



Oil and war in Iraq

By Greg Muttitt, PLATFORM

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Shortly after the invasion of Iraq, development of Iraq's oil industry was divided into two elements. The first was to repair and rebuild the existing infrastructure, to repair damage caused by the invasion, looting and sabotage, the second being to design a long-term future for the oil industry, defining who would have ownership and control over Iraq's huge oil reserves. There's been a lot of good work done on the first by activists in US and Europe, highlighting the 'reconstruction' work carried out by Halliburton and another US company called Parsons. My work has been more looking at what's happening to Iraq oil reserves in the longer term.

I'd like to set out some strategic context as to why Iraq's oil reserves are important or why the west sees them as important, talk about what's happened since the invasion, and thirdly look at what's likely to happen in the future, the next couple of years in particular.

The Context of Iraq's oil reserves

The most important strategic observation is that two thirds of the world's oil reserves lie under just 5 countries in the Middle East – Saudi Arabia, Iran, Iraq, Kuwait and United Arab Emirates. A bit less than 15% lie in Venezuela and Russia – so getting on for 80% of the world's oil reserves are within just 7 countries. This is the fundamental strategic factor which guides global oil politics.

Iraq has had an oil industry since 1918 when a consortium involving the companies which were to become BP, Shell and Exxon obtained a concession. Through the first half of the 20th Century, Iran, Iraq and later Kuwait became opened up to the western major oil companies, and by mid last century the Middle East were the epicentre of global oil production, especially after Saudi Arabia got opened up after the second world war. Through that period the Middle East was a major source of production, growth and supplies to the west.

The 'concession' system which was operated was one of complete ownership and complete control by the foreign oil companies. There was barely even any ability to regulate the oil companies by the host governments. That situation started to change in the sixties when Middle Eastern governments began to object to the fact that they weren't getting benefit from their oil. Mostly in the 1970s oil production was taken away from foreign companies and put into national hands. In Iraq's case some was nationalised in 1963, the bulk in 1973, and all the rest of the Middle East by 1976/7, after which all production was owned and controlled by state owned oil companies.

Following that, western oil companies needed to look for new sources of growth to feed their shareholders, and western governments needed to look for new supplies to feed their economies. The partnership of western companies and governments began to look elsewhere for oil resources.

Through the 2nd half of 1970s and through the 80s those resources came predominantly from the UK North Sea and Alaska. But by the end of the 1980s, although still growing, the rate of growth was fairly small in those two provinces. To address this, during the 1990s the western major oil companies started to look in what they called 'frontiers': small, difficult, expensive production areas, mostly offshore in deep water; in particular the Caspian sea, west Africa, western Australia etc. But again, by the beginning of this decade the rates of growth provided by these new frontier areas were not meeting what was wanted by the companies and the governments.

The strategic position now is that the companies and the governments of UK, US and Europe are looking to break back into countries with major reserves – in particular Russia and the Middle East.

Oil company involvement since the Invasion

There is very little prospect of significant entry by western oil companies into Saudi oil production. The Saudi national company is wealthy, powerful and technologically advanced. Where the companies and governments see opportunities is in the north of the Persian gulf, in particular in Kuwait and Iraq, and to a lesser extent Iran, all 3 countries having much weaker oil industries than Saudi Arabia, through war, sanctions or politics.

Slightly before the invasion in the early part of last year, both BP and Shell had meetings with Blair, where they called for a 'level playing field' meaning they wanted to be treated as favourably as their American rivals. Both companies advised the Royal Engineers on how to preserve the geological integrity of oil reservoirs, in particular how to repair them if they were set alight by retreating Iraqi forces. Whole units of invading forces were assigned to protect the oil fields as they came in.

As Baghdad was taken, there was a chaotic situation where most of the public buildings were looted – museums, ministries and so on, but one building which was effectively protected by the invading forces was the Oil Ministry. The Oil Ministry contains the data which was key to being able to extract Iraq's oil in the future.

Since then work has been underway, by the occupation forces, to establish the shape of Iraq's future oil industry. To help with that the Coalition Provisional Authority hired a number of senior oil-men from the western majors to advise them. They tended to stay for six months at a time because of security concerns. To start with the most senior oil advisor in Iraq was Phil Carroll, formerly of Shell, and his assistant was Gary Vogler of ExxonMobil. They were replaced last autumn by Bill McKee of Conoco-Philips and Terry Adams, formerly of BP. Those two were replaced this spring by Mike Stinson from Conoco-Philips and Bob Morgan from BP.

Current and future Western oil company activity

Whilst this shaping of how the industry will be structured was carried out, the actual physical involvement of the majors has been almost non-existent in terms of their presence on the ground. One reason for this has been security – none of their staff want to work in Iraq at the moment – but the more important reason is that oil companies are

concerned that if they entered long term contracts now with what is recognised as an Interim Government, those would be potentially challengeable in international courts.

The proper on-the-ground involvement of major oil companies won't come before the elections. There are just a few contracts currently in play, most of them not to the major companies. For example exploration contracts, mostly from the Saddam era, for the Western Desert, which is an area believed to hold substantial unknown reserves. Those mostly belong to small companies such as the Irish Petrel resources, and smaller state owned oil companies, such as Pertamina, the Indonesian state owned oil company.

The second kind of contracts, currently being awarded, are for long term production but under contract to the Iraqi national oil company. There are two fields in the north of Iraq and a pair of connected fields in the south of Iraq, which the Iraqi oil ministry is in the process of appointing a company to extract under contract to them – the winners of those contracts will be announced by the end of the year, likely to be more small companies.

The third contract out for tender at the moment, also working under contract to the Iraqi national oil company and the Iraqi oil ministry, is the contract to process geological data from Iraq's giant fields. There are 2 enormous fields in Iraq – Kirkuk in the North and Rumaila in the south. What's different about this contract is that the major oil companies have bid for this: BP, Shell, and a consortium involving Italian ENI and Spanish Repsol have bid for it and a number of service and engineering companies have also bid for it. It's expected to be awarded in the next 2 weeks. I suspect that the reason the oil majors have gone for this one is not because of its size – its only \$5-10m worth, but because it gives them access to the data. Success in oil industry really runs on 2 commodities – one is geological data and the other is political contacts, and they hope to get both out of this particular contract.

Finally looking at the future projects, although the oil companies haven't entered into physical contracts yet, they've certainly been positioning themselves to get the contracts when they are awarded. With differing degrees of enthusiasm we might see some companies signing contracts in the months after elections, whether they are in January or delayed. Shell is especially keen to get some reserves under its belt after having a disastrous year financially – it lost over 20% of its reserves in 2004. Other companies such as Exxon-Mobil or BP have been more relaxed, and perhaps arrogant about it, tending to adopt the attitude that they're big enough that they will get a share of the prize anyway. So they will wait until the security and political situation feels more stable – not just for elections, but to see how things pan out for some time after that.

Shell is a front-runner. It appointed a Country Chairman for Iraq in late summer 2004. Within the Shell organisation, countries of significance, where they have major production operations, all have a Country Chairman. A couple of months ago they appointed an Iraqi communications officer, seeking out an *'Iraqi national who understood and had connections in the network of Iraqi families of significance'*. Essentially they wanted someone who could get them the contacts with decision-makers.

Shell have also sponsored a number of conferences on oil and cultural aspects, both in the Middle East and internationally at which senior people in the Iraq oil ministry have been guest speakers – obviously flattering them, giving them a platform and building those relationships.

And Shell is trying to position itself as operating in Iraq's long-term interest. What the Oil ministry in particular wants is skills and expertise transferred to Iraqis, so Shell has been funding the training of Iraqi technicians, and providing technical manuals to its universities and so on.

Iraq's future Oil policy

Finally I'd like to refer to an announcement 2 weeks ago by Iyad Allawi, Iraq's interim prime minister, in which he set out the guidelines for Iraq's future oil policy. The guidelines aren't policy themselves but they are what policy is to be developed from. There are a number of disturbing elements to them, but I'll just mention three. Firstly, western oil companies will have a role and control over oil reserves through a mechanism called Production Sharing Agreements (PSAs), in undeveloped areas of Iraq, the new reserves which are being explored for. This is a break from what's going on in almost the entirety of the Middle East, and has been since the 1970s. Western oil companies will get their reserves.

Secondly Allawi said he was very open to privatising all or part of the Iraqi national oil company, which is being formed out of the merger of the southern oil company, the northern oil company and various other parts of the state owned parts of the oil industry. So even though it has a privileged position in the oil industry as a regulator / state participant in oil contracts, that too could be privatised.

The third element is that Allawi said that none of this should be discussed in the Iraqi parliament.

We often hear from Blair or Bush that the future of Iraq's oil industry will be decided by the Iraqis. What they are saying to the Iraqis, who's state and economy has been decimated by 3 wars and a dozen years of sanctions, is that if you want development, if you want income, then you need to develop this oil. If you're going to get investment then you're only going to get it from foreign companies, and you'll only get that by handing over your reserves to them.

So essentially the future of Iraq's oil is being decided by Iraqis, as long as they decide that it will be controlled by western oil companies.