



Under the surface

Iraqi oil and Tony Blair's absurd conspiracy theory

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Since the invasion of Iraq, Britain and America have taken care to avoid being seen as trying to obtain the country's enormous oil reserves. However, behind the scenes, they have worked hard to ensure that oil multinationals get their hands on Middle Eastern oil for the first time in 30 years. This month's Iraqi elections will be the stamp of legitimacy they need.

No doubt Tony Blair is hoping that the elections at the end of this month will help him draw a line under the Iraq issue. But might they instead reignite debate about his justification for going to war? For following elections, Iraq will be open for business for major oil deals.

Blair has been careful to publicly distance himself from interest in Iraq's oil reserves. On the eve of the attack in March 2003, Blair complained that "people falsely claim that we want to seize" Iraq's oil reserves. The previous month, he had dismissed those claims as "one of the most absurd conspiracy theories ever".

However, now, nearly two years on, with the search for WMD abandoned, the oil connection is looking rather less absurd.

The ultimate prize

It is well known that Iraq holds 10% of the world's known oil reserves, second only to Saudi Arabia. Along with Iran, Kuwait and the UAE, these five countries of the Middle East hold almost two thirds of the world's oil. But since the nationalisations of the 1970s, these reserves have been out of the control of the West, and off the balance sheets of its companies.

Oil companies have filled the gap since then, first by moving into the North Sea and Alaska in the 1970s and 1980s, and then in the 1990s by opening new 'frontier' areas, such as in the Caspian Sea and offshore West Africa. But with the North Sea and Alaska now in decline, and the frontiers offering only limited, and expensive, growth, the West is again looking to the Middle East.

In a speech to the Institute of Petroleum in London in 1999, US Vice President Dick Cheney commented, "by 2010 we will need on the order of an additional fifty million barrels a day. So where is the oil going to come from? ... Oil remains fundamentally a government business. While many regions of the world offer great oil opportunities, the Middle East with two thirds of the world's oil and the lowest cost, is still where the prize ultimately lies."

Much of the additional demand Cheney refers to comes from Asia, making Middle East suppliers less dependent on western markets. In light of these shifting trade alliances, a co-operative Iraq could be seen as a foundation stone of western energy security.

Military manoeuvres

Although oil was not the only factor behind the Iraq war, even the priorities of the invasion itself point to its central importance. When Tony Blair listed to Parliament the British forces' three objectives, the order was significant. Before referring to the military targets of the port of Umm Qasr and Basra, he listed "to secure the key oil installations on the al-Faw peninsula".

And in Baghdad, while public buildings were extensively looted, the one building US soldiers tightly defended was the Oil Ministry, where vital geological data on Iraq's oilfields are stored. These data are the keys to Iraq's treasure chest.

Following the invasion, development of Iraq's oil was divided into two phases. The first phase was to repair and restore the country's existing oil infrastructure, damaged by war and sanctions. Like almost all of the reconstruction contracts, this was carried out by US companies: Dick Cheney's former company Halliburton and fellow oil service company Parsons.

Elections

The much larger prize of long-term production contracts, it was decided, would come later.

Security was of course one concern for oil companies. But their biggest fear was that contracts awarded by either the Coalition Provisional Authority or the Interim Iraqi Government would not have the legal legitimacy to stand up to challenges in international courts – for that they would need an elected government.

As former Shell chairman Phil Watts explained, "There has to be proper security, legitimate authority and a legitimate process . . . by which we will be able to negotiate agreements that would be longstanding for decades. We wouldn't go into that situation unless these conditions were satisfied because we are a long-term business doing long-term projects and we need the framework in which we can make this sort of investment decision."

This may be one reason why Britain and America have been so keen to press ahead with Iraq's elections. Oil was carefully excluded from privatisation plans issued during the occupation – a move that won the US public relations points. But following the elections, the new Iraqi Assembly will begin drafting the Constitution, a key element of which will be the policies governing oil development.

Most analysts believe that negotiations with oil companies are unlikely to wait until the Constitution is complete, but will instead take place in parallel. Indeed, Iraq Oil Minister Thamir Ghadban wrote in Shell's in-house magazine in October that 2005 will be the "year of dialogue" with international oil companies.

Britain's role

The British Government has deliberately avoided being seen as influencing Iraq's oil policy. The Foreign Office says "Medium and long-term strategy and the approach that the Oil Ministry takes to major investments and their financing for the oil sector will be Iraqi decisions." But this apparent hands-off approach belies the true picture.

Before hostilities had even finished, a former head of Shell USA was appointed within the Coalition Provisional Authority to lead the design of Iraq's future oil industry, supported by another oilman from ExxonMobil. They served a six-month term, and were replaced by former executives of ConocoPhillips and BP.

Since the handover to the Interim Government, the Foreign Office has remained closely involved in Iraqi oil policy. In summer 2004, it submitted a draft Code of Practice for the industry, and continues to advise on fiscal and regulatory issues – in short, on who controls the oil, and how the proceeds are split.

Eager companies

Oil companies too have been far from idle. Keen to ensure that they are at the front of the queue when contracts are signed, they have worked hard to form relationships with the Iraqi Oil Ministry. Some have sponsored and hosted Ministry officials at industry conferences, in order to get that vital contact time. Others have tried to show willing by training Iraqi technicians.

There have been two major international conferences on Iraq for oil companies, one in Geneva and one in Amman, Jordan, both attended by the Iraqi Oil Ministry, as well as several all-sector conferences on doing business in Iraq.

Of the oil companies, Shell is one of the keenest to get into Iraq. This may be because of its embarrassing admission to its shareholders last year that it had misled them in overstating its reserves. Badly knocked by that crisis, which led to the sacking of its chairman, Shell is desperate to get back on its feet, in particular by getting hold of new reserves – and Iraq offers greater reserves than anywhere else in the world.

Shell's enthusiasm to get access to decision-makers can be seen in its August 2004 recruitment of "a person of Iraqi extraction with strong family connections and an insight into the network of families of significance within Iraq".

More recently, oil companies have started advising the Iraqi Oil Ministry on how to develop oilfields – often for free – which gives the companies not just relationships with the Ministry, but also invaluable geological data. Shell, for example, volunteered to advise Iraq on its 'Gas Master Plan', and US oil major ChevronTexaco is providing technical assistance on several oilfields. And as *Red Pepper* goes to press, an announcement is expected of which company will examine geological records from Iraq's two giant fields, Kirkuk and Rumaila.

Sold

It seems that these efforts might soon be rewarded. In September 2004 – unreported by the media – Iraqi Interim Prime Minister Ayad Allawi pre-empted both the elections and the writing of the Constitution, by issuing a set of guidelines which would form the basis of future oil policy. Perhaps Allawi was trying to set something in motion that would be difficult to reverse if he is replaced by a less pro-Western government.

His guidelines contained three important elements. Firstly, all new oil reserves in Iraq would be developed by western companies, through a form of contract known as production-sharing agreements. Secondly, the Iraq National Oil Company, which would control Iraq's existing oil assets, would itself be part-privatised. Thirdly, Allawi insisted that these issues should not be debated in the Iraqi parliament, as that would delay progress.

Oil companies had long been calling for the use of production-sharing agreements in Iraq, which will give them control of major Middle Eastern reserves for the first time since the 1970s. Frequently used in countries with smaller oil reserves, they allow multinationals as 'operators' to make the decisions, and take a large chunk of the revenue.

The undeveloped areas of Iraq, which Allawi is putting on offer, could be enormous – potentially as large as the existing reserves, or even larger.

The benefits to Iraqis are less clear. Lasting for anything from 25 to 40 years, such contracts would bind Iraq into giving away much of the revenue from its greatest asset, and its greatest opportunity for development. Production-sharing agreements have been highly controversial in recent years, as their legal complexity has led governments unwillingly to sign up to grossly unfair deals. The agreements even prevent future governments from introducing new laws, such as environmental, human rights or labour laws, which affect the oil companies' profitability.

Furthermore, since state oil companies have a regulatory and negotiating function, as well as a role in production themselves, their privatisation is rare anywhere in the world, let alone in the oil-rich Middle East.

In light of this, it is not difficult to see why Ayad Allawi feels that having a debate in Iraq will slow down progress. In Iraq, there is considerable resistance to foreign control over the nation's oil assets – not least among the highly skilled managers and technicians of the oil industry itself.

While Blair, Bush and Allawi have largely kept the plans for Iraq's oil behind closed doors, it is now set to become a public issue. Elections, they are hoping, will be a stamp of legitimacy not just for the occupation and regime change, but also for the capture of Iraq's greatest asset.

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