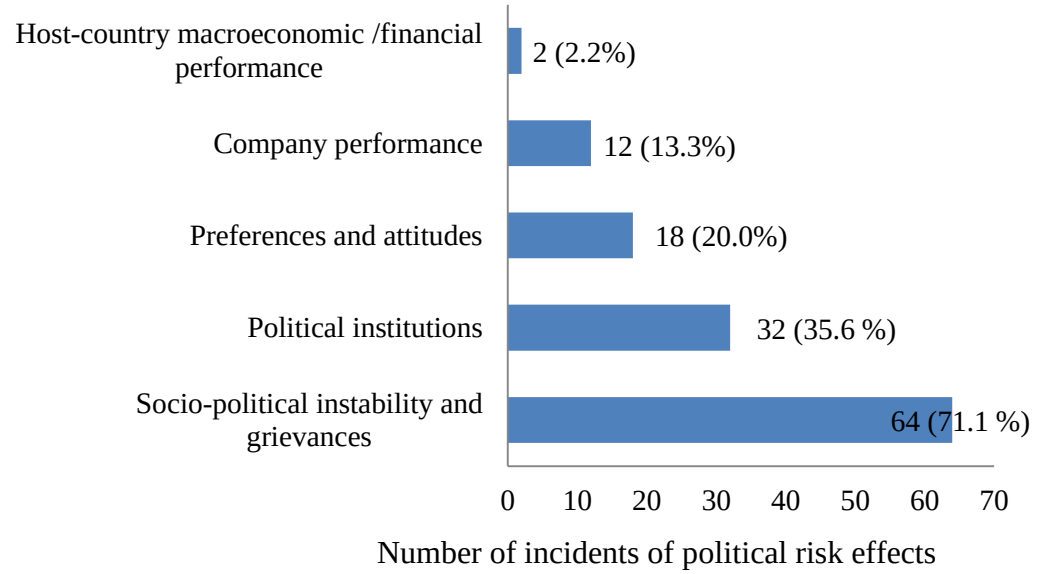
Table 4.9: Top 5 actors (my modification of Jakobsen's dataset)

	Count	Percentage
Central government	90	37.5
Rebel movement/militants	52	21.7
NGO/activists	31	12.9
Local communities/citizens	30	12.5
Foreign state	26	10.8

4.3 Sources of political risk

Having drawn attention to realized political risk effects and the actors through which these are realized, the next step is to highlight the underlying sources of political risk. By far the most prevalent source of risk; 'socio-political instability and grievances' with 71.1 percent; is followed by 'political institutions,' with 35.6 percent; and 'preferences and attitudes', with 20.0 percent. The hypothesis that political institutions are the most prevalent source of political risk for oil and gas mega projects can hence be rejected.

Figure 4.4: Sources of political risk by main dimensions



Notes: Due to the existence of multiple sources, the total number of registered sources exceeds the number of cases in the dataset. The numbers in the figure are in relation to the number of cases in the dataset (90) and reflect the count and percentage of cases where the source in question is regarded as having contributed to a realized political risk effect.

In fact, the distribution in my modification of Jakobsen's dataset (as laid out in the appendix) is following the exact same configuration, even if with rather different individual characteristics, with 'socio-political instability and grievances' constituting 62.1 percent; 'political institutions' (45.4 percent); and 'preferences and attitudes' (31.3 percent). Both 'political institutions' and 'preferences and attitudes,' then, are relatively more common in Jakobsen's dataset, while 'socio-political instability and grievances' is more important for oil and gas mega projects. Regarding the total number of sources, the difference between the two datasets is, as with actors, minimal. For oil and gas mega projects, a total of 176 sources are recorded, amounting to 2.0 sources for each case. For my modification of Jakobsen's dataset, a total of 451 different sources are recorded, amounting to 1.9 sources for each case. One very important point, however, has to be highlighted in relation to this. As opposed to the distribution along the main dimensions, where different actors and sources naturally are only registered in relation to a specific case when they fall under different main categories, for the calculation of total actors and sources involved, all elements are included regardless of whether or not two different sub-categories belonging to the same main dimension are recorded in regards to a specific case. It is perhaps somewhat surprising that the total number of actors and sources are not higher, but it nevertheless lends support to the argument that there are more often than not more than one single source and one single actor leading to a realized political risk effect.

Table 4.10: Sources of political risk by sub-categories

	Count	Percentage
1. Socio-political instability and grievances		
War/armed conflict or rebel activity	35	38.9
Local/regional project-specific grievances	28	31.1
Diplomatic tensions and foreign policy issues	9	10.0
Environmental issues	8	8.9
Social unrest	8	8.9
Human-rights issues	5	5.6
Other	4	4.4
Religious fervor/grievances	1	1.1
Worker discontent	1	1.1
2. Political institutions		
Reforms, policy changes, rulings, campaigns	13	14.4
Rule of law	8	8.9
Institutions and laws of foreign country or multilateral organization	7	7.8
Corruption and cronyism	6	6.7
Laws, regulations, and bureaucracy	4	4.4
Authoritarianism	3	3.3
Decentralized or disputed authority	1	1.1
3. Preferences and attitudes		
Economic nationalism and anti-foreign sentiments	17	18.9
Political ideologies	2	2.2
Vested business interests	2	2.2
Host country macroeconomic/financial performance	2	2.2
Company performance	12	13.3

Notes: Due to the existence of several actors in certain cases, the total number of registered actors exceeds the number of cases in the dataset. The percentages indicated in the figure are in relation to the number of cases in the dataset.

As expected by the distribution along the main dimensions, two of the most significant sub-categories can be found under 'socio-political instability and grievances,' namely 'war/armed conflict or rebel activity' and 'local/regional project-specific grievances,' with the latter being most heavily linked with mega projects in accordance with existing theory. It is obviously difficult to identify the exact reasons why people engage in conflict. Some general explanations can nonetheless be attempted. Jakobsen (2007) identifies two explanations, namely grievance and greed. The grievance explanation sees conflict as caused by feelings of injustice amongst certain sections of society. Elements such as economic inequality, political or ideological subjugation,

and ethnic and religious divisions are considered to be prime causes of many armed conflicts (Ellingsen 2000 and Cederman & Girardin 2007). The grievance explanation, though, is challenged by scholars such as Piazza (2006) and de Soysa (2002). The greed explanation, on the other hand, supported by Ross (2004) and Collier & Hoeffler (2004), sees conflict as the result of "economic opportunities or motivations" (Jakobsen 2007:60). It is clear that the oil and gas industry carries great wealth creation but the question, of course, is where the money ends up. Examples from Nigeria show that the local communities in the Niger Delta benefit little from the region's vast oil and gas industry, and their anger and frustrations is consequently turned towards the local government as well as against the foreign oil companies, resulting in armed attacks and rebel activity.[15] These two explanations arguably do not fully account for the great complexity and the wide range of possible sources of conflict. It is also unreasonable to expect that it is simply either grievance or greed that causes clashes. They should, therefore, be regarded as very general characteristics, and a combination of the two is perhaps what best explains the broad reasons behind a conflict. What is clear, nonetheless, is that the need of a SLO is evident also through the underlying sources of political risk.

The fact that 'local/regional project-specific grievances' accounts for a noteworthy 31.1 percent of the cases, lends support to the notion, as pointed out in Chapter 2, that the political risks of mega projects is highly project-specific, and that such ventures carry high risk and public scrutiny. Included in 'local/regional project-specific grievances' are cultural issues and a good example of the effects a lack of cultural understanding may have upon a mega project is US firm Occidental Petroleum's involvement in the Samore field in eastern Colombia. The field is home to the U'wa tribe who strongly objected to the development of the field, believing "that their lands are the heart of Mother Earth, and oil her blood."[16] Members of the tribe forcefully argued that the project would kill their culture. Threatening to commit mass suicide if the development went ahead, the U'wa tribe played a major role in the decision of Occidental Petroleum to

[15] "Nigerian protesters seize Shell helicopters," *BBC News*, 8 October 1998, <http://news.bbc.co.uk/2/hi/africa/188561.stm>,
"Shell evacuates Nigerian oil terminal," *BBC News*, 1 February 1999, <http://news.bbc.co.uk/2/hi/africa/269802.stm>,
"Nigerian army warns oil rebels," *BBC News*, 28 September 2004, <http://news.bbc.co.uk/2/hi/africa/3695990.stm>.
[16] "Indians, oil and the Internet," *The Economist*, 4 June 1998, <http://www.economist.com/node/132496>.

eventually pull out of the project in 1998. The most striking examples of 'local/regional project-specific grievances,' however, can undoubtedly be drawn from the Niger Delta, examples of which have been presented throughout this chapter.

What is eye-catching is that 'company performance' constitutes a significant 13.3 percent of the events. Included in company performance are elements such as profits, prices, underinvestment and contract specifications, and it can hence be linked to the OBM. A good example of 'company performance' is Ecuador in 2005, where existing contracts were deemed unfair and as a consequence of this, the President wanted to increase profits from 20 to 50 percent.[17] On a different note, it is also interesting to see that diplomatic tensions and foreign policy issues are represented in 10 percent of the cases, giving at least some support to the notion that foreign policy issues are regarded as being an important source of political risk for oil and gas mega project.

Table 4.11: Top 5 sources

	Count	Percentage
War/armed conflict or rebel activity	35	38.9
Local/regional project-specific grievances	28	31.1
Economic nationalism and anti-foreign sentiments	17	18.9
Reforms, policy changes, rulings, campaigns	13	14.4
Company performance	12	13.3

Compared to the findings of my modification of Jakobsen's dataset, three of the same sub-categories can be identified, but there is nevertheless a marked difference between the two. 'War/armed conflict or rebel activity' is by far the most significant source, accounting for 25.8 percent of the events, while 'rule of law,' 'diplomatic tensions and foreign policy issues', and 'vested business interests' are specific for the revised dataset. As with political risk effects, the distribution, besides 'war/armed conflict or rebel activity,' of sources in Jakobsen's dataset is also rather even. This is arguably a result of several industries being represented, equaling the distribution across the different sources. Concerning the suggestion that environmental issues and social unrest are significantly more prevalent for oil and gas mega projects than for ventures in

[17] "Ecuador to renegotiate oil deals," *BBC News*, 8 September 2005, <http://news.bbc.co.uk/2/hi/business/4224906.stm>.

other industries, the findings do not support this hypothesis. As indicated in Table 4.10, environmental issues are represented in 8.9 percent of the cases of oil and gas mega projects while Table A9, (in the appendix), shows that 7.5 percent of ventures in other industries include environmental issues. The hypothesis that environmental issues are significantly more prevalent as a source of political risk for oil and gas mega projects than for ventures in other industries can hence be rejected.

Regarding social unrest, the figures are 7.5 percent and 5.4 percent respectively. It is nevertheless important to point out that social unrest is differentiated from elements such as rebel activity and armed conflict. Also, for political risk effects, where the figures are 4.4 percent and 2.9 percent respectively, it is distinguished from elements such as kidnapping, armed attack, and sabotage. Although existing theory has not specifically pointed out what social unrest represents, it is reasonable to make a distinction between features such as war, protests, and general social unrest. Regardless of whether or not social unrest is treated as a general term or divided into more specific categories, though, the findings support the hypothesis that social unrest is a more prevalent risk for oil and gas mega projects than for ventures in other industries.

Table 4.12: Top 5 sources (my modification of Jakobsen's dataset)

	Count	Percentage
War/armed conflict or rebel activity	62	25.8
Rule of law	37	15.4
Diplomatic tensions and foreign policy issues	36	15.0
Company performance	30	12.5
Reforms, policy changes, rulings, campaigns	29	12.1
Vested business interests	29	12.1

Note: Seeing that 'reforms, policy changes, rulings, campaigns' and 'vested business interests' each are represented in 12.1 percent of the cases, both are included in the table.

4.4 Data excluding the Nigerian examples

As drawn attention to in the introductory part of this chapter, it is clear that the Nigerian examples may have a substantial impact on the results of the analysis. It is therefore interesting to see how the results would look like if the Nigerian political risk events are excluded. Even though

they warrant inclusion in effect of being realized political risk events, seeing that they all stem from the same country, and indeed also the same region (the Niger Delta), they do pose a concern in the sense that they may limit the generalizability of the results. In any case, it is potentially valuable to see what the data will look like without their influence. The hypotheses of this thesis will not be specifically drawn attention to in this segment but they will be included in a table in the forthcoming discussion section. While tables denoting the sub-categories can be found in the appendix, Table 4.13 herein indicates the distribution along the main dimensions.

Table 4.13: Data excluding the Nigeria examples

	Percentage
Effects	
Government intervention in or regulation of business	50.0
Acts relating to war, terrorism, or social unrest	38.7
Other acts committed by non-governmental actors	11.3
Actors	
Central, regional or local host government	45.2
Rebel/terrorist organization	29.0
Non-governmental activists	25.8
Foreign state or multilateral organization	12.9
Other companies	6.4
Sources	
Socio-political instability and grievances	66.1
Political institutions	45.2
Preferences and attitudes	29.0
Company performance	21.0
Host country macroeconomic/financial performance	4.8

Notes: Due to the existence of several actors and sources in certain cases, the total number of registered actors and sources exceeds the number of cases in the dataset. The percentages indicated are in relation to the number of cases in the dataset excluding the Nigerian examples (62).

As indicated in the table, there are some significant changes in the distribution along the main dimensions with the exclusion of the Nigerian examples. In regards to effects, 'acts relating to war, terrorism and social unrest' is no longer the most important element and, as with my modification of Jakobsen's dataset, government intervention is now by far the most relevant factor. In regards to actors, we can see that 'central, regional or local host government' has replaced 'rebel/terrorist organization' as the most prevalent main dimension; it is now by a long way the most important category. Regarding sources, the main characteristics remain unchanged

but the percentage distribution is very different. 'Socio-political instability and grievances' is still the most important factor but the proportional importance of 'political institutions' and 'preferences and attitudes' has increased and moved towards the characteristics of my modification of Jakobsen's dataset. What we can note from the distribution along the main categories, then, is the increasing influence and importance of government intervention and political institutions, which is in line with existing theoretical perceptions. The reason for this is obviously that 24 out of the 28 Nigerian examples fall into the category of 'acts related to war terrorism, or social unrest,' examples of which have been provided throughout this chapter. What, then, are the most significant results in regards to the sub-categories? (Note that all tables presenting the distribution of political risk along the sub-categories can be found in the appendix.)

Concerning effects, 'sabotage and terrorism/armed attack' is still by far the most prevalent component, represented in 24.2 percent of the cases. Elements related to the OBM have increased in importance while 'kidnapping and hostage-taking' has diminished. This is, as mentioned earlier, undeniably linked to the fact that many of the Nigerian cases involve exactly kidnapping and hostage-taking. In relation to actors, 'central government' has replaced 'rebel movement/militants' as the most frequent element, being present in 38.7 percent of the cases. Regarding sources, the most eye-catching difference is arguably the fact that 'local/regional project-specific grievances' has gone down from 31.1 percent to a meager 11.3 percent. It is therefore clear that project-specific risks is some cases can be seen as linked to the need of a SLO, seeing that the Nigerian examples are concerned with issues such as sabotage, kidnapping, and severe social unrest. In addition, 'diplomatic tensions and foreign policy issues' is introduced as a new highly significant source of political risk, giving support to the idea of oil and gas as vital commodities in the international political economy. The fact that mega projects often include stakeholders from a number of different countries pursuing their own interests can also be seen as a contributory factor in this regard. On a general note, then, the OBM and the need of a SLO, continue to stand out as the key elements. Also, with the exclusion of the Nigerian examples, political risk for oil and gas mega projects, as compared with foreign investment in general appears less disparate than what was asserted by the initial analysis, and more in line with existing theory than with the conclusions of the original investigation.

4.5 Discussion

Having drawn attention to political risk along the structure of the causal framework, pointed out key distributary elements of political risk for oil and gas mega projects, presented a comparison to Jakobsen's general findings, and provided a brief overview of the discoveries excluding the Nigerian examples, this section will discuss the relevancy of the conclusions and link them back to the hypotheses posed earlier in this paper. To briefly recapitulate the discussion presented in Chapter 2, general political risk theory pays foremost attention to the importance of government intervention and the possible consequences of its actions. Regarding oil and gas mega projects in particular, this thesis has previously drawn attention to the fact that empirical analysis is lacking. Mega project theory in general, on the other hand, is rather consistent in its emphasis on elements such as increased risk, public scrutiny, and perhaps most importantly, their need of a so-called social license to operate. Regarding the oil and gas industry in general, the OBM stand out as a key factor and existing theory is rather uniform in its hypothesis that the industry is especially vulnerable to political risk events. These three elements: (1) the view of mega projects as carriers of increased risk, complexity, and scrutiny; (2) the need of a social license to operate; and (3) the importance of the obsolescing bargain mechanism have been repeatedly touched upon throughout the analysis of this thesis. It is hence clear that, as principal explanatory tools, they constitute the most important aspects of existing literature.

As pointed out in Chapter 2, political risk is a multidimensional phenomenon where the road from source to effect is not always easily identified. Seeing that the three afore-mentioned characteristics play such a significant part, however, it is useful to attempt a categorization of the coding scheme along these main dimensions. Even though such a classification might appear artificial given the wide variety of effects, actors, and sources included, the vast amount of data presented in this chapter will certainly appear more intelligible with the utilization of such an approach. A majority of the sub-categories of 'government intervention in or regulation of business;' 'central, regional, or local host government;' and 'political institutions' can arguably be linked to the OBM, notwithstanding the important element of foreign policy issues and how oil and gas can be utilized as a powerful tool in this regard.

Regarding the need of a SLO, the majority of the categories included in 'acts related to war, terrorism, or social unrest;' 'other acts committed by non-governmental actors;' 'rebel/terrorist organization;' 'non-governmental activists;' and 'socio-political instability and grievances' can largely be seen as connected to this important component of political risk for oil and gas mega projects. Mega project characteristics, on the other hand, are more difficult to relate to specific categories. Although 'other companies' and 'foreign state or multilateral organization' to a certain degree can be seen as linked to features such as an increased number of stakeholders and increased cost, it is clear that mega projects specifics influence the majority of the elements of this analysis and are therefore best perceived as a factor that reinforces the importance of the OBM and the need of a SLO. The answer to such a theory, however, can only be tested by carrying out a comparative analysis of political risk for oil and gas mega projects compared to normally-sized oil and gas projects.

Having attempted to classify the many elements of this thesis into a broader level of categorization, the next step is to focus specifically on the hypotheses presented in Chapter 2. For the purpose of a practical presentation of the conclusions to the hypotheses of this thesis, they are re-introduced and subsequently placed in a table deeming them supported, partly supported, or rejected.

Hypothesis 1: Oil and gas mega projects are more prone to political risk than other industries.

Hypothesis 2: Non-democratic countries do not carry more political risk for oil and gas mega projects than democratic countries.

Hypothesis 3: Government intervention is the most prevalent political risk effect for oil and gas mega projects due to the working of the obsolescing bargain mechanism and mega projects' large size and complexity.

Hypothesis 4: Social unrest is more prevalent for oil and gas mega projects that ventures in other industries given the need of a social license to operate.

Hypothesis 5: NGO activism is significant for oil and gas mega projects due to the need of a social license to operate.

Hypothesis 6: Political institutions are the most prevalent source of political risk for oil and gas mega projects due to the working of the obsolescing bargain mechanism.

Hypothesis 7: Environmental issues are significantly more prevalent as a source of political risk for oil and gas mega projects than for ventures in other industries.

Hypothesis 8: Foreign states are significant actors responsible for carrying out political risk for oil and gas mega projects.

Table 4.14: Conclusion to hypotheses

Including the Nigerian examples				***Excluding the Nigerian examples***			
Hypothesis	**Supported**	**Partly supported**	**Rejected**	**Hypothesis**	**Supported**	**Partly supported**	**Rejected**
1	X			1	X		
2			X	2			X
3			X	3	X		
4	X			4	X		
5		X		5		X	
6			X	6			X
7			X	7			X
8		X		8		X	

As we can see from Table 4.14, the conclusion to the hypotheses including the Nigerian examples is: 2 supported, 2 partly supported, and 4 rejected. With the exclusion of the Nigerian examples, the distribution is: 3 supported, 2 partly supported, and 3 rejected. Taken at face value, these findings suggest that there might be significant shortcomings in the existing political risk- and mega project theory. On the other hand, the notion that the oil and gas industry is more prone to political risk than other industries is well supported and in line with existing theory and research. But what about mega projects in particular? Although 90 cases of political risk for oil and gas mega project have been extracted from Jakobsen's dataset it is clear that the remaining cases of the dataset include mega projects in other industries. It is therefore difficult to propose any definite conclusions in regards to mega projects in particular. On a general note, however, 27 percent (90 out of 330 cases) of political risk incidents fall into the category of oil and gas mega projects, lending support to the perception that oil and gas mega projects are particularly vulnerable to political risk. The hypothesis that non-democratic countries are associated with more political risk for oil and gas mega projects than democratic countries, on the other hand, do not carry weight. It is clear, though, that I have simply scraped the surface of such a postulation, and that more stringent research must be carried out in order to uncover the robustness of such a

claim. As far as government intervention is concerned, with the exclusion of the Nigerian examples it constitutes the most important political risk effect for oil and gas mega projects and ventures in other industries alike, and it is clear that the nation state apparatus continues to play a significant role in the world economy despite the globalization of world affairs. Political institutions, although not as important as proposed at the outset, do indeed represent a significant source of political risk. The considerable importance of the need of a SLO obviously affects the relative importance of political institutions and is arguably the main reason as to why political institutions are not the most prevalent source of political risk for oil and gas mega projects.

As regards the hypothesis that social unrest in more prevalent for oil and gas mega projects than for ventures in other industries, the data are in support of this notion both including and excluding the Nigerian examples. Not classified as social unrest in this paper but nevertheless of great interest, a rather surprising finding is the large proportion of sabotage, kidnapping and armed attack. Even when excluding the Nigerian examples, such incidents rate among the most prevalent political risk effects for oil and gas mega projects. It is rather startling that existing theory has not paid particular attention to these elements, especially considering that they are integral components to the need of a SLO. The reasons as to why they occur so frequently have been touched upon in the grievance and greed discussion earlier in this chapter. To briefly recapitulate, they can be seen as a consequence of feelings of injustice and neglect by the local community, combined with their lack of other means to increase their salience. Also, mega project characteristics such as increased impact upon the local society and environment suggest that smaller projects would be less vulnerable to actions related to the need of a SLO.

With basis in existing theory that oil and gas mega projects are deemed to have a substantial impact upon the local society and environment, it was expected that NGO activism would be of special importance. Although environmental issues can be considered to be of some importance (represented in 8.9 percent of the cases including Nigeria and 9.7 percent excluding Nigeria) it is not significantly more so than in my modification of Jakobsen's dataset. The reason for this is arguably that industries such as mining, forestry, and oil and gas extraction (even excluding the 90 cases of mega projects) are well represented in Jakobsen's dataset (see Table 4.1). The importance of NGO/activists as actors through which political risks are realized is very similar to

that of environmental issues as a source of political risk. It is hence reasonable to argue that the two are closely related. As highlighted earlier in this chapter, the relevancy of NGO activism as a political risk effect, on the other hand, is far less than that of NGO/activist as actors. As previously drawn attention to, a potential explanation to this lack of correlation might be that NGOs frequently help local citizens in raising their salience despite not always being directly involved in the realized political risk effects.

Regarding foreign states as significant actors, the findings lend at least some support to this proposition. Similarly, foreign policy issues are also a frequent contributor to political risk for oil and gas mega projects. The fact that mega projects often include stakeholders from a number of different countries arguably contributes to this outcome. The importance of globalization should therefore not be underestimated. Also, considering that mega projects represent a significant investment, it is clear that the various companies home countries seek to protect their investment. Oil and gas is also the world's single most important commodity, of which countries are willing to go to great lengths to secure a steady supply. Furthermore, some countries are subjected to embargos and restrictions by other states (usually the US), which may result in sanctions against any foreign investment in the given countries. Although not specific for oil and gas mega projects, it nevertheless poses a potentially significant source of political risk.

Due to the multidimensionality of political risk it is very difficult to unveil whether or not the realized political risk effects occur as a result of being mega projects, oil and gas mega projects, simply oil and gas investment, or a combination of these. On the one hand, it is clear that the oil and gas industry in itself is more than capable of causing great distress for local communities and the environment but seeing that the oil and gas industry often manifests itself through mega projects, and considering the proposition that these have the potential of bringing forth even greater scrutiny, it is reasonable to argue that oil and gas megaprojects are indeed more prone to political risk than oil and gas investment in general and mega projects of other industries. The following chapter, however, will attempt to address the issue of identifying the exact causal mechanisms at play through the investigation of three specific oil and gas mega projects, two of which are included in the dataset of this thesis.

CHAPTHER 5: CASE ANALYSES

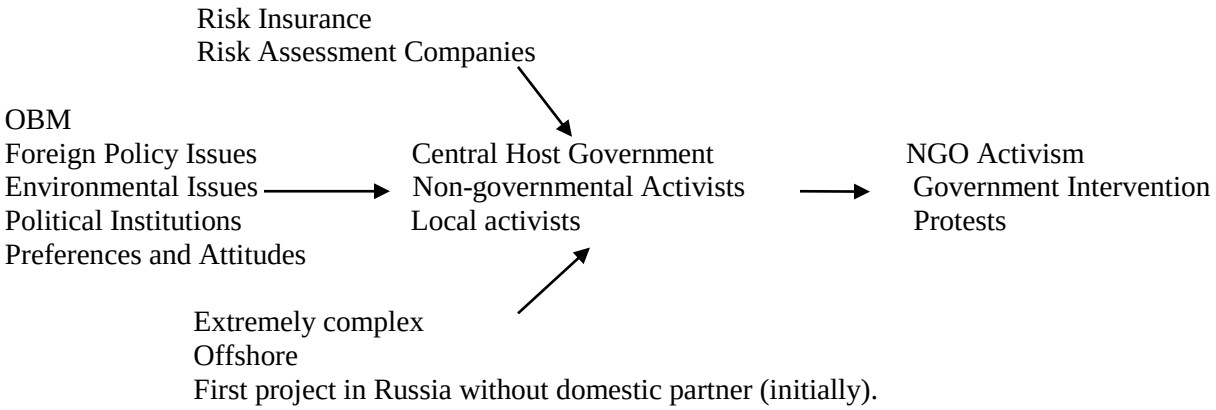
This section will present three examples of oil and gas mega projects with the purpose of illustrating the conceptual framework and to establish the causal mechanisms at play. The three mega projects in question are *Sakhalin II* in Russia, *Mazeikiu Nafta* in Lithuania and the *Camisea gas project* in Peru. Both Mazeikiu Nafta and the Camisea gas project are included in the dataset of this thesis, while the realized political risk effects in regards to Sakhalin II occurred after the finalization of Jakobsen's dataset. The reason for choosing exactly these projects is that they represent some of the most important aspects drawn attention to in this thesis, including the OBM, the need of a SLO, and the view of mega projects as carriers of high risk and public scrutiny. They also represent the great impact mega projects are deemed to have on the local community and environment, as well as geopolitical aspects. The information provided will naturally be of a somewhat superficial manner as each of the three cases warrant substantial investigation in their own regard, but it is nevertheless valuable in regards to presenting the causal mechanisms at play.

5.1 Sakhalin II

Located in the subarctic environment on and off Sakhalin Island in the Russian Far East, Sakhalin II is one of the world's biggest integrated oil and gas projects. Phase 1 involved oil production from the Molkpaq offshore platform, while Phase 2 comprised the installation of two more platforms, 1100 kilometers of pipelines, a processing facility, an oil export terminal, and the building of Russia's first liquefied natural gas (LNG) plant (Sakhalin Energy 2006a,[18]) Furthermore, Sakhalin II *was* also the only big energy project in Russia that did not include a Russian firm; it was initially operated by Shell (55%), Mitsui (25%), and Mitsubishi (20%).[19] Figure 5.1 shows the causal framework of political risk with respect to Sakhalin II, and it is followed by a description of the project, explaining the components of the framework.

[18] "After Sakhalin," *The Economist*, 13 December 2006, <http://rss.economist.com/node/8413089>.
[19] "Japan warns Russia over Sakhalin," *BBC News*, 19 September 2006, <http://news.bbc.co.uk/2/hi/business/5358820.stm>.

Figure 5.1: Causal Framework for Sakhalin II



In 1994, when the original deal was negotiated, Russia was enduring a period of transformation both politically and economically, which ensured that Shell could enter the project under very favorable conditions (Rutledge 2004,[20]). The terms of the initial production sharing agreement was that the Russian government would not have any financial gain from the project until the developers had recouped their losses. With the costs of the project continually increasing, it would be long before the Russian government received any revenue.[21] In fact, following the 'normal' cost overruns that frequently plague mega projects, (Bruzelius, Flyvbjerg, & Rothengatter 2002), total costs amounted to around USD 20 billion. With the coming to power of Vladimir Putin in 2000, however, the nature of the Russian petroleum industry changed dramatically and the oligarchic capitalism that reigned during the Yeltsin era was brought to a halt (Houlleberghs & Zaslavsky 2004). With the change of power, Russia arguably started to see the vast oil and gas reserves as a major political tool in a relatively scant tool box. Gaining control of Russian oil and gas fields became a priority and preferential treatment of state-controlled companies like Gazprom thus seemed inevitable.[22]

Regarding environmental issues, the area where construction took place was relatively unspoiled and a great number of rivers and streams were affected by the necessary onshore infrastructure.

[20] "After Sakhalin," *The Economist*, 13 December 2006, <http://rss.economist.com/node/8413089>, "Don't mess with Russia," *The Economist*, 13 December 2006, <http://www.economist.com/node/8413048/>.
[21] "New deadline for Sakhalin project," *BBC News*, 26 September 2006, <http://news.bbc.co.uk/2/hi/business/5382450.stm>.
[22] "After Sakhalin," *The Economist*, 13 December 2006, <http://rss.economist.com/node/8413089>.

Also, the waters surrounding Sakhalin Island are home to a substantial population of grey whales. The grey whale issue, together with the project's possible effect on local rivers and streams, was a cause for great concern among NGOs like the World Wide Fund for Nature and Sakhalin Environment Watch, which repeatedly drew attention to the negative impact of the project in this regard.[23] During the course of the project the Russian government argued that certain environmental standards were not met.[24] As a consequence of this they threatened to suspend licenses and pursue criminal action against the Shell led consortium.[25] The result of this quagmire was that in 2006, the Russian government, through Gazprom, attained a majority stake in the project.[26] The current shareholding structure is the following: Gazprom (50% plus 1 share), Shell (27.5%), Mitsui (12.5%), and Mitsubishi (10%) (Sakhalin Energy 2006b).

Based on the policies of the Putin government, it is reason to believe that the Russian government would have sought a controlling stake in Sakhalin II regardless of Shell's failure to meet the environmental demands set by the Russian Federal Service for the Supervision of Natural Resources.[27] One might indeed argue that the non-governmental activists merely provided Moscow with a pretext for intervening. Seeing that "energy remains almost the only powerful policy instrument at the disposal of the Russian government that secures Russia's position as an international power" (Nore n.d.), it seems clear that that the Russian government was, and still is, "willing to sustain a reputational loss and pay a high risk premium in order to capture control of energy assets" (Thornton 2007:15). Combined with a rapid increase in oil and gas prices, Sakhalin II was always going to be in a dangerous position. 'Unfulfilled' environmental standards, then, was arguably only a poorly disguised reason for carrying out this practice.

[23] "Grey whales granted rare reprieve," *BBC News*, 34 April 2009, <http://news.bbc.co.uk/2/hi/science/nature/8017291.stm>,
"Unexpected friends," *The Economist*, 6 April 2009, <http://www.economist.com/world/international/PrinterFriendly.cfm?story_id=13435499>.
[24] "Kremlin hand behind spy charges?," *BBC News*, 20 March 2008, <http://news.bbc.co.uk/go/pr/fr/2/hi/europe/7307716.stm>.
[25] "After Sakhalin," *The Economist*, 13 December 2006, <http://rss.economist.com/node/8413089>.
[26] "Gazprom grabs Sakhalin gas stake," *BBC News*, 21 December 2006, <http://news.bbc.co.uk/2/hi/business/6201401.stm>.
[27] "Sakhalin gas project under fire," *BBC News*, 5 September 2006, <http://news.bbc.co.uk/2/hi/business/5315850.stm>.

Lending support to this notion is that as soon as the Russian government gained control of the project, the environmental problems were no longer an issue.[28]

So could Shell have done anything different in order to avoid what happened? This is of course a very difficult question, and no definite answer can be given. One might argue that Shell should have known that their extremely advantageous agreement would eventually backfire and that precautions should have been made in relation to this. Also, parts of the local community on the island expressed dissatisfaction with what they regarded as a lack of positive ripple effects from the project,[29] but this received little media attention and was completely overshadowed by the focus on environmental degradation and the subsequent Gazprom takeover. Yet, an essential question to pose is if the events of Sakhalin II came about as a result of specific mega project characteristics? Would the Russian government have intervened if Sakhalin II was far less complex, and with far less importance to the region and Russia as a whole? It is of course difficult to present definite answers to these questions. However, based on the information provided it is reasonable to argue that in effect of being one of the world's biggest integrated oil and gas projects, with the considerable local and national effects this carry, and with Russia's focus on its oil and gas reserves as a paramount economic sector and important geopolitical tool, a prestigious project like Sakhalin II was simply too big and too important not to be in full control of. The importance of the project can also be seen through the fact that Sakhalin Energy's LNG plant holds a 5 percent share of total world production and that the project has a massive effect on the residents on Sakhalin Island. The unemployment rate on the island dropped to 1.2 percent in 2007; during construction, moreover, a total of 25.000 people, of which 70 percent were Russians, worked on the project.

Relating back to the key elements of this paper, it is clear that the OBM played a major part in the realized political risks of Sakhalin II. Preferences and attitudes, along with foreign policy issues, though, should also be considered as significant sources. It is important as well to emphasize that the project truly is *mega*, not only in relation to its size, but also in regards to its complexity,

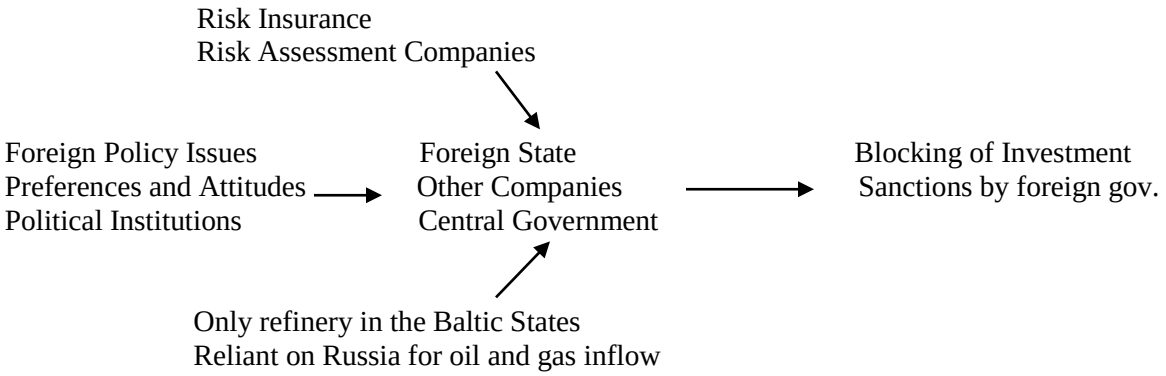
[28] "Kremlin hand behind spy charges?," *BBC News*, 20 March 2008, <http://news.bbc.co.uk/go/pr/fr/2/hi/europe/7307716.stm>.
[29] "Sakhalin residents calls for cash," *BBC News*, 27 October 2005, <http://news.bbc.co.uk/2/hi/asia-pacific/4381870.stm>.

number of stakeholders, and public attention. A smaller, less complex and less important project would not necessarily tick the boxes in the Russian 'game plan' but a mega project like Sakhalin II was always going to be in a dangerous position.

5.2 Mazeikiu Nafta

Mazeikiu Nafta constitutes a very interesting example and it has been subjected to substantial controversy ever since Lithuania's declaration of independence in 1992. In the aftermath of the country's independence, the oil industry naturally went through dramatic changes. It was initially split into three sectors: the oil refinery Mazeikiu Nafta, the oil terminal Klaipedos Nafta, and the oil pipeline Naftotiekis. In 1995, however, these fractions were reorganized into a joint-stock company titled AB Mazeikiu Nafta (Pasukeviciute & Roe 2005). As with Sakhalin II, the following figure presents the causal framework of political risk as it relates to this specific project, and it is followed by a description of the project, explaining the components of the framework.

Figure 5.2: Causal framework for Mazeikiu Nafta



Following the creation of the joint-stock company, a succession of attention-grabbing events unfolded. In 1999, Lithuanian President Valdas Adamkus signed amendments to the oil privatization law enabling foreign actors to take up ownership in the company (Pasukeviciute & Roe 2005). American company Williams International and Russian company Yukos both sought to buy a stake, but it was eventually Williams International that got involved and became a 33% owner and operator of Mazeikiu Nafta (Orlen Lietuva 2011). Following the sale to Williams International there was opposition to the deal from segments of the Lithuanian society and from

the Russian oil company Lukoil. The former led to delays in completing the deal while the latter was responsible for ongoing oil supply deficiencies (Zashev 2004).

Before long, though, Williams International experienced some financial difficulties and they ultimately reached a 10-year oil supply deal with Yukos. In 2002, the Lithuanian Government, Williams International, and Yukos came to an agreement where Yukos attained a 26.85% stake in Mazeikiu Nafta. Furthermore, later in 2002, Yukos acquired an additional 26.85% and consequently assumed "all rights and obligations of Williams International under the 1999 agreements with the Lithuanian Government including operator rights in Mazeikiu Nafta" (Orlen Lietuva 2011). The fate of Yukos, of course, is well-known and the company was ultimately broken up as a consequence of erratic back-tax claims by the Russian government. This naturally also had its effects on the Mazeikiu Nafta refinery and company. With Yukos being forced to sell its assets, Mazeikiu Nafta was there for the taking, and it drew attention from several companies. Finally, Russian companies Lukoil and TNK-BP, Polish company PKN Orlen, and one Kazakhstani company ended up bidding. It was eventually PKN Orlen that won with a $1.49 billion for Yuko's 53.7 percent stake, and $ 850 million for the 30.6 percent controlled by the Lithuanian government.[30]

During the time that PKN Orlen was about to finalize the deal a fire erupted at the refinery and rumors and accusations were made about industrial sabotage on behalf of the Russians since they did not win the bid. Nothing has ever proved, however. Also, in February 2007, Lithuanian officials threatened to join Poland in blocking talks on a new European Union (EU)-Russia agreement as they were reacting to Transneft, Russia's state-controlled pipeline operator, shutting the Druzhba-1 pipeline link to Mazeikiu Nafta. There was speculation in the EU at the time that Russia was using the blockage to prevent Mazeikiu Nafta ending up in Polish, rather than Russian hands (Light 2008). Furthermore, two Lithuanian ministers resigned over disagreements regarding the country's oil sector and Mazeikiu Nafta and particular.[31]

[30] "Lithuanians are given a taste of how Russia plays the oil game," *The New York Times*, 28 October 2006, <http://www.nytimes.com/2006/10/28/business/worldbusiness/28embargo.html/>.
[31] "Lithuania in political crisis," *BBC News*, 19 October 1999, <http://news.bbc.co.uk/2/hi/europe/479322.stm>.

To fully comprehend the complexity of this case, one has to be familiar with the EU's need for oil and gas, Russia's vast reserves of it, and the historical this between Russia and Lithuania. According to Cohen (2007), the EU is the world's largest importer of oil and gas, importing 82 percent of its oil and 57 percent of its gas. What is more, EU imports are projected to rise dramatically over the next 25 years. As pointed out in the example of Sakhalin II, oil and gas is by far Russia's strongest foreign policy tool. Seeing that companies such as Gazprom and Lukoil account for a substantial share of Russia's economy, they can also be seen as "instruments - and sometime makers - of its foreign policy."[32] With Mazeikiu Nafta being the only crude oil refinery in the Baltic States, and consequently being of great strategic importance to Russia, it is not surprising that the country has shown great interest in the refinery. Mazeikiu Nafta, of course, is of tremendous importance to the Lithuanian economy. In 2001, almost 30 percent of the country's GDP stemmed from the refinery, and in 2000, the company contributed close to 25 percent of Lithuania's gross tax revenues" (Zashev 2004). 'Keeping Ivan off the pipe' was somewhat of a catchphrase in the Lithuanian government and foreign policy issues and preferences and attitudes arguably played a part as PKN Orlen won the bidding ahead of the Russian companies.

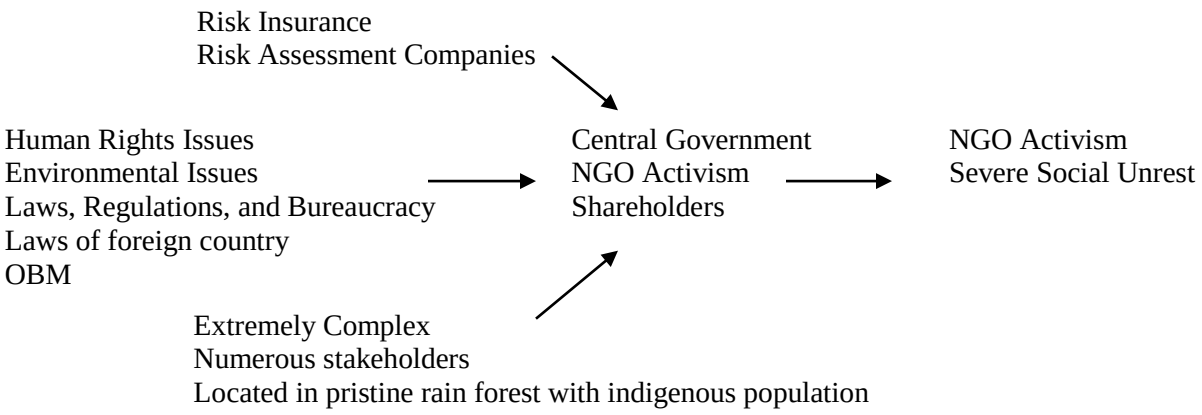
Mazeikiu Nafta is a very special example in that it is the only crude oil refinery in the Baltic States and of such vital importance to the Lithuanian economy. Also, with Russia looking to increase its influence on oil and gas supply to Europe, as well as being the distributor of oil to the refinery, it is no surprise that Mazeikiu Nafta has been subjected to a great deal of controversy. The OBM and the need of a SLO are not specifically represented in relation to Mazeikiu Nafta. It was rather preferences and attitudes, along with foreign policy issues, that shaped the type of government intervention carried out by both the Lithuanian and the Russian governments. The basis for such a statement is that although the Russian interference might be seen as company driven, it is clear that Russia's use of oil and gas as a foreign policy tool is reflected in the actions of state controlled companies like Gazprom and Transneft.

[32] "Ivan at the pipe," *The Economist*, 9 December 2004, <http://www.economist.com/node/3471333?story_id=E1_PQSTPPP>.

4.3 The Camisea gas project

The Camisea gas project has been subjected to great controversy. It is also a perfect example of the tremendous impact a mega project may have upon the local community and environment. Figure 5.3 depicts the causal framework of the Camisea project. Subsequently, a description of the project and its characteristics will be provided.

Figure 5.3: Causal framework for Camisea



The Camisea Gas field in Peru is the country's largest energy infrastructure project (Oxfam 2010) and it is also regarded as being the most important natural gas reserve in Latin America (Vences 2006). Together, the two fields which together comprise the Camisea, Cashiriari and San Martín, hold proven reserves of 8.12 trillion cubic feet of gas and 516 million barrels of natural gas liquids (Oxfam 2010). Three distinct phases can be recognized in relation to the Camisea gas field. Phase one involved Royal Dutch/Shell which first started exploring the fields in the 1980s. The second phase involved further exploration by Shell/Mobil in the 1990s. The third phase involved bidding for the project, which was ultimately divided in two parts: the exploitation of the fields, and the transportation of gas and gas liquids (Vences 2006). The infrastructure includes an LNG plant, a marine loading terminal, and a new 408 kilometer pipeline (Oxfam 2010). Shell, which initially showed a great interest in the project, ultimately backed out in 1998 after years of disputing with various Peruvian governments over the course and specifics of the project, with investment also being blocked as a result of modifications in the contract (Vences

2006) and being hampered by the extreme complexity of the project, both in regards to technical and social issues.

In 2000, the Peruvian government finally awarded a license to develop the fields to a consortium headed by Argentinian Pluspetrol and American Hunt Oil. The pipeline system was to be operated by Transportadora de Gas Peruano (TGP). Initially, it was a massive challenge to finance the USD 1.6 billion project[33] due to the great environmental and social risks involved, as well as the Peruvian government's (lack of) ability and preparedness to address them (Oxfam 2006). Ultimately, the Inter-American Development Bank (IDB) decided to engage and it worked as a catalyst for further investment (Oxfam 2006). IDB's decision to finance the project was very controversial, however, and "the United States abstained from voting in support of IDB's financing, partly because the project did not satisfy the conditions of the Pelosi Amendment to the US International Development and Finance Act of 1983" (Oxfam 2006:22). Lobbying by organizations such as Amazon Watch also led to delays in the investment but they were not successful in stopping the development of the project.[34]

The Camisea field is, as drawn attention to, extremely complex and it indeed constituted a new type of project for Peru. Due to the extreme levels of complexity involved, it demanded "an unprecedented level of capacity, coordination, and attention from a variety of Peruvian government agencies" (Oxfam 2010:26). The problem was that the Peruvian central and municipal governments lacked experience in organizing a project of this scale and complexity (Ranganathan & Laestadius 2010). The same was also true for the pipeline operator TGP which had never previously undertaken a project of the size and complexity of Camisea (Oxfam 2006).

Regarding the environmental and social impact of the project, Camisea is located in one of the world's most unspoiled rain forests, home to a number of groups of indigenous peoples, some even living in voluntary isolation (Oxfam 2006). Furthermore, the infrastructure and pipeline system "physically impact five of the 24 regions of Peru, three of which are among the poorest in

[33] "Peru launches Amazon gas pipeline," *BBC News*, 5 August 2004, <http://news.bbc.co.uk/2/hi/americas/3539008.stm>.
[34] "Gas for Peru v green imperialism," *The Economist*, 7 August 2003, <http://www.economist.com/node/1978816>.

the nation" (Oxfam 2006:19). The devastating impact a project like Camisea can have upon the indigenous population is also well documented as 42 percent of the Nahua (another of Peru's indigenous groups) died from diseases contracted from outsiders in connection with logging activity in the 1980s.[35] The Camisea project is a perfect example of the dichotomy between financial development and environmental preservation. Pratt (2007:778) arguably touches upon an important aspect when he argues that "the government wanted the royalties and income but was less keen to accept its responsibilities." With its enormous reserves, the field obviously facilitates the possibility of great potential economic development for the affected regions and for Peru as a whole. A report commissioned by IDB estimated that the project can generate USD 4.5 billion in fiscal revenues over the life of the project (Oxfam 2006). The key issue, though, is of course how the revenues are distributed and invested. Although the Peruvian government has introduced guidelines and policies for allocating the proceeds of the project, local communities have complained that it has not adequately resulted in programs with direct benefit to them (Oxfam 2006).

The Camisea project was, and still is, highly controversial. Several gas spills, environmental degradation, government - community disputes, and NGO activism continue to 'plague' the project. The numerous stakeholders involved in the project indeed contributes to its complexity; even though estimates vary from 50 to 500, it is clear that they provide for a wide range of possible interactions and consequently possible problems (Vences 2006:15). Camisea is thus a perfect example of how the success "of a modern day mega project hinge on complex interactions between stakeholder parties." Conflicts in regards to extractive industries in Peru are not a new occurrence but it has been growing in recent years alongside growth in the industry. Indigenous groups have also previously shown their discontent, epitomized by the fact that they took control of facilities owned by Pluspetrol in connection with oil extraction in the Corrientes River Basin (Oxfam:2006).

But are the ongoing challenges of the Camisea project a consequence of its mega project characteristics? It is clear that the location of the field has played a major role in determining the

[35] "Bush, the rainforest and a gas pipeline to enrich his friends," *The Independent*, 30 July 2003, <http://www.independent.co.uk/news/world/americas/bush-the-rainforest-and-a-gas-pipeline-to-enrich-his-friends-588449.html>.

level of activism and negative attention. Yet, one should not underestimate the specific mega project characteristics in this regard. Camisea was, as drawn attention to, a new type of project for Peru which involved a level of complexity and a level of organization not previously experienced. While eager to see profits, inadequate planning for reinvestment and inadequate assessment of the environmental and social impacts resulted in uproar, domestically as well as internationally. It seems fair to say that the key ingredient that must be in place for a successful mega project was lacking, namely the social license to operate.

CHAPTER 6: CONCLUSION

The rationale behind the investigation of this thesis was to uncover why oil and gas mega projects are considered to be specifically vulnerable to political risk, how political risk differ for oil and gas mega projects compared to projects in other industries, and to establish the causal mechanisms at play. Three key elements stood out as particularly important in this regard: (1) the view of mega projects as carriers of increased risk, complexity, and scrutiny, (2) the need of a social license to operate, and, (3) the importance of the obsolescing bargain mechanism. Although emphasizing the substantial effects mega projects may have upon the local society and environment, existing theory and research have paid foremost attention to the workings of political institutions and government intervention. As a result of this, the OBM has been pointed out as a key element in understanding the causal mechanisms behind political risk. Based on the conclusions of this thesis, that postulation carries weight. It is clear, though, that the effects local society and citizens may have upon oil and gas mega projects have not been substantially taken notice of.

In regards to realized political risk effects, elements related to the need of a SLO clearly stand out as most important for oil and gas mega projects. For oil and gas mega projects excluding the Nigerian examples, and for my modification of Jakobsen's dataset, on the other hand, elements related to the OBM stand out as most relevant. What is particularly interesting, however, is that political risk effects such as sabotage, terrorism, kidnapping, and hostage taking are the most common effects for all three investigations and the link to a need of a SLO is hence evident. As far as actors are concerned, the main distribution follows the same pattern albeit not as markedly The reasons for this are that there are often several actors responsible for carrying out a political risk effect, and that the main categories of 'rebel/terrorist organization' and 'non-governmental activist' both can be seen as linked to the need of a SLO. In regards to the OBM, central governments are significant actors across all three levels of analyses. Concerning the need of a SLO, 'rebel movements/militants,' 'local communities/citizens,' and 'NGO/activist' stand out as most important. With focus on sources of political risk; along the main dimensions, the need of a SLO stand as the most important factor for all three groups of exploration, and 'war/armed conflict or rebel activity' are the most prevalent sources of political risk for all three groups.

Seeing that the conclusions of this thesis so clearly accentuate the need of a SLO as an integral part in understanding the causal mechanisms of political risk, not only for oil and gas mega projects, but also for ventures in other industries, it seems fair to argue that existing political risk theory has neglected its importance through an overly focus on elements related to the OBM. That is not to say, however, that the OBM should not be approached as a possibly serious impediment to project objectives. As previously highlighted, it indeed poses a significant risk. What it does tell us, though, is simply that equal attention must be given to the importance of attaining a SLO.

A key point of this thesis is that political risk must be regarded as a multidimensional phenomenon where the host country is not the only subject of investigation. This is supported by the fact that foreign states and their institutions are frequent contributors to realized political risk effects. That is not to say, however, that host country specifics should be taken lightly. There is no universal rule of how to achieve a SLO or how to avoid the workings of the OBM and both of these elements can be seen as highly host country, industry, and project specific. Political risk is hence a complex phenomenon where several sources and actors contribute to a realized political risk effect. The characteristics of an oil and gas mega project, however, means that they are more at risk than smaller projects, both within the oil and gas industry and across other industries. As a result of this, oil and gas mega projects have to be extra careful in achieving a SLO and be aware of the fact that the OBM is a real and powerful threat. As regards host country characteristics, the findings of this thesis show that the OBM is more prevalent in strong-rule countries where the institutional framework is potent enough to carry out such actions. Elements related to the need of a SLO, on the other hand, appear to be generally more frequent in semi-democratic countries where political- and social stability is lacking. Another interesting observation of this thesis, though, is the similarity of the causal mechanisms involved for the two units of investigation. Both main dimensions and sub-categories are remarkably alike for both sets of data and especially so with the exclusion of the Nigerian examples. Even though the distribution is more concentrated around certain sub-categories for oil and gas mega projects, it is clear that the relationship is more parallel than what was expected. It is important, however, to recognize the differences that actually exist and not be blinded by the apparent similarities. This thesis indeed underlines that industry- and project specific approaches to political risk are warranted and that it

can often be the difference between project success and project failure. This is especially true in regards to both the OBM and the need of a SLO.

The novelty of the investigation of this thesis is a double edged sword as there is little existing research to rely upon as reference and scaffolding. What is more, it is clear that political risk and mega projects are not easily operationalized into measurable entities, and performing an analysis that combines the two naturally increase the methodological issues involved. On a different note, it would have been beneficial to expand the dataset to include more recent events and perhaps included a regression analysis to check the robustness of some of the most important findings. Providing a specialized look on political risk, on the other hand, this thesis should be regarded as an introductory study of political risk for oil and gas mega project. The investigation of particular elements within the study is thus a task for further and more specific research. Regarding the coding scheme through which the examples of political risk events are classified, it could preferably have been narrowed down. This would not only make the presentation of the data more intelligible but it is also important in the sense that "categories should be mutually exclusive," (Franzosi 1987:9) as drawn attention to in Chapter 3. Possible simplifications could be the grouping of elements related to the OBM and acts relating to war, terrorism, and social unrest.

It is apparent that there are some methodological issues to the investigation of political risk for oil and gas mega projects but these shortcomings are not impossible to address. This paper can hence be seen as a gate opener for further research in the field. The fact that no clear universal definition exists in regards to neither political risk nor mega projects is a clear indication that more research is needed and although there is a need for further examination of political risk in general, specific recommendations can also be made. Seeing that a great deal of the world's oil and gas reserves are located in non-democratic countries, it would be useful to carry out an in-depth analysis of how political risk differs in regards to democratic and non-democratic countries. Although briefly drawn attention to in this thesis, only theoretical postulations have been made and solid quantitative analyses are needed to uncover the causal mechanism involved.

From a mega project point of view, it could be interesting to perform a qualitative study of oil and gas mega project organizations with the purpose of uncovering how they approach the issue of political risk and how it is reflected in actual political risk effects. Although numerous studies have investigated determinates of project success in general, focus on oil and gas mega projects in particular is found wanting. Such a qualitative study could expose possible shortcomings at the managerial level and consequently lay the groundwork for increased awareness of political risk where it matters the most. Obviously beneficial to the oil and gas industry, it would also be of value for the host society. The need of a SLO is repeatedly pointed out as a key success factor for oil and gas mega project and if fulfilled, both parts would reap the benefits. These are only some suggestions of further research and the multidimensionality of political risk pose for a wide array of possible investigations. What is clear, however, is that political risk will remain a significant impediment to the global business environment and, in combination with the growing influx of mega projects and the continuing importance of oil and gas, this trinity should be a key area of investigation for future research.

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APPENDIX

Table A1: Coding scheme – political risk effects

1.	**Government intervention in or regulation of business**
1001	Price controls/tariff freeze/cap on profits
1002	Regulations/taxes/bans on trade, production, investment, sales, withdrawal of funds, etc.
1003	Corporate tax/royalty increases
1004	Back-tax claims or disputed tax claims
1005	Government or public control over operations/board/management
1006	Fine
1007	Bureaucratic/political delays (incl. payment delays)
1008	Grand or petty corruption (incl. MNC-initiated bribes)
1009	Problems related to business climate in general (incl. public services, lack of guarantees)
1010	Intervention/sanction by foreign government
1098	Other general or industry-wide policy changes
1099	Other intervention/policy change/dispute
1101	Nationalization, expropriation, or confiscation
1102	Ownership restrictions (incl. forced sale and joint venture demands)
1103	Blocking of investment (temporary or final, including termination of proposed deal)
1201	Breach/termination/suspension of contract or license (incl. breach of promise)
1202	Forced or unwanted contract renegotiation/revision/review
1301	Disputed/arbitrary charges, court rulings, or legal process
2.	**Acts relating to war, terrorism, or social unrest**
2001	Sabotage (incl. invasion/blockade/intrusion) and terrorism/armed attack (incl. threats)
2002	War threat or severe instability and threat to physical safety
2003	Kidnapping or hostage-taking
2004	Protests, demonstrations, blockades against company (e.g. leading to delays)
2005	Severe social unrest (incl. political strikes)
3.	**Other acts committed by non-governmental actors**
3001	NGO activism (incl. campaigns in which other actors are involved)
3002	Potentially detrimental lawsuit/compensation claims related to activism
3101	Corruption (incl. MNC-initiated bribes)
3102	Dispute with or fraudulent behavior by partner/competitor/offtaker/privatized firm

Table A2: Coding scheme – actors through which political risks are realized

1.	**Central, regional, or local host government (incl. parliament/bureaucracy/judiciary)**
1001	Central government (incl. head of state, state bureaucracy, and parliament/congress)
1002	Political parties/politicians (incl. political opposition)
1003	Regional/local governments (incl. regional/local parliament or bureaucracy)
1004	Judiciary/police
1005	Military
2.	**Rebel/terrorist organization (or ethnic/religious/political group)**
2001	Terrorist organization
2002	Rebel movements/militants
2003	Criminal organization
3.	**Non-governmental activists (organized or non-organized)**
3001	NGO/activists
3002	Consumers/buyers (i.e. boycotts)
3003	Shareholders/investors
3004	Workers/labor union
3005	Local communities/citizens (incl. nation-wide movements and public opinion)
4.	**Other companies**
4001	Domestic private partner/supplier/financier/offtaker/customer
4002	Domestic non- private partner/supplier/financier/offtaker/customer
4003	Domestic competitor
4004	Foreign competitor/partner/supplier/offtaker/customer
4005	Employee or local/HQ management of won company
4099	Other
5.	**Foreign state or multilateral organization**
5001	Foreign state
5002	Multilateral organization

Table A3: Coding scheme – sources of political risk

1.	**Socio-political instability and grievances**
1001	War/armed conflict or rebel activity (incl. ethnic or regional tensions/grievances)
1002	Diplomatic tensions and foreign policy changes
1003	Religious fervor/grievances
1004	Social unrest (not religious or ethnic based and not project-specific; including general strikes)
1011	Environmental issues
1012	Human-rights issues
1013	Local/regional project-specific grievances (incl. economic/cultural issues and consumer resistance)
1014	Worker discontent
1015	Other
2.	**Political institutions**
2001	Authoritarianism (incl. general human-rights situation)
2002	Rule of law (incl. contested/unlawful/arbitrary contract breaches/policy changes)
2003	Decentralized or disputed authority
2011	Laws, regulations, and bureaucracy
2012	Reforms, policy changes, rulings, campaigns (e.g. through government change)
2021	Corruption and cronyism
2031	Institutions and laws of foreign country or multilateral organization)
3.	**Preferences and attitudes**
3001	Economic nationalism and anti-foreign capital sentiments
3002	National security issues
3009	Other
3011	Political ideologies (e.g. socialism, liberalism)
3021	Vested business interest
3029	Other (incl. corporate governance
4001	Host-country macroeconomic/financial performance (incl. BoP, debt, and depreciation)
5001	Company performance (incl. profits/prices/underinvestment/contract specification)

Table A4: Political risk effects by sub-categories, excluding the Nigerian examples

		Count	Percentage
1.	**Government intervention in or regulation of business**		
1201	Breach/termination/suspension of contract or license	8	12.9
1003	Corporate tax/royalty increases	5	8.1
1004	Back-tax claims or disputed tax claims	3	4.8
1007	Bureaucratic/political delays	3	4.8
1010	Intervention/sanction by foreign government	3	4.8
1103	Blocking of investment	2	3.2
1202	Forced or unwanted contract renegotiation/revision/review	2	3.2
1001	Price controls/tariff freeze/cap on profits	1	1.6
1002	Regulations/taxes/bans on trade, production, etc.	1	1.6
1008	Grand or petty corruption	1	1.6
1099	Other intervention/policy change/dispute	1	1.6
1102	Ownership restrictions	1	1.6
2.	**Acts relating to war, terrorism, or social unrest**		
2001	Sabotage and terrorism/armed attack	15	24.2
2003	Kidnapping or hostage-taking	5	8.1
2004	Protests, demonstrations, blockades against company	2	3.2
2002	War threat or severe instability and threat to physical safety	1	1.6
2005	Severe social unrest	1	1.6
3.	**Other acts committed by non-governmental actors**		
3001	NGO activism	3	4.8
3002	Potentially detrimental lawsuit/compensation claims	3	4.8
3101	Corruption	1	1.6
Total		**62**	**100**

Notes: As opposed to sources and actors where several categories come together, there is only one specific effect for one case. The numbers presented above are hence accurate and the percentage precise.

Table A5: Actors through which political risk are realized by sub categories, excluding the Nigerian examples

		Count	Percentage
1.	**Central, regional, or local host government**		
1001	Central government	24	38.7
1002	Political parties/politicians	4	6.5
1004	Judiciary/police	3	4.8
1003	Regional/local governments	1	1.6
2.	**Rebel/terrorist organization**		
2002	Rebel movements/militants	14	22.6
2001	Terrorist organization	2	3.2
2003	Criminal organization	2	3.2
3.	**Non-governmental activists**		
3005	Local communities/citizens	11	17.7
3001	NGO/activists	8	12.9
3004	Workers/labor union	3	4.8
3003	Shareholders/investors	2	3.2
4.	**Other companies**		
4005	Employee or local/HQ management of won company	2	3.2
4001	Domestic private partner/supplier/financier/offtaker/customer	1	1.6
4002	Domestic non- private partner/supplier/financier/offtaker/customer	1	1.6
5.	**Foreign state or multilateral organization**		
5001	Foreign state	8	12.9

Notes: Due to the existence of several actors in certain cases, the total number of registered actors exceeds the number of cases in the dataset. The percentages indicated in the figure are in relation to the number of cases in the dataset, excluding the Nigerian examples.

Table A6: Sources of political risk by sub-categories, excluding the Nigerian examples

		Count	Percentage
1.	**Socio-political instability and grievances**		
1001	War/armed conflict or rebel activity	20	32.3
1002	Diplomatic tensions and foreign policy issues	10	16.1
1004	Social unrest	9	14.5
1013	Local/regional project-specific grievances	7	11.3
1011	Environmental issues	6	9.7
1012	Human-rights issues	5	8.1
1015	Other	5	8.1
1003	Religious fervor/grievances	2	3.2
1014	Worker discontent	1	1.6
2.	**Political institutions**		
2012	Reforms, policy changes, rulings, campaigns	13	21.0
2002	Rule of law	8	12.9
2031	Institutions and laws of foreign country or multilateral organization	6	9.7
2011	Laws, regulations, and bureaucracy	5	8.1
2021	Corruption and cronyism	5	8.1
2001	Authoritarianism	4	6.5
2003	Decentralized or disputed authority	2	3.2
3.	**Preferences and attitudes**		
3001	Economic nationalism and anti-foreign capital sentiments	17	27.4
3011	Political ideologies	3	4.8
3021	Vested business interest	3	4.8
3002	National security issues	1	1.6
3009	Other	1	1.6
3029	Other (incl. corporate governance	1	1.6
4001	Host-country macroeconomic/financial performance	3	4.8
5001	Company performance	13	21.0

Notes: Due to the existence of multiple sources, the total number of registered sources exceeds the number of cases in the dataset. The numbers in the figure are in relation to the number of cases in the dataset, excluding the Nigerian examples, and reflect the count and percentage of cases where the source in question is regarded as having contributed to a realized political risk effect.

Figure A1: Political risk effects by main dimensions (my modification of Jakobsen's dataset)

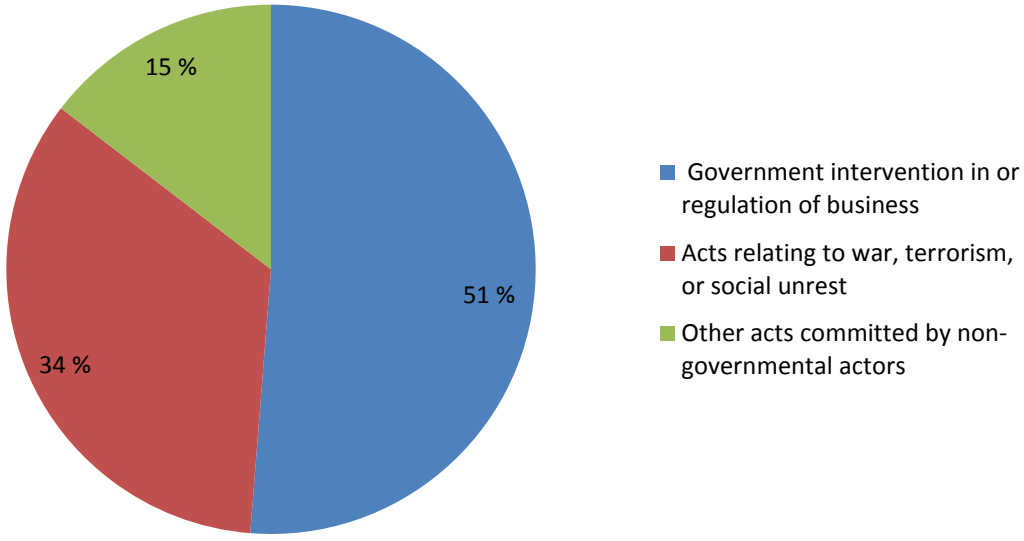
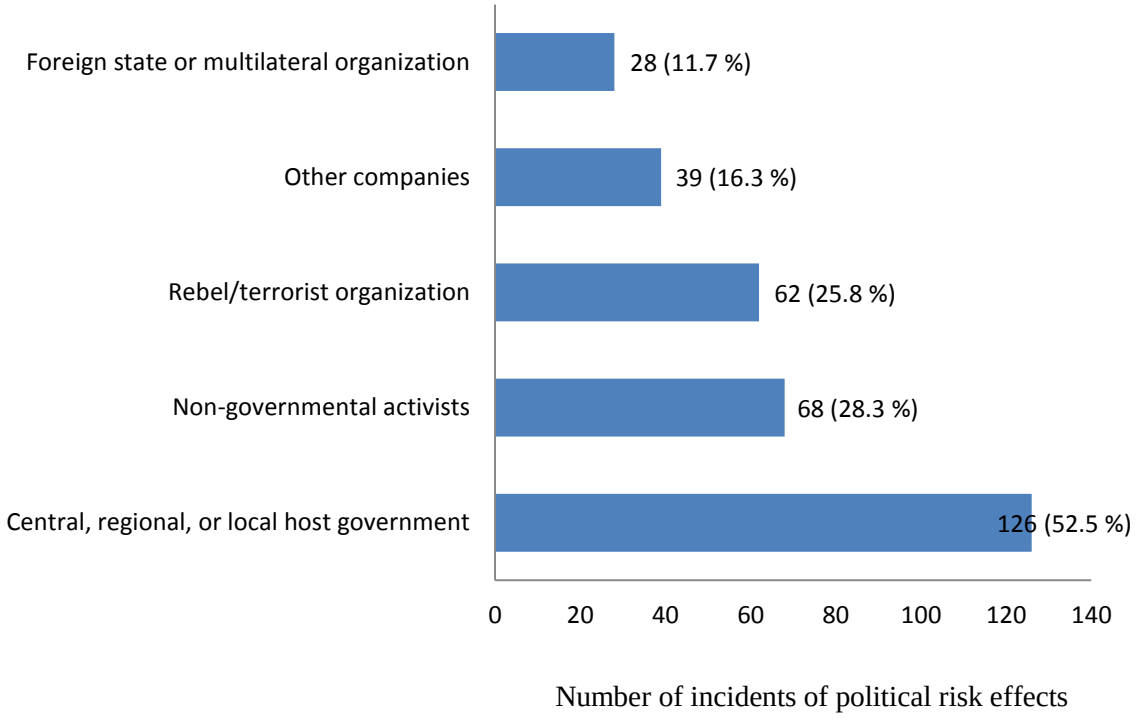


Table A7: Political risk effects by-sub categories (my modification of Jakobsens's dataset)

		Count	Percentage
1.	**Government intervention in or regulation of business**		
1201	Breach/termination/suspension of contract or license	24	10.0
1103	Blocking of investment	12	5.0
1002	Regulations/taxes/bans on trade, production, investments, sales, etc.	11	4.6
1010	Intervention/sanctions by foreign government	11	4.6
1102	Ownership restrictions	10	4.2
1001	Price controls/tariff freeze/cap on profits	8	3.3
1008	Grand or petty corruption	6	2.5
1099	Other intervention/policy change/dispute	6	2.5
1101	Nationalization, expropriation, or confiscation	6	2.5
1007	Bureaucratic/political delays	5	2.1
1098	Other general or industry-wide policy changes	5	2.1
1301	Disputed/arbitrary charges, court ruling, or legal process	5	2.1
1005	Government or public control over operations/board/management	4	1.7
1202	Forced or unwanted contract renegotiation/revision/reviews	3	1.3
1003	Corporate tax/royalty increases	2	0.8
1004	Back-tax claims or disputed tax claims	2	0.8
1009	Problems related to business climate in general	2	0.8
1006	Fine	1	0.4
2.	**Acts relating to war, terrorism, or social unrest**		
2001	Sabotage and terrorism/armed attack	30	12.5
2003	Kidnapping or hostage-taking	26	10.8
2002	War threat or severe instability and threat to physical safety	16	6.7
2005	Severe social unrest	7	2.9
2004	Protests, demonstrations, blockades against company	3	1.3
3.	**Other acts committed by non-governmental actors**		
3001	NGO activism	22	9.2
3002	Potentially detrimental lawsuit/compensation claims rel. to activism	6	2.5
3102	Dispute with or fraudulent behavior by partner/competitor/offtaker/ privatized firm	5	2.1
3101	Corruption	2	2.1
Total		240	100

Notes: As opposed to sources and actors where several categories come together, there is only one specific effect for one case. The numbers presented above are hence accurate and the percentage precise.

Figure A2: Actors through which political risks are realized by main dimensions (my modification of Jakobsen's dataset)



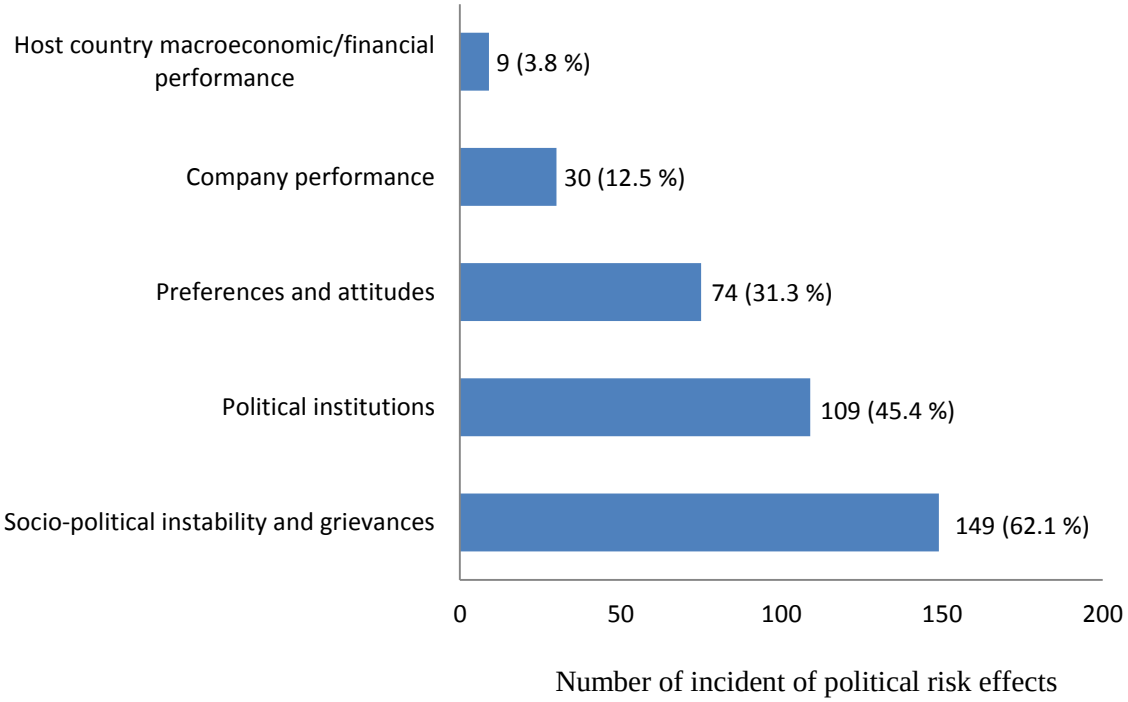
Notes: Due to the existence of multiple actors, the total number of registered actors exceeds the number of cases in the dataset. The numbers in the figure are in relation to the number of cases in the dataset and reflect the count and percentage of cases where the actor in question is regarded as having contributed to a realized political risk effect.

Table A8: Actors through which political risks are realized by cub-categories (my modification of Jakobsen's dataset)

		Count	Percentage
1.	**Central, regional, or local host government**		
1001	Central government	90	37.5
1003	Regional/local government	20	8.3
1004	Judiciary/police	15	6.3
1002	Political parties/politicians	6	2.5
1005	Military	3	1.3
2.	**Rebel/terrorist organization**		
2002	Rebel movement/militants	52	21.7
2001	Terrorist organization	8	3.3
2003	Criminal organization	2	0.8
3.	**Non-governmental activists**		
3001	NGO/activists	31	12.9
3005	Local communities/citizens	30	12.5
3004	Workers/labor union	16	6.7
3002	Consumer/buyers	5	2.1
3003	Shareholders/investors	3	1.3
4.	**Other companies**		
4002	Domestic non-private partner/supplier/financer/offtaker/customer	11	4.6
4003	Domestic competitor	10	4.2
4001	Domestic private partner/supplier/financer/offtaker/customer	8	3.3
4005	Employee or local/HQ management of own company	8	3.3
4004	Foreign competitor/partner/supplier/offtaker/customer	6	2.5
5.	**Foreign state or multilateral organization**		
5001	Foreign state	26	10.8
5002	Multilateral organization	2	0.8

Notes: Due to the existence of several actors in certain cases, the total number of registered actors exceeds the number of cases in the dataset. The percentages indicated in the figure are in relation to the number of cases (240) in the dataset.

Figure A3: Sources of political risk by main dimension (my modification of Jakobsen's dataset)



Notes: Due to the existence of multiple sources, the total number of registered sources exceeds the number of cases in the dataset. The numbers in the figure are in relation to the number of cases (240) in the dataset and reflect the count and percentage of cases where the source in question is regarded as having contributed to a realized political risk effect.

Table A9: Sources of political risk by sub categories (my modification of Jakobsen's dataset)

		Count	Percentage
1.	**Socio-political instability and grievances**		
1001	War/armed conflict or rebel activity	62	25.8
1002	Diplomatic tensions and foreign policy issues	36	15.0
1013	Local/regional project-specific grievances	26	10.8
1011	Environmental issues	18	7.5
1004	Social unrest	13	5.4
1019	Other	12	5.0
1003	Religious fervor/grievances	10	4.2
1014	Worker discontent	8	3.3
1012	Human-rights issues	5	2.1
2.	**Political institutions**		
2002	Rule of law	37	15.4
2012	Reforms, policy changes, rulings, campaigns	29	12.1
2021	Corruption and cronyism	26	10.8
2011	Laws, regulations, and bureaucracy	18	7.5
2031	Institutions and laws of foreign country or multilateral organization	15	6.3
2001	Authoritarianism	14	5.8
2003	Decentralized or disputed authority	9	3.8
3.	**Preferences and attitudes**		
3021	Vested business interests	29	12.1
3001	Economic nationalism and anti-foreign capital sentiments	23	9.6
3011	Political ideologies	16	6.7
3002	National security issues	10	4.2
3009	Other	2	0.8
3029	Other (inc. corporate governance)	2	0.8
4001	Host-country macroeconomic/financial performance	9	3.8
5001	Company performance	30	12.5

Notes: Due to the existence of several actors in certain cases, the total number of registered actors exceeds the number of cases in the dataset. The percentages indicated in the figure are in relation to the number of cases (240) in the dataset.

Table A10: Dataset in alphabetical order

COUNTRY	YEAR	EFF.	ACT. 1	ACT. 2	ACT.3	SOU.1	SOU.2	SOU.3	SOU.4
Afghanistan	1998	2002	5001			1001	1002		
Argentina	2002	1002	1001			4001			
Bangladesh	2001	1007	1002	3005	1004	3001	2002		
Bolivia	2003	1007	3005	1002		1004	1002	3001	2012
Bolivia	2004	2001	3005			1004	1019		
Bolivia	2004	1003	3005	1002	1001	1004	1002	3001	2012
Bolivia	2005	1003	1001	3005	3004	3001	2012	1004	
Colombia	1998	2001	2001			1001	3001		
Colombia	1998	2001	2002			1001	3001		
Colombia	1998	2001	2002			1001	1012		
Colombia	1998	2004	3005	3001	1004	1013	1011	2011	
Colombia	2000	2001	2002			1001	3001		
Colombia	2001	2003	2002			1001	1013		
Colombia	2001	2001	2002			1001			
Colombia	2002	2001	2002			1001			
Ecuador	1999	2003	2003			1019			
Ecuador	2000	2003	2003			1019			
Ecuador	2002	2004	3005	3001		1013	1011	1004	1019
Ecuador	2002	2003	2002			1001			
Ecuador	2003	3002	3005	3001		1011	2011		
Ecuador	2005	1202	1001	3005		3001	1004	5001	
Falkland Isl.	1998	1010	5001			1002			
India	2004	1004	1001			5001			
Indonesia	2001	2001	2002			1001			
Indonesia	2001	3002	3001	3005		1012	1001	2031	
Indonesia	2001	2001	3005			1013	1004		
Indonesia	2001	1007	1001			2012			
Indonesia	2001	2001	2002			1001			
Iran	2003	3101	4001	4005	5001	2021	3021	2031	
Iran	2003	1010	5001			1002			
Iraq	2002	1201	1001			2031	2002	1002	5001
Iraq	2003	1201	5001			5001	2021		
Kazakhstan	2002	1201	1001	1004		2002	5001		
Kazakhstan	2003	1008	1001	4005	5001	2021	2031		
Lithuania	1999	1103	1001			3001	1002		
Myanmar	2002	3002	3001	3004		1012	2031		
Nigeria	1998	2001	2002			1001	1013		
Nigeria	1998	2003	2002			1001	1013		
Nigeria	1999	2005	3005			1013			
Nigeria	1999	2005	3005			1013			

Nigeria	1999	2003	2002			1001	1013		
Nigeria	1999	2003	2002			1001	1013		
Nigeria	1999	2003	2002			1001	1013		
Nigeria	1999	1201	1001			2012	2021		
Nigeria	2000	2003	2002			1001	1013		
Nigeria	2000	2003	2002			1001	1013		
Nigeria	2000	2003	2002			1001	1013		
Nigeria	2001	2003	2002			1001	1013	1011	
Nigeria	2001	2001	2002			1001	1013	1011	
Nigeria	2001	3002	3005			1012	2031		
Nigeria	2002	2003	2002			1001	1013		
Nigeria	2002	2001	3005			1013	1001		
Nigeria	2002	2001	3005			1013			
Nigeria	2002	2001	3005			1013			
Nigeria	2003	2002	2002	1005		1001			
Nigeria	2003	2003	2002			1001	1013		
Nigeria	2004	2005	3004			1014	3001		
Nigeria	2004	2001	3005			1013			
Nigeria	2004	1006	1001			1011	2002		
Nigeria	2004	1008	1001	5001	4005	2021	2031		
Nigeria	2005	2001	3005			1013			
Nigeria	2005	2001	3005			1013			
Nigeria	2005	2002	2002			1001	1013		
Nigeria	2005	2001	2002			1001	1013		
Pakistan	2001	3001	3001			1011			
Peru	1998	1099	1001			2011			
Peru	2003	3001	3001	3003		1011			
Peru	2003	2003	2002			1001			
Russia	2004	1201	1001			2021	2002	3001	
Russia	2004	1202	1001	4002		3021	3001	2002	
Russia	2005	1004	1001			2002			
Russia	2005	1103	1001			3001	2012		
Russia	2005	1201	1001			2012	5001		
Sao T. & Pr.	2001	1201	1001			2012	5001		
Saudi Arabia	2003	1201	1001			3001	5001		
Saudi Arabia	2004	2001	2001			1003			
Sudan	1999	2001	2002			1001			
Sudan	2000	3001	3001	3003	5001	1001	1012	2001	
Sudan	2005	1201	1003			2003	2012	1001	
Ukraine	2005	1001	1001			1002	2012		
Venezuela	2001	1003	1001			2001	2012	3011	3001
Venezuela	2002	2005	3004	1002		2001	1004		
Venezuela	2004	1003	1001			3001	5001	4001	

Venezuela	2005	1004	1001	2012	5001		
Venezuela	2005	1102	1001	3011	2011	2012	5001
Venezuela	2005	1003	1001	3001	2002	5001	
Yemen	1998	2001	2002	1001	1013		
Yemen	1999	2001	2002	1001	1013		
Yemen	1999	2001	2002	1001			
More**	2001	1010	5001	1002			

More**: Libya and Iran

Note: 'Year' denotes the year the political risk effect was realized; 'EFF.' denotes the effects; 'ACT.1-3' represent the different actors through which political risks are realized; 'SOU. 1-4' represent the underlying sources of political risk.