

# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **THE AMERICAN PLANS TO EXHAUST IRAQ AND TO STEAL ITS RESOURCES: FACTS AND FIGURES**

By MOHAMMED AL-KAYSSI

Jul 22, 2005, 00:16

So many are the investigations and debates that came up analyzing the aims of the US administration war-on-Iraq campaign. Although the occupation of Iraq is against the international law and all the Iraqi people ambitions and targets, the US administration is insisting on completing its occupation plans and projects in Iraq. What ever the justifications the American media or its agents are declaring, we, Iraqis, are now very sure that the main motive for this administration's war is to control the oil, the best global source of power, which will enable America, following long-term plans, to dominate the whole world as the only super power.



The following brief research is emphasizing the impact of the USA plans which began since the early eighties and continued up to the current Iraq occupation on the Iraqi economy.

### **1. Targeting Iraq and the Iraqi economic losses due to the Iraq-Iran war**

The after-shah Iranian Islamic revolutionary regime in the world oil richest and vital area posed a big threat for the west. The western imperialism opened all the channels to stimulate the tension between the two old ages rival countries Iraq and Iran to trigger the war in September, 1980. Fighting against this evil with a deliberate foreign intensification of the warfare, Iraq, with all of its economic and human resources became a victim for the western capitalist countries and their co-operating regimes in the Middle East region.

The Iran-contra scandal showed the strong military US-encouraged relations between Iran and Israel through which Iran got massive supplies of the American weapons. Donald Rumsfeld, the current US secretary of defense, and many of the current US administration members, played a big role to cover up the Iranian usage of chemical weapons in northern Iraq - Halabja as an example - and later on they turned the stories 180 degrees back. On the other side and to increase the warfare spending, the US offered a lot of loans and financial support to Iraq to develop its industrial military projects. Many western countries like the UK, Germany and France sold Iraq the techniques and the know-how to produce unconventional weapons in very high price and Thatcher, the British prime minister, gave Iraq in that time a loan of 1 billion sterling pounds and different monetary facilities to serve the same subject.

Because of the war long time and the heavy direct and indirect expenses accompanied by the decrease in oil barrel price from 40 to 17 dollars and the decrease in the dollar value itself, all Iraqi ambitious developing plans came to a halt and spending on the civil sector in Iraq came to the minimum and the war economy policy dominated all the life activities in Iraq. The choking Iraqi economic crisis was very clear in the beginning of 1986 at the time parts of the Iraqi territories were already occupied by Iran. By the end of the war in 1988, the Iraq's total foreign debt used on covering both the military and civil expenses totaled 120 billion dollars. Because oil is the main source of income in Iraq, Iraq found itself forced to develop and rebuild the oil production and export facilities that mostly have been bombarded and destroyed by the Iranians during the war. Close to the Iran-Iraq long borders and in the southern Iraq borders were most of the vital industrial facilities and agricultural establishments destroyed. The decrease in oil exports was so huge. The Iraq 3.4 MMBPD production was shut down for several months and later on little quantities were exported through Turkey and Syria and stopped in 1982. The oil exports from the southern Iraqi ports stopped in September 1980 till running the pipeline running through KSA in 1985. Because of this war-forced decrease in oil exports, Iraq lost 106 billion dollars while the other oil neighbors



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Kuwait, KSA and UAE got a so more money as their exports increased by compensating for the Iraq export OPEC share along the 8 years of the war. After the war all of these neighbors, considered the money they donated to Iraq as a support during the war as loans that should be, consequently, paid back.

The Iraqi leadership tried hard to rehabilitate the exhausted Iraq post-war-economy but the results were strategically minor because of the big obligations at the time of low income and the huge due debts with their interests. In 1990 the official Iraqi debts totaled, including the interests, 65 billion of dollars in addition to 10 and 12 billions for Kuwait and KSA. The major part of the last 22 billions, mostly as services not in cash, were given to Iraq as assistance and support for Iraq against the common Arab's enemy, Iran, but later on after the war the two countries particularly Kuwait considered all this money as loans with very soon due date.

Iraq proved for the UN by thousands of official documents that Iran was the beginner of the war and called the UN to investigate all the suspended issues between the two countries and to affirm both sides' responsibilities. The US and its allies in the UN stressed very hard not to solve those minor remaining issues between the two countries to Iraq's future.

**The agony here is that USA and Israel tried hard to embroil Iraq in the war and to lengthen its period with the aid of some Arab countries like Kuwait, KSA and UAE which earned so much money because of the increase in the oil prices and the suspension and the shut down of Iraq's oil exports.** Turkey built and established so many industries that pumped all of its low quality products in the Iraqi markets. The Jordanian economy that was on the brink of a catastrophe got resuscitated because of the open activities to the Iraqi economy. Syria supported Iran by missiles and stopped the Iraqi oil export pipeline that passes through Syria. Egypt got rid of all of its Russian weapons selling them to Iraq in cash to purchase the American weapons after the peace agreement between Egypt and Israel signed by Sadat. The Russian abstained supplying weapons to Iraq at the beginning of the war claiming to stay neutral but later on after the Iran contra scandal they made up their minds. Iraq was, staying isolated suffering the scourge of war, bleeding and all of its economical and human resources were being destroyed and the dream of building its modern country vanished.

## **2. The Iraqi economic losses because of the Kuwait oil policy**

While Iraq was busy sacrificing souls and blood in the fight against Iran defending all the Arab territories including Kuwait's. Kuwait took the chance to carry out a scheme of programmed and gradual occupation of the Iraqi territories. Kuwait was building military bases, oil facilities and farms on the Iraqi land. Iraq's foreign affairs ministry addressed this in an official memo to the Arab League on 15/7/1990 stating that Iraq has a complete documented record for all of these violations committed by the Kuwaiti government. All the documents were presented to the Arab League to solve this problem through the Arab League practices and the Arab fraternity relations.

After the liberation of Al-Faw peninsula and during the Arab summit in 1988, Iraq notified the Kuwaiti government about the Iraq intention to solve all of those bilateral problems through the even direct dialogues but there was no response from the Kuwaiti side who continued to raise up faked complications and to build petroleum military and police installations on the Iraqi territories.

The Kuwaiti and UAE governments pursued a satanic procedure to flood up the international oil market by producing more oil then their OPEC predetermined shares with historically unprecedented rationalizing. The oil market flooding up process led to a horrible decrease in the oil prices. The oil prices decreased from 24 dollars / barrel to lower than the minimum OPEC agreed-on price - 18 dollar to 11-13 dollar/ barrel. Every 1 dollar reduction in the oil barrel price was causing Iraq lose 1 billion dollars/year. Because of the Kuwait and UAE policy the oil barrel price deteriorated, In 1990, from the common price



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



28\$ to 18\$ and the total Iraq losses totaled 14 billion dollars per year while Iraq was defending it's and all the Arab's territories and security for 8 years.

In addition to the aforementioned oil market flooding up policy, Kuwait, since 1980, started founding petroleum installations on the southern part of Al-Rumaila oil field and started stealing the oil in the Neutral Zone which is an extension for the southern Al-Rumaila oil field. Kuwait established Alretka 33-oil-well field to bleed up the Iraqi oil reservoir. on the 17th September, 2000 the former Iraqi oil minister Amer Al-Obaidi accused Kuwait of steeling 300,000 barrels /day stating "The Iraqi oil steeling is a fact that the Kuwait can not deny and this takes place at the southern Al-Rumaila field".

The Kuwaiti oil market flooding up policy which included the stolen Iraqi oil represented doubled action harm to Iraq by weakening its economy through reducing its export profits, at the time Iraq is in bad need of every cent to restore its demolished capabilities, and by stripping its natural resources.

The Iraqi oil stolen by Kuwait between 1980-1990, which is against all the Arab fraternity principles and values, totaled 24 billion dollars. The Iraqi government proved in official documents presented to the Arab League all the Kuwaiti violations against Iraq and called for the refund for all the oil stolen of its reserves and territories and appealed Kuwait to be responsible for all the misbehavior and violations against Iraq. Iraq did its best to resolve these suspended issues with Kuwait through the Arab League but Kuwait continued its policy without any response.

Iraq concluded that Kuwait's policy was just a military aggression; Kuwait was continuing extorting the Iraqi territories and oil resources, which is considered a military aggression, while Iraq was trying to impair its economy and was facing big Zionist threats. Iraq was the only Arab power that really confronting Israel. Invading Kuwait was the only way that Iraq could follow after trying all the possible peaceful initiatives and solutions.

The USA administration concentrated all the international public opinion against Iraq enforcing it to withdraw its troops from Kuwait and to destroy Iraq's military power, infrastructure and Iraq's vital structural civil and military industries *for the benefit of the Zionism* whose main goal is to kick Iraq from the strategic Arab core location and to disable Iraq's military effective acting in the region.

The disaster on this issue was that many of the Arab countries participated in and incited the others to join the operations called "The Desert storm" to retaliate for old issues with Iraq for the sake of Zionist entity service.

### **3.The Iraqi losses due to the 1991 American aggression and during the sanctions and blockade years**

The whole world got mad against Iraq and its political regime after invading Kuwait as, in this way, Iraq could get hold of 20% of the world oil reserves.

The Gulf war against Iraq was not to defend or liberate Kuwait but to defend the economic and strategic interests of the international imperialism in the region. The "Desert Storm" war in 1991 resulted in a terrible devastation in Iraq. Most of the civil facilities were hit, bombarded or destroyed. The damaged civil facilities and utilities included the main bridges, the transportation junctions, oil refineries, the communication centers, schools, institutes, universities, hospitals; potables water plants, irrigation plants, mosques, churches, government buildings, museums, food depots and mills in additions to the human casualties. According to the Iraqi government estimations, the losses due to this war totaled 230 billion dollars. The Arab Funds Corporation" estimated the resulting losses to be 190 billion dollars.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Moreover, The US administrations abused the U.N to execute its oppressive policy against Iraq and issued a resolution to block all the Iraqi deposited funds in all the banking associations around the world. As a result to this, the Iraqi accounts have been frozen in 56 countries as the following,

- 3 billion dollars in the USA alone managed by the Federal Bank in New York.
- About 6.1 billion dollars in the UK in addition to 350 billion dollars in Al-Rafidain Bank, London branch.
- More than 1.0 billion dollars run by the Swiss National Bank.
- More than 1.5 billion dollars in French banks.
- 700 million dollars in Japanese banks.
- About 2.5 billion dollars in EU banks supervised by the EU countries central banks.
- 500 million dollars in Jordan under the supervision of the "Iraqi Funds Managing Corporation" that belongs to the Jordanian Central Bank and assigned only for this job.
- More than 500 million dollars in Lebanese banks.
- Many other accounts in different European, Asian and African countries.
- Al-Rafidain branches accounts in Oman, Cairo, Beirut and Bahrain.
- The Iraqi commercial commissions outside Iraq and the Iraqi airlines.
- The Iraqi shares in companies with other Arab countries.

Very big burdens and obligations have been imposed on Iraq. Iraq was supposed just to fulfill his obligations without any right for discussions, objections, modifications or even explanations. The legitimacy of these obligations and how they are estimated were not determined according to any known rules or practices. Thus Iraq was forced to pay Kuwait, and some other countries, compensations for the Iraqi troops 7 months invasion.

Kuwait asked for a compensation of 350 billion dollars. Saudi Arabia asked for 28 billion dollars because of the damage the Iraqi forces caused to its environment as result of setting its oil wells in fire during the Iraqi army withdrawal and also for the rehabilitation of the coasts, deserts and fisheries. In addition Egypt, Turkey, Iraq, Jordan and Syria have asked also for compensations. The compensations committee that the UN set after the Gulf war imposed compensations of 48.6 billion dollars of which only 8.4 billion dollars were paid.

The assessment of the Kuwait compensations was very exaggerated because, later on after Kuwait rebuilding and rehabilitating, the Kuwaiti government official ministry of treasury and Kuwait National Bank reports stated that the total Kuwaiti economy losses due to the invasion and the Desert Storm war were 99 billion dollars of which 30 billion dollars are rebuilding costs, 23 billion dollars are non exported oil value and the rest was Kuwait's contribution in financing the desert storm war. It is very clear that the overestimation of Kuwait compensations and losses by over than 25 billion dollars was just to keep Iraq in debts for many generations. By abusing the international legitimacy, The US administration imposed oppressive and unlawful economical sanctions, embargo and financial blockade against Iraq.

The sanctions and the blockade continued for about 13 years and severely affected all the Iraqi people. Due to this blockade Iraq lost about 150 billion dollars as oil export losses. Iraq could manage itself using all of its strengths and human efforts in a very big mission to restore what the war has damaged. The Iraqi capabilities have generally been weakened and undermined at the time of its so heavy after-war enforced obligations, imposed by the UN, and the negative financial blockade burdens such as the big budget deficit and the due debts. With the continuation of the oppressive economic sanctions and blockade, Iraq was exhausted and its people day life economic and social difficulties got highly intensified. All the infrastructure, the public utilities, health and education foundations collapsed. Iraq could not any more conceive any plan for development even on the minimum level and life become so miserable leading to the unknown.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



It is very important to mention here again that the Kuwaiti government continued to steal the Iraqi oil though the wells that have been drilled in the Neutral Zone to the south of the southern Al-Rumaila oil field. Naji Al-Hadithi, the former Iraqi foreign affairs minister assured that Kuwait, after the UN borders demarcation in 1993, offered long term concessions for American and British companies to invest on oil exploration and production in Southern Al-Rumaila and Al-Zubair where the first extends to Al-Retka and the second ends at Safwan region on the borders between the two countries. The Iraqi minister added that after the year 1995 the international companies, working for Kuwait, intensified their activities using huge drilling rigs and reclamation and landscaping equipment to work directly in the two regions. Later the Iraqi oil ministry assured, depending on technical reports and surveys, that the Kuwaiti government has stolen millions of oil barrels along the blockade period from the wells drilled in the two aforementioned regions which illegally were granted to Kuwait according to the UN oppressive borders demarcation.

On the other hand the behavior of Iran against Iraq was also so weird. To protect the Iraqi civil and military aircraft from being hit or bombarded by the Americans and their allies, Iraq sent 11 civil Boeings, Falcon, Jet star and 115 fighter and bombing fighter planes, and 15 Ilyushin airfreight planes to the Iranian airports to be hosted during the war according to the agreement set between the Iraqi transport minister Mohammed Hamza Al-Zubaidi and the Iranian former president Rafsanjani in the presence of the Iranian transport minister. The Iraqi fighter planes included some of the best military planes like the Meg, Sukhoi, and Mirage. Later after the war Iran refused to give these planes back to Iraq claiming that Iraq has so many due obligations for Iran due to last war between the two countries. The fighter planes were annexed to the Iranian air forces and the 5 civil Boeings aircrafts, 5 Falcon, one Jet star and 15 Ilyushin airfreight planes were painted in the Iranian air ways colors and registered as part of the Iranian airways fleet. This action represents a big scandal and unlawful way to settle any conflicts or obligations.

### **Facts and opinions about the figures stated about the Iraqi funds and obligations**

It is possible to authenticate the information about Iraq's funds and debts for the following reasons:

1. All the aforementioned data are officially documented. Working for government departments involved in economic affairs, I was able to read such documents as this was part of my job as an economy specialist and as a part of a supervision and executive follow up team on the issue of the Iraqi obligations – Availables and Requirements - to the other countries and particularly the Gulf's. There was a supreme economical committee established in 1989, the economical committee, following the resolved "economical operations chamber" directed by Taha Yassin Ramadan.

The economical committee was related to the presidency department and supervised by Sa'adoun Hammadi then Hikmet Mizban Ibhrain, the minister of treasury, and included the ministers of Commerce, oil, Planning - later became the planning corporation - the Iraqi Central Bank governor and some associated specialist managers. In addition to its responsibility as an economical operation chamber for the Iraqi economy program, which was an eccentric case in planning and execution according to the centralization policy, this committee was responsible for preparing the lists and the data base for the Iraqi obligations – Availables and Requirements - and its periodic traffic according to the branch data made by the government departments associated with Iraq obligations to the other countries. The technical part of this committee was in charge of the preparation and the follow up of the obligations traffic report. This report and its data were systematically proceeded to the economy section in the presidency department for evaluating, assessing and commenting the processing and the recommendations that the committee presents to find their best possible solutions.

**We are very sure that all the data and the information exist in the following places:**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



- The economical section in the presidency department inside the republic palace buildings compound in Karadat Mariam.
- The ministers council located inside the former central statistics foundation building which is annexed to the ministry of planning buildings.
- The economical committee which occupies a building annexed to the National Iraqi Council in Al-Salehia. This place was recording all the details about the creditors and debtors, the kinds of assets and their values and all the funds sums in details in addition to the due dates and the details of the agreements and the financial protocols and the names of the banks and the financial institutions.

In the first hours of Baghdad occupation, the coalition occupation troops broke into these places and later on they let Ahmed Al-Chalbi bands get all the documents, files and the floppy disks that exist in these buildings. Later, all the people and employees involved with these economy matters were arrested according to lists prepared by Al-Chalabi band. The arrested employees included Mohammed Mehdi Saleh AL-Rawi, minister of commerce, Esam Huwaish, Central Bank governor and the economy consultant Khalid Al-Mamouri.

- There have been so many official appeals from Iraq in official meetings with the UN to discuss the possibility to release the blocked Iraqi assets. There have been also trials with the Arab League to support these requests which were documented and including all the details of those frozen assets and funds.
- The Iraq debt according to statutory official documents in 1990, i.e. before Kuwait invasion, was 65 billion dollars including the loans' interests. This didn't include the disputed 10 and 12 billion dollars for Kuwait and KSA who insist that the 22 billion dollars were real loans while this sum consists of several components one of them is exporting quantities of oil on the behalf of Iraq during Iraq - Iran war. Kuwait & KSA were exporting, as a beginning, about 50,000 barrel/day from the Neutral Zone which is currently called also Al-Khafji for a short period of time as a result of the war break up and the stop of oil exports through the Iraqi southern harbors Al-Bakr and Khor Al-Amia which were located in the range of the Iranian fire and this was not only because of Iraq financial needs but also for the continuing of oil flow in the international markets. The Kuwaiti and Saudi regimes were always declaring, on all of there official meeting with the Iraqi officials, that the biggest part of the exported oil funds is an assistance and support for Iraq in its war against Iran. The real part of the debts as loans is the Saudi and Kuwait, on the behalf of Iraq, fulfilling of the Iraq's financial obligations to the others or the guaranteeing Iraq with others or enabling the Kuwaiti and Saudi private sectors to freely deal with the Iraqi government. The rest of the real debt is supplying Iraq with civil equipment that help in the military sector such as carriers, vehicles, loaders and all of them were recorded as donations and support for Iraqi civil sector. The civil support also included facilitations in the Kuwaiti and Saudi harbors like exempting from customs and loading and unloading fares, fueling the Iraqi tankers, sheltering the Iraqi navy pieces, maintenance work for the Iraqi pipeline passing through Saudi Arabia and other kinds of help during the Iraqi Iranian war.

The situation understanding was nearly like this in 1990 before the first Gulf war and the American aggression against Iraq which is different from the estimation of the UN and the international financial bodies in 1991 where the Iraqi debts were estimated to be 86 billion dollars according to the exaggerating data and information supplied by the countries to which Iraq is claimed to have obligations especially after Kuwait and KSA had considered all of their donations to Iraq as loans with interests counted since being provided to Iraq.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



In Olympia, on the 19th October 2003, during a seminar for encouraging investments in Iraq, Richard Segal, the manager of the British "Exotex Limited" research center uncovered statistics for Iraqi loans from KSA and Kuwait presented to the UN. The statistics showed that the Iraqi debts for KSA and Kuwait totals 42.1 billion dollars, 23.5 in the eighties during in the Iraq Iran war until 1991 - i.e. before Iraq invaded Kuwait. The rest was presented in other statistics presented later and they were 4.9 billion dollars in 1992, 4.8 billion dollars in 1993, 4.6 billion dollars in 1994, 2.9 billion dollars in 1995 and 1.3 billion dollars in 1996 and later years. It is very clear from Segal's report that KSA and Kuwait presented theses figures just to enlarge the Iraqi debts as these loans took place after the withdrawal of the Iraqi troops from Kuwait when there were no political or commercial relations between Iraq and the 2 countries due to the invasion of Kuwait and the war.



On the other hand the economical blockade did not allow Iraq make any economical deal with any country around the world. There may be a question that the above figures are interests for the due debts but simple calculations can prove that these figures are fabricated imaginary figures and absolutely very far from any reasonable loans' interests. The figures should have been compared to the Iraq official obligations and debts data which the American destroyed at the beginning of Baghdad occupation by helping some mobs who burnt the government departments and the official documents. More than once Iraq presented the UN documents with the real Iraqi debts but the organization response to Iraq was that such issues would not be considered before Iraq fulfils all of the obligations stated in the Security Council resolution. At the same time the international organization considered the statistics, appeals and the claims against Iraq that the other countries presented.

From this it's proved that during the political and the economical Iraq blockade and on cornering Iraq to fulfill the UN resolutions, so many international parties abused the situation to authenticate faked obligations and rights against Iraq with the complete help of the UN as a result of the US extorting policy that dominated the un and its resolutions against Iraq. The exaggeration and the overestimation of the Iraq debts value is just a kind of economical and political extortion coming along with the status of aggression and hostilities against Iraq and its people.

Iraq set several plans to face the problem of debts and the Iraqi economy rehabilitation. I participated in an official study that assured Iraq's capability of paying back all of its foreign debts and the unnecessary for any more foreign loans to rehabilitate the Iraq economy according to the following indications and processes:

1. Following a firm military spending shrinking policy especially military industrial spending.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



2. Diverting a big part of military industrial projects to civil products and preparing economy balance for these projects to work on profit - loss principle.
3. Diverting many of the government installations from central to self financing to work as self independent units to finance its activities according to the profit - loss principle also.
4. Increasing the oil production which might have reached 7 million barrel /day if the joint venture investing Italian, Russian or Chinese agreements have been approved. With the help of some foreign expertise and by pumping some more national investments in the oil sector, Iraq with only the national capabilities the oil production could have reached 5.5 million barrel /day.
5. Encouraging foreign and Arab investments according to special mechanisms and rules that include a lot of exemptions, facilitations and stimulants.
6. Resolving the financial ties between the government and the public foundations which were depending on the government support to finance some of their activities. In this way these foundations can cover their expenses by finding means of investing the primary government supporting funds to cover their expenses. This plan was implemented really when the national Ba'ath Party leadership decided to be independent and cover its expenses through some investments.
7. Encouraging investments in the private sector and stimulating it to establish and run economical and social projects without any ceiling for the capital funds.
8. Selling a big portion of the government projects and foundations according to a program set to expand the general sector privatizing without any social or economical impact or deviation from the state general policy of serving the society and modernizing it socially and economically.
9. Seeking the capabilities and the possibilities of Iraqi international investments to get additional income sources. This investment may be with the co-operation of other countries or associations.
10. Investing the Iraqi technical the human resources in the international market to get additional revenues for both the society and the individuals.

By implementing the above processes and others it was estimated that Iraq could have paid back all of its debts in 5-7 years while executing the Iraqi economy rehabilitation plan but the problem that prevented the implementation of these plans was the behavior of the Gulf countries, especially the government of Kuwait and UAE, which flooded up the oil market with more than the OPEC predetermined shares and with the abetting of KSA, Qatar and other Gulf countries which ignored the issue to get use of this situation producing and exporting oil more than the OPEC shares that ended with the collapse of the oil prices with a tremendous impact on the Iraqi economy. Kuwait was also continuing the southern Al-Rumaila oil field stealing presenting a threat to the political and economical Iraqi future triggering Gulf war.

Before talking about the Iraqi losses, casualties and the programmed stealing and looting operations of its resources due to the Anglo - American aggression and occupation, we should talk about some important facts about the nature of the Iraqi economy operations during the blockade and before the braking up of this aggressive war.

1. Because of the sharp decrease in the oil prices beginning from 1980 with its big impact on the Iraqi economy and the concurrent decrease in the US dollar value, the Iraqi leadership, stressed by the Iranian occupation of the Iraqi Al-Faw peninsula, followed some wise and important steps.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The most important was opening a special account called “Exceptional Batch” to be a strategic reserve in case of top emergencies.

The account started with 3 billion dollars transferred from the Central Bank oil revenues, and with the time the process continued calling this as the Exceptional Account going sometimes to 10 billion dollars. The transferred money to this account was done according to official documents and recorded as a debt to the presidency budget which was formed and prepared in top confidentiality with the direct supervision of the leadership and the Central Bank Governor. In some cases the special account was very helpful but some economy specialists don't support such kind of processes because financing this special reserve didn't appear in the lists of the national accounts security issues. The emergency account financing priority has a big effect on the economical planning and the economy performance assessment as a whole.

In addition, some government sectors were squandering like the military industry association when it was supervised by Hussein Kamel. The special account continued until 1988 when it was divided into 2 sections, the first one was about 2 - 3 billion dollars in gold and banknotes in the possession and under the direct supervision of the presidency as a strategic reserve in case of only top special emergencies while the other section was in the Central Bank and any transaction was done with also the presidency approval for the emergency needs of the national vital sectors like the defense, military industry or its related industries or any unconventional issues necessary for the continuing operation of the government and the Iraqi people in the troubled war economy which was away from the national general budget.

The above system continued in the following years to keep the country running its work adapting itself to the limited resources specified by the general official budget and to enable the leadership respond to the emergency needs using its special accounts and strategic reserves and that's the reality about the money and gold found in the presidency headquarters and the special government complexes and taken by the occupation troops on entering Baghdad. There were so many dirty rumors and false cheap claims propagated by the occupation and its agents that this money was belonging to the president and his family and these lies were just to cover the criminal section of the invaders and their co-working thieves in Iraq.

2. Iraq became unable to get use of its oil or other resources income because of the blockade dictated by the USA and its allies. The oil export began only in 1996 according to the oil - for - food agreement which was restricting the exported quantity to a certain figure. In the beginning Iraq was allowed to export oil in the range of 2 billion dollars every 6 months and later on it became 5.26 billions every 6 months but in December 1999 the UN cancelled this upper limit. Two thirds of the export revenues were allocated to cover the humanitarian needs of the Iraq people such as food and medicine and the last third was for covering the Kuwait war compensations and the expenses of the UN inspectors commissions in Iraq with its offices and activities including the weapons search commission and all the oil for food program committees' expenses and any UN committee or association involved in any Iraqi issue according to the UN resolution No 986.

It is very ironic to mention the UN was covering the expenses of any thing that passed by the name of Iraq even the expense of a printed paper from the Iraqi oil revenues. Sometimes international delegates heading to different parts of the world in non-Iraqi issues missions were covering their expenses from the Iraqi oil revenues if they mentioned Iraq or any of its problems in their talks. Iraq was monitoring all of this nonsense and presented so many objection memos against the corruption that dominated the implementation of the UN programs in spending, contracting, compensating and UN expenses estimating.

The UN ignored the Iraqi memos and there were only vague promises and procrastination and the corruption continued for about 7 years of the program life. Recently the scandal emerged when



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Kufi Anan decided to interrogate the officials of the program after the confirmation of embezzlement signs of the program funds in a report done by the UN accounting association. Later on it will be uncovered that the UN and other countries are involved in the corruption and robbery operations from the Iraqi people resources. They are now trying to mix papers and propagate that the Iraqi former government is also involved in the corruption and the dirty fishy implementation of the program processes and to arrange for these accusations they destroyed the country and destroyed all of its official documents and government buildings. Such allegations and claims are unrealistic and illogic because Iraq was the only victim of the blockade and the oil with its revenues are the Iraq's.

What is important for US in this issue is the committee 661 which was responsible for approving the import contracts according to the oil-for-food program. The committee 661 was complicating the processes of approval and was rejecting so many contracts for a common reason which is "double usage", i.e. the imported goods are for both military and civil usage. This repeated rejection banned the Iraqi community and government so many essential needs and consequently the Iraqi account balance in the program accumulated and become so huge due to the steady export with unsteady and intermittent spending and Iraq couldn't get use of these accumulated funds.

Iraq was forced to follow another way to get funds by exporting oil, away from the oil - for - food program, through the borders. On average Iraq was exporting 100- 200,000 crude oil barrels / day in addition to several petroleum products like the liquefied petroleum gas. In December 2000, the Iraqi government imposed 25 - 30 cents/barrel as a tax on the exported oil through the oil-for-food program to get more funds for sufficing the Iraqi community essential needs which were very hard to get through the committee 661 of the oil-for-food program and to build the previously mentioned special emergency strategic reserves with its two sections the presidency section and the Control Bank section.

3. Confronting the American war threats, the Iraqi leadership took some precautions and prepared for confronting a war that would last for at least one year. Under the supervision of the central bank Iraq deposited 3.5 billion dollars in several Arab and foreign banks in Syria, Jordan, Lebanon and Byelorussia for the emergency needs during the war. The funds were the same as the strategic presidency and Iraqi Central Bank reserve accounts. These 3.5 billion dollars were deposited in a secret way to protect them from being frozen, blocked or confiscated by the enemy. It is worth mentioning that all of these countries notified the US administration to uncover these Iraqi accounts on preparing for the aggression.

Juan Carlos Zarate, the US assistant secretary of treasury "for monitoring terrorism financing and for the monetary crimes" admitted that those countries co-operated with the US administration and started uncovering the Iraqi assets on the war break up night. The Iraqi government stored huge amounts of food, civil goods and petroleum products to suffice the country needs during the war so that the government will not be forced to import any thing during the first six months of the war according to the mobilization planning previously followed during Iran - Iraq war.

#### **4. The Iraqi losses due to the last aggressive war and the current Anglo – American occupation**

The Anglo-American war against Iraq overthrew its political and constitutional regime and let to its occupation. During the war thousands of tones of bombs and explosives have been dropped on Iraq to destroy its infrastructure and all of its military and civil installations belonging to both the government and the Iraqi community. All the building and the facilities have been bombarded or blown up to turn them out of order or completely out of service. Looting, Sabotage and steeling operations in Baghdad were taking place on the eye of the occupation forces with their help, abetting and protection to make Iraq go



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



several years back because of the destruction and the ruin which dominated every corner of Iraq. The Iraqi society is now bitterly suffering and beginning from zero and is hardly in need of every aid.

In the following paragraphs, we shall state the occupation negative impacts on the Iraqi economy in the figures and the facts which the Iraqi experts got according to primary evaluations and calculations done in Iraq.

1. Direct losses: the Iraqi losses due to the aggressive war and the occupation totals, in addition to the human casualties, 450 billion dollars and this figure covers all the expenses of building the Iraqi army, which was resolved by an American illegal and unlawful decision, for arming, training, equipment, military camps, air bases, military factories, maintenance centers and all other appliances and facilities. All what results from the accumulative spending along the Iraqi army history has been destroyed by the occupation troops in the last short period. A part of the army equipment has been disassembled, split and sold as scrap to the neighbor countries in very low prices and all the revenues went directly to the occupation troops, their co-operators and the wars different - nationalities dealers who got hold of the weapons with the help of the occupation. The arms contained equipment and military vehicles, light and heavy weapons, airports' equipment, military factories machinery and all of what Iraq was purchasing along the last years. It is very interesting to mention that the retired colonel Jay Gardener whom the occupation employed as the Coalition Provisional Authority director in Iraq was weapons and military equipment dealer. The Iraqi specialists said that if those wasted weapons were sold the normal way, their value might have reached 100 billion dollars.

The Iraq's infrastructure facilities which have been destroyed included power transmission lines, wire and wireless communication systems, potable water and sewage treating plants, medical and education centers, irrigation plants, high ways, bridges, buildings, factories, government buildings, public facilities, ware houses, university labs and scientific research centers, the basic services in industry and agriculture in addition to destroying huge quantities of equipment and appliances necessary for the efficient performance of the government and the society as a whole. And at last the human resources which Iraq spent a lot to develop and prepare through education and training nationally and abroad. Iraq has got a lot of civil and military scientific specialists in all aspects of life. All of these elite staff people have been fired or forced to retire or even quit and most of the foundations, associations, factories or institutions where these valuable highly effective people were working have been destroyed or abandoned.

Killing and forced immigration became a method to destroy this important national resource. Moreover the tremendous and horrible losses of the monuments, museums and manuscripts that narrate the Iraq history where some of these pieces and artifacts exceed millions and billions of dollars.

2. The Iraqi wasted and stolen funds which have been held by the US administration and the occupation authorities after the fall of Baghdad or during the aggression and these can be summarized as follows:
  - In 2003, during the military operations in Iraq, the US administration made a decision to get hold of all the Iraqi assets and funds all over the world which total 13 billions of dollars. Another decision has been made to seize and confiscate the Iraqi funds in the USA which totals more than 3 billions and gave itself the permission to freely deal with the foreign Iraqi funds. Later on in March 2003 the Swiss second biggest bank admitted that the bank has transferred funds from an Iraqi UBS accounts to the US administration without any permission from the official Swiss authorities. The bank didn't declare the value of these funds but "Excel Langer" the bank official speaker told the Swiss news agency that the confiscation of the Iraqi funds took place after the US



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



treasury ministry has blocked the Iraqi assets in 17 US banks including UBS branch itself in the USA. Before that time the Swiss Central Bank declared that there have been some assets for the Iraqi government in several Swiss banks.

In October 2003 the New York Times said that the US administration had confiscated 1.7 billion dollars of the blocked Iraqi funds. It is very clear then that after the disappearance and the absence of the legal Iraqi authority the US administration could confiscate all the Iraqi foreign funds and deal with these funds without any watcher or observer. All the experts think that this issue has been settled since the first days of the occupation.

- The occupation authority, with the UN approval, got hold of the accumulated oil-for-food program funds in the opened account in the National French Bank in New York. Till March 2003 the accumulated funds were 21 billion dollars and they became all under the control of the occupation authority which became actually responsible for any issue related to Iraq or its funds.
- In the first occupation weeks the American troops got hold and collected, only in Baghdad and other presidency complexes and other special government buildings, several billions of dollars. They declared only what totaled 6 billions and they also got hold of about 4 billions from the Iraqi Central Bank and the other Iraqi banks.
- The US administration got hold of all the Iraqi funds in the Arab and foreign banks to which we referred to be the top emergency national reserves. They collected about 2 billions of these accounts.

Some countries like Syria confiscated a part of these funds claiming that this is to settle some Iraqi obligations for Syria. The Syrian embassy in Washington said to the A.P. agency that the total Iraqi funds in Syria were 780 million dollars and the rest of these funds were 264 million dollars after the settlement of some Iraqi debts for some Syrians where some other debts are still suspended. Also Jordan confiscated about 300 million dollars for the same reason. The two countries are forgetting that obligations should be settled according to agreements and protocols agreed on by all parties. The international financial and commercial relations history has never experienced any kind of this dirty way to settle obligations. This way can only be called theft, swindling or embezzlement.

- Again we have to remind you that after the destruction of the Iraqi state and its entity, the occupation authorities and their co-operators got hold also of all the official documents and the details of the financial Iraqi obligations (available, required and due). We have all seen the American tanks heavily bombarding, on purpose, the planning ministry buildings which contain the offices of the specialist departments whose archives had the most important economical documents. It was the same also for the other government departments which have been destroyed and burnt after being emptied from the official important papers. There have been many reports about negotiations and bargaining with the other associated countries to rig the Iraqi obligation in return for shares of these funds. The people who committed these crimes are related to the occupation authorities and their financial and government foundations. Later we will talk about this in details. Moreover, for the same dirty reasons, the values of the Iraqi debts have been falsified.

All the destruction and the looting that have been done by the US troops and the coalition authority was not enough. Stressing the UN the US forced the Security Council to issue the resolution No 1483 which stated that the Security Council admitted the legitimacy of the Anglo-American occupation of Iraq and this action or decision has never been historically preceded especially if we consider that the war on Iraq, according to the international law is illegal and wasn't allowed by the security council. The 1483 resolution stated also on forming the " Developing Fund for Iraq " from which the money should be spent by the



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



occupation authority with the consultancy of the interim government. The "Fund" should get its money from the oil exports in the international rates at the time of selling without any ceiling for the quantity produced or without determining any police for Iraq oil production meaning that only the occupation authority had the freedom to deal with the Iraqi oil resources and its revenues. Thus the USA got the Iraqi oil away from the OPEC policy to which Iraq belongs. Instead of setting an account in the Iraqi Central Bank as stated on the last UN resolution for depositing the oil export funds and all the other funds Iraq can get, Paul Bremer, the American ambassador and the head of the "Coalition Provisional Authority" set the account in the American Central Bank, New York Branch, where all the financial operations of this "Funds" are being done in top secrecy.

Iraq couldn't get any of the "Funds" money in 2003 as all the food and the products brought to Iraq that year were imported according to the previous Iraqi government deals through the oil-for-food program. The deals were always annual and were approved one year in advance. If Iraq could get all the money of his accumulated oil-for-food program his frozen or his secret reserves funds which totals about 46 billion dollars, it would have been able to start the rebuilding and reconstruction operations. These 46 billions don't include the later exported oil revenues which we will talk about later. Shortly after the occupation, Faleh Dawood sulaiman the deputy Central Bank governor sent a request to the Security Council and the UN to restore back all the Iraqi blocked assets but he got no kind of response and later on he was discharged and Sinan Al-Shaibani who came to Iraq with the occupation forces took over his position.

On April 30<sup>th</sup> of 2004 the investigators of the "General American Accounting Office" admitted that there had been about 58 billions of dollars available for Iraq from different sources and ready for reconstruction.

Before presenting the big wonder or question about these funds fate, we should refer to only one example that expresses the occupation authorities' evil intentions which is the electrical power. Iraq is suffering from severe lack of power for about two years since the beginning of the occupation. Some congress auditors said that the power upgrading projects in Iraq would cost 1 - 4 billions and they, the occupation authorities, failed to finish any of them although they spent about 13 billions of the Iraqi funds just during the first year of occupation for reconstruction purposes. They referred the failure to the contractors, materials availability and the security issues that delayed a lot of projects. Up till now no sign has been seen in Iraq for reconstruction except those concrete blocks that surrounds the headquarters of the Americans and their co-operators.

Now it is the time for the big question "Where did all of these funds go? " The real typical answer for this question is that all these funds have been stolen and directly went to the Americans pockets and a part of these funds went to their agents and their co-workers in the big Iraq occupation project. In the following paragraphs we will elaborate the answer from their confessions and the confessions of some international specialist organizations and associations.

- International Advisory and Monitoring Board which has been formed according to the UN resolution No 1483, issued on 22.8.2003, in one of its reports, mentioned important information about wasting the money of the "Development Fund for Iraq" at the time of the Coalition Provisional Authority, which was directed by Paul Bremer, that totaled 20.2 billion dollars. The reports said that the spent sum was 11.3 billions and on the last days of Bremer stay in Iraq he distributed some billions in a hurry before leaving Iraq and the share of the two Kurds parties was 1.8 billions of 100\$ banknotes weighted about 14 tones and was shipped to Kurdistan by 3 choppers. The BBC said that the fate of these funds is a confusing mystery. The newspaper "The Financial Times" said that those funds are deposited now in a Kurdish unknown bank in Geneva and negotiations had been made with on American company to represent the Kurdish Democratic Party in Washington to invest these funds in Swiss banks. This American company was founded by two of Bosh assistants and the vice president of the "White House Consultants for Iraq".



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



- The "UN Financial Monitoring Agency" criticized the way of spending more than 11 billions of the Iraqi oil funds. The agency referred to a "Financial Times" report stating that the money of the "Development Fund for Iraq" was a subject of swindling and embezzling.
- The British organization "Christian Aid" uncovered that Bremer had stolen 4 billion dollars. In another report the organization wondered about the destiny of 20 billion dollars of the Iraqi funds. Up till now no clarification has been issued from the provisional authority, the US administration or from the interim government about those 20 billions.
- The accounting company KPMG which was responsible for auditing the "Development Fund for Iraq" operations said that the American officials were falsifying the expenses reports and wasted about 20 billion dollars during the occupation emphasizing that many of the contracts approved by the interim authority have never been seen by the resolved interim governing council, the Iraqi people, any official body or even KPMG itself despite its repeated requests for this. KPMG also pointed out that the 2 billion dollars which Paul Bremer spent in his last 2 days in Iraq, uncovered later, were given to Barazani and Talabani in addition to 3 billions of approved contracts by the end of Bremer period and all of these funds' documents are unknown. KPMG also reported 4.6 billions for undue obligations which have never been identified up till now. In January this year the BBC agreed with the reports of the "Christian Aid" organization in one of its special investigations which uncovered the stealing of billions of dollars of the Iraqi oil revenues with the co-operation and the help of the US occupation troops and a number of the US companies specially in the time before resolving the Iraqi governing council. One of the investigation participants added that looking at the stolen funds at the beginning of the occupation, the reconstruction period will be one of the biggest corruption scandals in the history. The BBC concluded that more than 20 billions of the Iraqi funds have been wasted by stealing and bribing.
- Charley Crone "the coalition official speaker in Iraq said that the coalition forces which were responsible for the Iraqi resources as occupation forces got hold of a lot of cash funds found in palaces, presidency compounds and government buildings and he added "I don't know what happened to these cash funds where a lot of them has been transported by planes to unknown places outside Iraq. They might have been given to the military leaders to spend them freely in their command areas.
- Accounting auditors from the US government found that 8.8 billions of the spent money in Iraq were lost and no accounting records show on what they are spent or the identity of who got these sums. The auditors blamed the Provisional Coalition Authority for losing this money because of the financial management failure.
- Esam Al-khafaji, one of the Iraqis retuning and working with the occupation forces, admitted that the palaces and the other stuff hold before by the governing Ba'ath Party, president Saddam and his sons have been distributed by decisions of unknown entities to the new Iraqi elite group which returned to Iraq with the occupation troops and so many expensive cars have been stolen and nobody gave any records of what had happened.
- "Mohammed Bahr El Uloum", member of the resolved governing council accused Paul Bremer, the director of the Provisional Authority of fraudulence and wasting operations for the Iraqi public funds. He said that what has been spent the pervious year under the coalition authority supervision is a matter of questioning calling the current government to be so fussy about the total sums of the "Development Fund for Iraq" and he said to Al-Watan Saudi newspaper "The total income of the "Development Fund for Iraq" was 20 billions the oil exports funds were 11 billions and the funds of the oil-for-food program were 7 billions". Later his son Ibrahim, the oil minister of the resolved interim governing council, in a talk to Al-Baiena newspaper, uncovered American



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



theft and robbery operations taking place in secret under the supervision and the official illegal covering led by the previous provisional authority director Paul Bremer. Bahr El Uloum said that steeling had been done by American officials working in Iraq after the occupation explaining that Paul Bremer had stolen more than 25 billions in cash and other valuables.

- The general auditor for Iraq reconstruction, the lawyer "Stewart Bowen", reported that the interim coalition provisional authority in Iraq led by Paul Bremer wasted about 9 billions allocated for Iraq reconstruction. Bowen pointed out so many examples of corruption and embezzlement like paying funds on expenses list for about 8206 nonexistent persons. In addition, the authority approved contracts in millions of dollars without any accounting documentation.
- Stealing was absolutely clear in the reconstruction operations and their contracts. The International Advisory and Monitoring Board report showed that the handling of the Iraqi funds, under occupation, represents a case of absolute corruption and presented hundreds of examples about this corruption as some of the following:

i) The Halliburton structural supports 1.5 billion dollars tender was paid in one single batch even before the start of the project. Dick Cheney was the president of Halliburton before being the USA Vice President.

ii) The Iraqi oil ministry American consultant ordered the payment of 1.6 million dollars for a contract about which no information has been found.

iii) An official in the occupation authority ordered, by mistake, the payment of 3 millions as a first payment for a cancelled contract to which the employee has nothing to do and the funds went with no return to the unknowns' pockets.

iv) The members of the "Provisional Coalition Authorities" allocated 800 millions for unknown contracts to be carried out after they leave Iraq.

v) Paul Bremer gave 10 million dollars for the Iraqi American nationalized Kana'an Makkiyah who claimed that he would build Saddam Hussein's victims museum" and later on he took the money and flew to his residence in America without building anything.

vi) The provisional Coalition Authority failed to present any documentation or reasons for spending 1 billion dollars for the reconstruction.

vii) The provisional Coalition Authority did not present any proofs for a lot of sums spent and claimed to get services and equipment in return.

The report pointed out that the interim The provisional Coalition Authority ruled Iraq from May 2003 to 28/6/2004 the date of the power hand over to the Iraqis and used the Iraq state funds and the oil exports revenues to do what is called Iraq reconstruction and all they could present in documents and spending legal basics is financing about 1928 projects with value of 847 millions.

### **Controlling the oil production and its refunds**

To talk about this issue we have to explain briefly the official practice in exporting the oil before the occupation. The oil export was done by the SOMO (State Oil Marketing Organization) by bidding and proposing according to predetermined contract conditions set by the Iraqi government. A specialist committee at SOMO studied the bids and approved them with some of the contracts according to agreements and contracts between Iraq and the associated countries. All the operations and the practices



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



details were being presented to the oil minister and the associated departments and the presidency one by one.

The official contracts copies were being sent to the UN associated committee which was supervising the oil-for-food program with a cc to the National French Bank that collects the exporting process funds and sends letters and memos about them to the Iraqi government represented by the SOMO and the UN. Exporting oil away from the UN program was in the range of 100-200,000 barrel/day with special authorities for the oil minister and complete direct presidency supervision. In addition, oil was exported to Jordan according to the special UN approved protocol "to support the weak Jordan economy" and shipped by trailer tankers and its prices were very special - nearly without any profits. The former government decided to consider some of this oil as a gift to the Jordanian brothers and this continued all the blockade years until the date of aggression in which Jordan directly participated!!!

### **Stealing the Iraqi oil resources**

The occupation had pre intentions and arrangements to rob Iraq and its resources. The Iraq petroleum experts association IPEA pointed out that after the fall of Baghdad and the lost of law and security the oil industry was out of control and the industry management could not prevent any illegal actions against the oil facilities. The mafia (the criminal gangs) which came with the occupation or were constituted for this purpose found it very easy for crude oil and products smuggling operation and the coalition forces did not take any actions to stop these illegal practice operations. The association reported, in January 2004, that after a few days of the occupation, big quantities of crude oil from the Iraq southern fields were shipped by trailer tankers through the Iraqi, Kuwaiti borders. One of the Arab satellite TV stations showed a talk with Mr. Mahdi Badie who was one of the southern oil company officials in charge of the fields operation by that time. Badie was talking to the TV station rep. while a long convoy of tanker trailers was moving behind him. Badie was pointing with his hands saying that those trailers, filled with crude oil, were going to the unknown i.e. the direction of Al-Basrah - Safwan high way. At the same time some of the American armed personal carriers, filled with soldiers and guarding this convoy, were seen in the background. Now the question is how come that those unknown - as called - mafia could, at the mid of the big military operations, do this work and send such crude oil tankers convoy on the reverse way of the military equipment moving into Iraq? The association assured on its report that such smuggling operations continued for more than more than 3 months.

The IPEA said also that the smuggling mafia invented other ways for shipping the crude oil by installing small pumping units on the crude oil pipelines close to Al-Zubair bridge on Shat Al-Arab so that the small tanker ships can be filled and transfer the crude oil to bigger tankers outside Khor Al-Zubair. By that time all the marine ways in Khor Al-Zubair and Shat Al-Arab were under the control of the British troops and no small ships or boats could sail there without the complete supervision of those troops.

The association added that the crude oil smuggling operations have been video shot by same officials of the southern oil company who handed the tapes to the American and the British officials in Baghdad and Al-Basrah who said that they had more important issues than chasing the oil smugglers.

The IPEA said also that the petroleum products in the south were being smuggled in small ships (500-1000 tons) to the Gulf countries and Iran. Smuggling was also taking place across the Jordanian and the Syrian borders and the northern region in Iraq (Kurdistan). A lot of diesel fuel and LPG were being sent through those ports.

We all still remember the US troops on entering Baghdad when they were defending the ministry of oil and the related corporations in Baghdad, Mosul and the other important production areas. The Americans did not allow any looting or robbing as what happened to the other ministries' buildings. Defending those building was to keep the oil export contracts which were still valid and to know exactly the production rate



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



before the war and the status of the wells in service and consequently get a broad idea about Iraq production capabilities in the present and in the future especially if we know that the public known daily rate does not include about half a million barrel exported through the borders away from the oil-for-food program.

Jay Gardner the former president of what is called The Coalition Provisional Authority started his work after the fall of Baghdad by forming a consultancy committee for the oil sector with the American Philip Carol as a president and Fadhel Uthman as the deputy president. This committee was responsible for oil from A to Z, production, processing and marketing. The committee got hold of all the oil industry important documents and took them to the headquarters of the Coalition Provisional Authorities. The aforementioned committee included also a number of other Americans and some Iraqis with American citizenship coming to Iraq with the coalition occupation forces. Philippe Carol is a former president and general manager of Shell Oil and a former president of Floior Engineering and Construction which works with Halliburton in Iraq reconstruction. Fadhel Uthman was working before as the marketing manager in the resolved Iraq Petroleum Company. Fadhel got also several positions in the ministry of oil before leaving Iraq in 1980 to live abroad. Tim Cross, the deputy president of the Coalition Provisional Authority, was directly supervising this committee until, later on, Paul Bremer became the direct supervisor of this committee. Jay Gardner employed the Iraqi Thamer Ghadhban, the current oil minister and the planning manager in the oil ministry before the war, as the executive manager of the oil ministry transient department and he continued in charge until forming the government of the interim governing council where Ibrahim Bahr El Uloum became the oil minister. The Coalition Provisional Authority, directed by Bremer employed Mohammed Al-Jubouri, the current commerce minister, as the general manager of the SOMO instead of its last manager Saddam Zain Al-Hassan who got arrested and detained.

### **Exporting oil by the coalition authority**

By the end of March 2003 the coalition authority declared that it had set up the "Developing Fund for Iraq" supervised by the coalition authority and the transitional governing council to manage the Iraqi funds for Iraq rebuilding. The Iraqi oil export funds would be deposited in the above "Development Fund for Iraq" which would be managed by the coalition authority itself. Clearly this is different from the ""Development Fund for Iraq" which the UN formed recently to manage the donated funds for Iraq reconstruction.

Thamer Ghadhban, the Iraqi oil ministry supervisor, declared that Iraq was exporting about 700,000 barrel/day from the south after signing a lot of the long term contracts with a lot of international oil companies.

The coalition authority started, since June 2003, exporting the stored oil quantities, about 8 million barrels, which have been prepared by the former Iraqi government in the southern oil facilities. The exporting operations were being done this time directly for the first time and in unknown or posted rates. This oil was sold to American, British, Canadian and European companies like Chevron, Texaco, Shell, BP, Total .....etc. in addition to Asian companies from China and Japan. Thamer Ghadhban declared this in one of his press conferences and that was confirmed also by Mohamed Al-Jubouri - the current commerce minister who was employed by the occupation as the SOMO general manager. Unfortunately, Al-Jubouri was a member of Al-Ba'ath party and the government spent a lot to prepare him technically and practically but what to say about the people who color their skin according to the surrounding environment. Ghadhban confirmed also that in July 2004 they started the Iraqi oil, prepared before the occupation, exporting through the Turkish port Qihan and this quantity was 10 million barrel and was being shipped to American and European companies. By that time Iraq started also exporting the officially declared quantity which was 700,000 barrel/day when Thamer Ghadhban declared, as the oil ministry supervisor at that time, that Iraq started exporting about 700,000 barrels/day and may increase to 1 million barrel/day. These oil exporting operations enable Iraq get big revenues and if we considered that they



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



started by the end of June or the beginning of July 2003 then till the end of December 2004 the funds collected should have been 40 billion dollars for exporting rate of 2 million barrel/day according to the declared figures all that period and these funds are calculated at the minimum rate or 37 dollars/barrel but if the rates successive shifts are considered which reached 50 dollars during the same period, the revenues, for sure, would have increased to about 50 billion dollars for the same exporting rate of 2 million barrel/day.

So many questions arise here .....Where did all these funds go? Why are oil exporting and contracting jobs done in such secret way and according to an abnormal practice not controlled by any usual or ordinary practice or procedures?

How are the oil export funds transferred and for whom? And why are those funds held by the American? Who has the right to know the way of managing these funds? And why has no portion of these funds been used to rehabilitate the Iraqi oil industry which was in need of 13 billion dollars to raise the Iraqi oil production to its previous rate of 3.5 million barrel/day according to the ex Iraqi government technical study which was supported and appreciated by the Americas and Thamer Ghadhban, the current oil minister, on many occasions.

The Iraqi government and the American administration are day and night yelling for funds for Iraq despite all these, continuously duplicating, and funds. Simply these funds are a subject for theft and embezzlement.

So many questions deserve several trials to find the answers. So many parties have already participated and still are stealing the Iraqi oil revenues. The Americans are the first accused party because of the departments they set up in Iraq and because of their employees and co-operators like the buried interim governing council ministers and the officials they employed to run the ministry of oil. The Interim government commanded by Negroponte and a big list of opportunists, brokers, spies and traitors all are participating in these stealing and criminal operations.

Go to: [Iraq Occupation and Resistance Report](#)

<http://www.uruknet.info/?s1=1&p=13905&s2=21>

[http://psychoanalystsopposewar.org/resources\\_files/Stolen\\_IRAQ\\_Resources.htm](http://psychoanalystsopposewar.org/resources_files/Stolen_IRAQ_Resources.htm)

<http://www.axisoflogic.com/cgi-bin/exec/view.pl?archive=135&num=19358>

---



# **Crude Designs: The Rip-Off of Iraq's Oil Wealth**

**By Greg Muttitt**

**PLATFORM with Global Policy Forum,  
Institute for Policy Studies (New Internationalism Project)  
New Economics Foundation  
Oil Change International and War on Want  
November 2005**

*For pdf version, click [here](#)*

---

## **Acknowledgements**

*Researched and written by Greg Muttitt of PLATFORM [www.carbonweb.org](http://www.carbonweb.org), with assistance from Guy Hughes and Katy Cronin of Crisis Action [www.crisisaction.org.uk](http://www.crisisaction.org.uk).*

*Advice on economic modelling provided by Dr Ian Rutledge of Sheffield Energy & Resources Information Services (SERIS) [www.seris.co.uk](http://www.seris.co.uk)*

*Published by PLATFORM with Global Policy Forum, Institute for Policy Studies (New Internationalism Project), New Economics Foundation, Oil Change International and War on Want - November 2005.*

*Design by Guy Hughes [www.power-shift.org.uk](http://www.power-shift.org.uk). Cover design by Ishka Michocka [www.lumpylemon.co.uk](http://www.lumpylemon.co.uk).*

*Printed by Seacourt Press on recycled paper (75% post-consumer waste) using a waterless process in compliance with ISO 14001 and EMAS.*

---

## **Contents**

[Executive Summary](#)

[Glossary](#)

### **Chapters:**

- [1 - The ultimate prize: Anglo-American interests in Gulf oil](#)
- [2 - Re-thinking privatisation: Production sharing agreements](#)
- [3 - Pumping profits: Big Oil and the push for PSAs](#)
- [4 - From Washington to Baghdad: Planning Iraq's oil future](#)
- [5 - Contractual rip-off: the cost of PSAs to Iraq](#)
- [6 - A better deal: Options for investment in Iraqi oil](#)
- [7 - Conclusion](#)



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### Appendices:

- 1 - How a Production Sharing Agreement works
- 2 - Discounting in oilfield economics – key concepts
- 3 - Iraqi oilfield data
- 4 - Economic analysis - methodology and assumptions

### References

About the publishers

### List of tables:

- 5.1 - Impact of PSAs on Iraqi state revenues
- 5.2 - Impact of PSAs on discounted Iraqi state revenues
- 5.3 - Impact of PSAs on Iraqi revenues at different oil prices
- 5.4 - Impact of PSAs on oil company profitability
- 5.5 - Oil company profitability at different oil prices
- 6.1 - Foreign investment in the world's major oil reserves
- A3.1 - Data on 25 undeveloped Iraqi oilfields



## **Executive Summary**

While the Iraqi people struggle to define their future amid political chaos and violence, the fate of their most valuable economic asset, oil, is being decided behind closed doors.

This report reveals how an oil policy with origins in the US State Department is on course to be adopted in Iraq, soon after the December elections, with no public debate and at enormous potential cost. The policy allocates the majority (1) of Iraq's oilfields – accounting for at least 64% of the country's oil reserves – for development by multinational oil companies.

Iraqi public opinion is strongly opposed to handing control over oil development to foreign companies. But with the active involvement of the US and British governments a group of powerful Iraqi politicians and technocrats is pushing for a system of long term contracts with foreign oil companies which will be beyond the reach of Iraqi courts, public scrutiny or democratic control.

### **COSTING IRAQ BILLIONS**

Economic projections published here for the first time show that the model of oil development that is being proposed will cost Iraq hundreds of billions of dollars in lost revenue, while providing foreign companies with enormous profits.

Our key findings are:

At an oil price of \$40 per barrel, Iraq stands to lose between \$74 billion and \$194 billion over the lifetime of the proposed contracts (2), from only the first 12 oilfields to be developed. These estimates,



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



based on conservative assumptions, represent between two and seven times the current Iraqi government budget.

Under the likely terms of the contracts, oil company rates of return from investing in Iraq would range from 42% to 162%, far in excess of usual industry minimum target of around 12% return on investment.

### **A CONTRACTUAL RIP-OFF**

The debate over oil “privatisation” in Iraq has often been misleading due to the technical nature of the term, which refers to legal ownership of oil reserves. This has allowed governments and companies to deny that “privatisation” is taking place. Meanwhile, important practical questions, of public versus private control over oil development and revenues, have not been addressed.

The development model being promoted in Iraq, and supported by key figures in the Oil Ministry, is based on contracts known as production sharing agreements (PSAs), which have existed in the oil industry since the late 1960s. Oil experts agree that their purpose is largely political: technically they keep legal ownership of oil reserves in state hands (3), while practically delivering oil companies the same results as the concession agreements they replaced.

Running to hundreds of pages of complex legal and financial language and generally subject to commercial confidentiality provisions, PSAs are effectively immune from public scrutiny and lock governments into economic terms that cannot be altered for decades.

In Iraq's case, these contracts could be signed while the government is new and weak, the security situation dire, and the country still under military occupation. As such the terms are likely to be highly unfavourable, but could persist for up to 40 years.

Furthermore, PSAs generally exempt foreign oil companies from any new laws that might affect their profits. And the contracts often stipulate that disputes are heard not in the country's own courts but in international investment tribunals, which make their decisions on commercial grounds and do not consider the national interest or other national laws. Iraq could be surrendering its democracy as soon as it achieves it.

### **POLICY DELIVERED FROM AMERICA TO IRAQ**

Production sharing agreements have been heavily promoted by oil companies and by the US Administration.

The use of PSAs in Iraq was proposed by the Future of Iraq project, the US State Department's planning mechanism, prior to the 2003 invasion. These proposals were subsequently developed by the Coalition Provisional Authority, by the Iraq Interim Government and by the current Transitional Government. The Iraqi Constitution also opens the door to foreign companies, albeit in legally vague terms.

Of course, what ultimately happens will depend on the outcome of the elections, on the broader political and security situation and on negotiations with oil companies. However, the pressure for Iraq to adopt PSAs is substantial. The current government is fast-tracking the process and is already negotiating contracts with oil companies in parallel with the constitutional process, elections and passage of a Petroleum Law.

The Constitution also suggests a decentralisation of authority over oil contracts, from the national level to Iraq's regions. If implemented, the regions would have weaker bargaining power than a national government, leading to poorer terms for Iraq in any deal with oil companies.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **A RADICAL DEPARTURE**

In order to make their case, oil companies and their supporters argue that PSAs are standard practice in the oil industry and that Iraq has no other option to finance oil development. Neither of these assertions is true.

According to International Energy Agency figures, PSAs are only used in respect of about 12% of world oil reserves, in countries where oilfields are small (and often offshore), production costs are high, and exploration prospects are uncertain. None of these conditions applies to Iraq.

None of the top oil producers in the Middle East uses PSAs. Some governments that have signed them regret doing so. In Russia, where political upheaval was followed by rapid opening up to the private sector in the 1990s, PSAs have cost the state billions of dollars, making it unlikely that any more will be signed. The parallel with Iraq's current transition is obvious.

The advocates of PSAs also claim that obtaining investment from foreign companies through these types of contracts would save the government up to \$2.5 billion a year, freeing up funds for other public spending. Although this is true, the investment by oil companies now would be massively offset by the loss of state revenues later.

Our calculations show that were the Iraqi government to use PSAs, its cost of capital would be between 75% and 119%. At this cost, the advantages referred to are simply not worth it.

Iraq has a range of less damaging and expensive options for generating investment in its oil sector. These include: financing oil development through government budgetary expenditure (as is currently the case), using future oil flows as collateral to borrow money, or using international oil companies through shorter-term, less restrictive and less lucrative contracts than PSAs (4).

### **IN WHOSE INTERESTS?**

PSAs represent a radical redesign of Iraq's oil industry, wrenching it from public into private hands. The strategic drivers for this are the US/UK push for "energy security" in a constrained market and the multinational oil companies' need to "book" new reserves to secure future growth.

Despite their disadvantages to the Iraqi economy and democracy, they are being introduced in Iraq without public debate.

It is up to the Iraqi people to decide the terms for the development of their oil resources. We hope that this report will help explain the likely consequences of decisions being made in secret on their behalf.

#### **Notes**

1. The Iraqi government would be left with control of only the 17 fields that are already in production, out of around 80 known fields.

2. The precise terms of proposed contracts are obviously be subject to negotiation: our projections are based on a range of terms used in the most comparable countries, including Libya, which is commonly viewed as having some of the most stringent in the world. Multinational oil companies are pushing for lucrative terms by international standards, based on Iraq's high level of political and security risk. These risks place the Iraqi government in an extremely weak negotiating position. The projections are given in



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



undiscounted real terms (2006 prices). The contract duration is assumed to be 30 years as 25-40 years is the common length. The (2006) net present value of the loss to Iraq amounts to between \$16 billion and \$43 billion at 12% discount rate.

3. The terminology of PSAs labels the private companies as “contractors”. This report illustrates that this label is misleading because PSAs give companies control over oil development and access to extensive profits.

4. These might include buyback contracts, risk service contracts or development and production contracts

## **Glossary**

<b>Bbl</b>	barrels
<b>bn</b>	billion
<b>CEO</b>	Chief Executive Officer
<b>CNPC</b>	China National Petroleum Corporation
<b>CPA</b>	Coalition Provisional Authority
<b>DOE</b>	(US) Department of Energy
<b>DPC</b>	development and production contract
<b>FCO</b>	(UK) Foreign and Commonwealth Office
<b>FDI</b>	foreign direct investment
<b>FOB</b>	freight on board
<b>GDP</b>	gross domestic product
<b>ICSID</b>	International Centre for Settlement of Investment Disputes
<b>IMF</b>	International Monetary Fund
<b>INOC</b>	Iraq National Oil Company
<b>IOC</b>	international oil company
<b>IPC</b>	Iraq Petroleum Company
<b>ITIC</b>	International Tax and Investment Centre
<b>IRR</b>	internal rate of return
<b>kbpd</b>	thousand barrels per day
<b>KRG</b>	Kurdistan Regional Government
<b>mbd</b>	million barrels per day
<b>MEES</b>	Middle East Economic Survey
<b>MOU</b>	memorandum of understanding
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OPEC</b>	Organisation of Petroleum Exporting Countries
<b>NPV</b>	net present value
<b>PSA</b>	production sharing agreement
<b>SERIS</b>	Sheffield Energy and Resources Information Service
<b>UN</b>	United Nations
<b>USAID</b>	United States Agency for International Development

## **1. The Ultimate Prize: Anglo-American interests in Gulf oil**

The UK and US have long had their eyes on the massive energy resources of Iraq and the Gulf. In 1918 Sir Maurice Hankey, Britain's First Secretary of the War Cabinet wrote:



# **BRussells Tribunal Dossier**

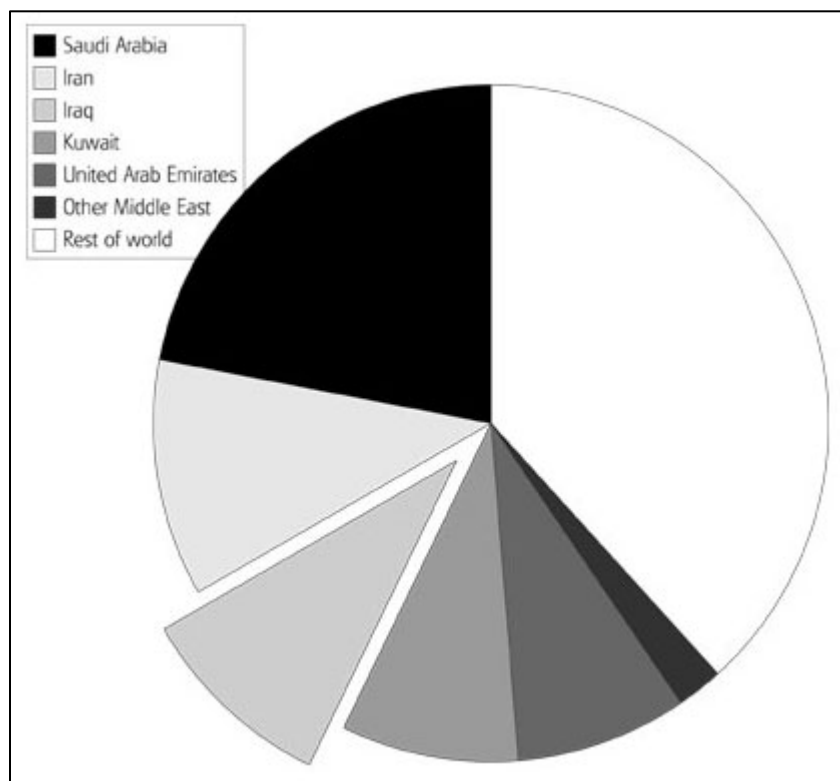
## **Big Oil's occupation of Iraq**



“Oil in the next war will occupy the place of coal in the present war, or at least a parallel place to coal. The only big potential supply that we can get under British control is the Persian [now Iran] and Mesopotamian [now Iraq] supply... Control over these oil supplies becomes a first class British war aim.”<sup>(1)</sup>

After World War II both the US and UK identified the importance of Middle Eastern oil. British officials believed that the area was “a vital prize for any power interested in world influence or domination”<sup>(2)</sup>, while their US counterparts saw the oil resources of Saudi Arabia as a “stupendous source of strategic power and one of the greatest material prizes in world history”<sup>(3)</sup>.

### **TURNING BACK TO THE MIDDLE EAST**



With over 60% of the world's oil reserves,<sup>(4)</sup> their interest in the Gulf region is unsurprising. Iraq alone has the third largest oil reserves on the planet – accounting for 10% of the world total. Iraq is also reckoned to have the world's largest unexplored potential, primarily in the Western Desert. On top of its 115 billion barrels of proven reserves, Iraq is estimated to have between 100 and 200 billion barrels of further possible (as yet undiscovered) reserves. Furthermore, not only are Iraqi and Gulf reserves huge, they are mostly onshore, in favourable reservoir structures, and extractable at extremely low cost. Since the nationalisation of the major oil industries of the Middle East in the 1970s, Gulf reserves have been out of the direct control of the West and off the balance sheets of its companies. The oil

companies have filled the gap 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 the Caspian Sea and offshore West Africa. However, the North Sea and Alaska are now in decline and while companies continue to actively pursue frontier oil development, the opportunities for growth there are limited and costs high. Thus, unable to escape from the arithmetic of where the giant reserves are, the US and UK are turning back their attention to the Middle East.

In a speech to the Institute of Petroleum in London in 1999, Dick Cheney, then CEO of oil services company Halliburton, commented:



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



“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? ... 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.”(5)

To this analysis, he added a note of frustration: “Even though companies are anxious for greater access there, progress continues to be slow”.

### **A PRIMARY FOCUS OF US/UK ENERGY POLICY**

Two years later, one of the Bush Administration's first actions was to appoint Cheney, as US Vice President, to lead an Energy Task Force to consider where the USA's long-term energy supplies would come from. His report noted:

“By any estimation, Middle East oil producers will remain central to world oil security. The Gulf will be a primary focus of U.S. international energy policy.”(6)

While US interest in Middle Eastern oil has been well-documented, similar considerations play in British strategic planning too. In January 2003, Foreign Secretary Jack Straw announced that one of the Foreign Office's seven priorities was “to bolster the security of British and global energy supplies”.(7) The geography of such a policy had been spelled out in the 1998 Strategic Defence Review white paper:

“Outside Europe our interests are most likely to be affected by events in the Gulf and the Mediterranean. Instability in these areas also carries wider risks. We have particularly important national interests and close friendships in the Gulf. Oil supplies from the Gulf are crucial to the world economy.”(8)

Pointing to the government's partnership on these issues with major oil companies, a further Foreign Office strategy paper later in 2003 identified a key objective as to:

“improve investment regimes and energy sector management in these regions [the Middle East, parts of Africa and the former Soviet Union], **focusing on key links in the supply chain to the UK**”(9) (emphasis added).

Importantly, these policies in America and Britain are coordinated. The US-UK Energy Dialogue - a bilateral initiative established during the April 2002 meeting of Prime Minister Blair and President Bush in Crawford, Texas(10), and designed to “enhance coordination and cooperation on energy issues” - demonstrates the close convergence of Anglo-American views and interests on Middle Eastern oil:

“Current forecasts for the oil sector put global demand by 2030 at about 120 million barrels per day (mbd), which is roughly 45 mbd higher than today. While recognizing that the increasing role of Russia and other non-OPEC producers, a large proportion of the world's additional demand will likely be met by the Middle East (mainly Middle East Gulf) producers. They hold over half of current proven reserves, exploration and production costs are the lowest in the world, and production in many mature fields in the OECD area is likely to fall. To meet future world energy demand, the current installed capacity in the Gulf (currently 23 mbd) may need to rise to as much as 52 mbd by 2030.”(11)

### **PUSHING FOREIGN INVESTMENT**

However, as noted in the Dialogue, one obstacle to “free access” to oil that concerns the British and Americans is the lack of ‘installed extraction capacity’. To help deal with this problem President Bush and Prime Minister Blair tasked a joint Working Group with a list of planned activities. First on the list was to undertake “...a targeted study to examine the capital and investment needs of key Gulf countries...”.(12)



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Within this context, it is perhaps unsurprising that in advising on the post-war reconstruction of Iraq, the British government has recommended that foreign investment in oilfields of most benefit to Iraq. In late summer 2004, the Foreign and Commonwealth Office issued a Code of Practice for the Iraqi oil industry, which argued that:

"It has been estimated that a minimum of US\$ 4 billion would be needed to restore production to its 1990 levels of 3.5 million barrels per day (mbd), and perhaps US\$ 25 billion to achieve 5 mbd. ... Given Iraq's needs, it is not realistic to cut government spending in other areas, and Iraq would need to engage with the International Oil Companies (IOCs) to provide appropriate levels of Foreign Direct Investment (FDI) to do this." (13)

The Foreign Office subsequently went on to advise the Ministry of Oil on "fiscal and regulatory" issues. (14) Although this was never published in a formal policy document, it continued at an informal level, with Foreign Office minister Kim Howells stating that "We discuss with the Iraqi Ministries their priorities on a regular basis." (15) The FCO remains secretive about the content of this advice, refusing Freedom of Information applications. Tellingly, one of the exemptions used for their refusal was that the advice was "voluminous". (16)

The US government too has maintained close contacts with Iraqi decision-makers. (17) Speaking on the handover from the Coalition Provisional Authority to the Iraqi Interim Government, one senior US official said:

"We're still here. We'll be paying a lot of attention and we'll have a lot of influence. We're going to have the world's largest diplomatic mission with a significant amount of political weight." (18)

A report commissioned by the US Agency for International Development was more specific about the form of contracts that should be used in Iraq, in order to achieve the West's energy security goals:

"Using some form of [production sharing agreements] with a competitive rate of return has proved the most successful way to attract [international oil company] investment to expand oil productive capacity significantly and quickly." (19)

As the above policies illustrate, the key US-UK 'energy security' priority is secure control over an increasing supply of Gulf oil, preferably delivered by investment from their own oil companies. It is clear that Iraq's newly accessible oil is expected to play an important role in meeting these priorities. But as we shall see, implementing these arrangements could have severe impacts on Iraq's future development.



Photo: Greg Muttitt  
The key US-UK "energy security" priority is secure control over an increasing supply of Gulf oil, preferably delivered by investment from their own companies

## **2. Re-thinking privatisation: Production sharing agreements**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **THE NATURE OF "PRIVATISATION"**

Given the West's fundamental strategic interest in the oil reserves of Iraq and the Gulf as outlined in the previous section, some observers were surprised when the oil sector was excluded from the sweeping privatisations of Iraq's economy by US Administrator Paul Bremer in 2003 and 2004. Decisions on the future structure of the oil industry were deferred, to be addressed by an elected Iraqi government.

The Coalition Provisional Authority only awarded short-term repair and restoration contracts – for service companies such as Halliburton and Parsons to restore the country's existing oil infrastructure, which had been damaged by war and sanctions – rather than long-term extraction concessions. In February 2005, Interim Oil Minister Thamer al-Ghadban stated that "As for the extraction sector, that is, dealing with the oil and gas reserves, which are 'assets', privatisation is completely out of the question at the moment." (20)

But if the non-privatisation of oil was a surprise, this was largely based on a misconception of what "privatisation" means in the Iraqi context. In the minds of some neo-conservatives, writing on Iraqi oil before the war, privatisation meant the transfer of *legal ownership of Iraq's oil reserves into private hands*. However, in all countries of the world except the USA (a), reserves (prior to their extraction) are legally the property of the state. This is the case in Iraq, and remains so under the new Constitution. There has never been a realistic prospect of US-style privatisation of Iraq's oil reserves. But this does not mean that private companies would not develop Iraq's oil.

In some ways, the debate on "privatisation" has obscured the important practical issues of who gets the **revenue** from the oil, and who **controls** the way in which oil is developed. On this matter, Iraq has a relevant history.

The development of Iraq's oil industry began in the aftermath of the First World War, while the country was occupied by Britain under a League of Nations Mandate. In 1925, Iraq's British-installed monarch, King Faisal, signed a concession contract with the Iraq Petroleum Company (IPC) (21), a consortium of British, French and (later) American oil companies. The contract followed a model widely applied in the British colonies. It was for a period of 75 years, during which terms were frozen. Combined with two further concessions granted in the 1930s, the IPC obtained rights to all of the oil in the entire country. Even the Iraqi call for a 20% stake in the concession was denied, despite having been specified in earlier agreements.

As Iraqi frustration at the unfair terms of the deal grew, in the 1950s and 1960s the contract came under pressure. Underpinning this were the issues of whether the split of revenues between company and state was a fair one, and the degree of control the foreign companies had over the development: they restricted production to boost their producing areas elsewhere in the world, and used their monopoly on information to fix prices, depriving Iraq of income. These same arguments were echoed in all of the major oil-producing countries at the time, most of which had similar deals with multinational companies. The ultimate conclusion to these disputes was the nationalisation of many oil industries – in Iraq's case in two stages in 1961 and 1972. (b)

### **INTRODUCING PRODUCTION SHARING AGREEMENTS**

While these disputes were raging in the Middle East, a different model was emerging in Indonesia. There, a new form of contract was introduced in the late 1960s: the **production sharing agreement (PSA)**.

An ingenious arrangement, PSAs shift the ownership of oil from companies to state, and invert the flow of payments between state and company. Whereas in a concession system, foreign companies have rights to the oil in the ground, and compensate host states for taking their resources (via royalties and taxes), a PSA



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



leaves the oil legally in the hands of the state, while the foreign companies are compensated for their investment in oil production infrastructure and for the risks they have taken in doing so.

Although many in the oil industry were initially suspicious of Indonesia's move, they soon realised that by setting the terms the right way, a PSA could deliver the same practical outcomes as a concession, with the advantage of relieving nationalist pressures within the country. In one of the standard textbooks on petroleum fiscal systems, industry consultant Daniel Johnston comments:

"At first [PSAs] and concessionary systems appear to be quite different. They have major symbolic and philosophical differences, but these serve more of a political function than anything else. The terminology is certainly distinct, but these systems are really not that different from a financial point of view." (22)

So, the financial and economic implications of PSAs may be the same as concessions, but they have clear political advantages – especially when contrasted with the 1970s nationalisations in the Middle East. Professor Thomas Wälde, an expert in oil law and policy at the University of Dundee, describes them as:

"A convenient marriage between the politically useful symbolism of the production-sharing contract (appearance of a service contract to the state company acting as master) and the material equivalence of this contract model with concession/licence regimes in all significant aspects...The government can be seen to be running the show - and the company can run it behind the camouflage of legal title symbolising the assertion of national sovereignty." (23)

As we will see, these advantages now appear to make PSAs the Western method of choice for future development of the Iraqi oil industry.

### **OPTIONS FOR OIL POLICY**

There are essentially three models a country may choose from for the structure of its oil industry, plus a number of variations on these themes.

1. The system currently in place in Iraq, which has been the case since the early 1970s, is a **NATIONALISED INDUSTRY**. In this model, the state makes all of the decisions, and takes all of the revenue. The extent of involvement of foreign private companies is that they might be hired to carry out certain services under contract (a **technical service contract**) – a well-defined piece of work, for a limited period of time, and for which they receive a fixed fee. This is the model used throughout most of the Gulf region.

One variant on the technical service contract is the **risk service contract**. In this system, a private company provides capital to invest in a project, but is paid a fixed rate of return, agreed in the contracts (thus preventing excessive profits). A similar mechanism is the **buyback contract**, which has been used on some fields in Iran, in which companies also have a right to buy the oil or gas.

2. In the **CONCESSION** model, sometimes known as the tax and royalty system, the government grants a private company (or more often, a consortium of private companies) a license to extract oil, which becomes the company's property (to sell, transport or refine) once extracted. The company pays the government taxes and royalties for the oil.

3. The **PRODUCTION SHARING AGREEMENT (PSA)** is a more complex system. In theory, the state has ultimate control over the oil, while a private company or consortium of companies extracts it under contract. In practice, however, the actions of the state are severely constrained by stipulations in the contract. In a PSA, the private company provides the capital investment, first in exploration, then drilling



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



and the construction of infrastructure. The first proportion of oil extracted is then allocated to the company, which uses oil sales to recoup its costs and capital investment – the oil used for this purpose is termed ‘cost oil’. There is usually a limit on what proportion of oil production in any year can count as cost oil. Once costs have been recovered, the remaining ‘profit oil’ is divided between state and company in agreed proportions. The company is usually taxed on its profit oil. There may also be a royalty payable on all oil produced.

Sometimes the state also participates as a commercial partner in the contract, operating in **joint venture** with foreign oil companies as part of the consortium – with either a concession or a PSA model. In this case, the state generally provides its percentage share of development investment and directly receives the same percentage share of profits.

### **3. Pumping profits: Big Oil and the push for PSAs**

As with many issues of foreign policy, the interests of the world's largest oil corporations mesh closely with those of their national governments – as we saw in section 1. While the governments seek secure and adequate supplies of oil to feed their economies, the corporations need control over reserves to ensure their future profitability, to deliver returns to their shareholders. For governments, “secure” oil supplies often means that they are in fact part-controlled by major oil corporations based in their own countries.

For their part, major multinational oil companies have made no secret of their desire to gain access to Iraq's reserves. Shortly before the invasion Archie Dunham, chairman of US oil major ConocoPhillips, explained that “We know where the best [Iraqi] reserves are [and] we covet the opportunity to get those some day.”<sup>(24)</sup> Shell has stated that it aims to “establish a material and enduring presence in the country.”<sup>(25)</sup>

Since the overthrow of Saddam Hussein, foreign oil companies have worked hard to build relationships with Iraq's Oil Ministry. They have appointed lobbyists to develop relationships with influential officials, provided training (often for free) for Iraqi officials and technicians, sponsored Oil Ministry participation in international conferences, and entered contracts (again, often for free) to analyse oilfield geological data.

In 2004, Shell recruited an Iraqi external affairs officer to help the company gain access to Iraqi government decision-makers, specifying in their advertisement:

“A person of Iraqi extraction with strong family connections and an insight into the network of families of significance within Iraq”.<sup>(26)</sup>

Through these means, the companies aim to be well-positioned when it comes to the signing of contracts.

#### **WHAT OIL COMPANIES WANT**

It is helpful at this point to look at the companies' agenda for Iraq. Oil corporations are looking for three things when they invest in a country, all of which are delivered by production sharing agreements:

**1. A right to oil reserves.** Companies want a deal that guarantees their right to extract the reserves for many years, thus ensuring their future growth and profits. Furthermore, they want a contract that allows them to ‘book’ these reserves – including them in their accounts – which increases their company value. Production sharing agreements, like concession contracts, permit companies to book reserves in their accounts. The importance of this should not be underestimated for the oil majors. In 2004, when British/Dutch oil company Shell was found to have overstated the size of its ‘booked’ reserves by over 20%,



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



it lost the faith of the financial markets: this impacted heavily on its share price and credit rating. Shell is now desperate to acquire new reserves – which is a key reason why Shell has made more effort than most to make friends in Iraq.



Photo: Greg Muttitt  
Oil companies covet Iraq's oil wealth, and are pushing for access to it through production sharing agreements

agreements, which have proved very effective in achieving an appropriate balance of incentives between Governments and oil companies. And they ensure a fair distribution of the value of a resource while providing the long term assurance which is necessary to secure the capital investment needed for energy projects.”<sup>(27)</sup>

### **THE VOICE OF BIG OIL**

The most detailed expression of what the oil companies are seeking in Iraq has been made by the International Tax & Investment Centre (ITIC), a corporate lobby group pushing for pro-business investment and tax reform.

### **2. An opportunity to make large profits.**

Generally, oil companies make their profits from investing and risking their capital. In some cases, they lose their capital, for example when they drill a ‘dry well’. But in some cases they will find large and hugely profitable fields. Oil companies are therefore very different from service companies like Halliburton, which make money from fixed fees on predictable contracts. Oil companies aim for deals which may be more speculative, but which give them a chance of making super-profits. Production sharing agreements are designed to allow companies to achieve very large profits if successful.

**3. Predictability of tax and regulation.** While companies can accept exploration risk (that they won’t find oil) or price risk (that the oil price falls), both being beyond their control, they try to manage ‘political risk’ (that tax or regulatory demands will increase) by locking in governments. They thus seek to bind governments into long-term contracts that fix the terms of their investment. Production sharing agreements generally last for 25 to 40 years with terms protected from potential change by incoming governments.

Shell’s head of Exploration & Production, speaking at a conference in 2003, made the case for PSAs:

“...international oil companies can make an ongoing contribution to the region [the Persian/Arabian Gulf]... However, in order to secure that investment, we will need some assurance of future income and, in particular, a supportive contractual framework. There are a number of models which can achieve these ends. One option is the greater use of production sharing



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Almost all of ITIC's 110 listed sponsors are large corporations, with roughly a quarter of these in the oil sector. ITIC's Board of Directors contains representatives from Shell, BP, ConocoPhillips, ExxonMobil and ChevronTexaco. Since its launch in 1993, ITIC has primarily focused on the former Soviet Union, but more recently, it has expanded its work to include Iraq. Its 2004 strategy review concluded that this project "should be continued and considered as a "beachhead" for possible further expansion in the Middle East." (28)

In autumn 2004 ITIC issued a major report entitled *Petroleum and Iraq's Future: Fiscal Options and Challenges*, which includes the following key recommendations:

"The most appropriate legal and fiscal form for the facilitation of [Foreign Direct Investment] longer-term development of Iraq's petroleum industry will be a production sharing agreement (PSA)." (29)

Foreign Direct Investment, by ITIC members and other multinational oil companies, would "effectively "kick start" the [Iraqi] economy and avoid the government diverting spending to oil development that is sorely needed for other programmes." (30)

PSAs are lauded as providing the "simplest and most attractive regulatory ... framework" which the ITIC claims are now the "norm in most countries outside the OECD." (31) Having reviewed the various options, with due consideration to "international experience and regional preferences", the ITIC concludes that the alternative models are far inferior to PSAs.

### **INAPPROPRIATE FOR IRAQ**

PSAs are indeed quite common in countries with small oil reserves and/or high extraction costs (especially from offshore fields) and/or high exploration or technical risks. However, none of these conditions apply to Iraq; in fact, Iraq is quite the opposite. PSAs are not found in any other country comparable to Iraq.

It is difficult to overstate how radical a departure PSAs would be from normal practice, both in Iraq and in other comparable countries of the region. Iraq's oil industry has been in public hands since 1972; prior to that the rights to develop oil in 99.5% of the country had also been publicly held since 1961. (c)

In Iraq's neighbours Kuwait, Iran and Saudi Arabia, foreign control over oil development is ruled out by constitution or by national law. These countries together with Iraq are the world's top four countries in terms of oil reserves, with 51% of the world total between them. (32)

Together with the United Arab Emirates, Venezuela and Russia, seven countries hold 72% of the world's oil reserves. These latter three all have some foreign involvement through concession agreements, although both Venezuela and Russia are currently drawing back from it, following unsuccessful expansions in foreign investment in the 1990s. Of these seven countries with major oil reserves, only Russia has any production sharing agreements. Russia signed three PSAs in the mid 1990s; however, PSAs have been the subject of extreme controversy ever since, due to the poor deal the state has obtained from them, and it now looks unlikely that any more will be signed.

Countries with reserves the size of Iraq's do not use PSAs because they do not need to and are able to run their oil industries on far more beneficial terms.



## 4. From Washington to Baghdad: Planning Iraq's oil future

### PRE-INVASION PLANNING

Prior to the 2003 invasion, the principal vehicle for planning the new post-war Iraq was the US State Department's Future of Iraq project. This initiative, commencing as early as April 2002, involved meetings in Washington and London of 17 working groups, each comprised of 10-20 Iraqi exiles and international experts selected by the State Department(33).

The "Oil and Energy" working group met four times between December 2002 and April 2003. Although the full membership of the group has never been revealed, it is known that Ibrahim Bahr al-Uloom, the current Iraqi Oil Minister, was a member.(34) The 15-strong oil working group concluded that Iraq "should be opened to international oil companies as quickly as possible after the war" and that "the country should establish a conducive business environment to attract investment of oil and gas resources."(35)

The subgroup went on to recommend production sharing agreements (PSAs) as their favoured model for attracting foreign investment. Comments by the handpicked participants revealed that "many in the group favoured production-sharing agreements with oil companies." Another representative commented, "Everybody keeps coming back to PSAs."(36)



Current Iraqi oil policy - first designed in Washington, DC - would give at least 4% of Iraq's reserves to foreign companies

The reasons for this choice were explained in the formal policy recommendations of the working group, published in April 2003:

"Key attractions of production sharing agreements to private oil companies are that although the reserves are owned by the state, accounting procedures permit the companies to book the reserves in their accounts, but, other things being equal, the most important feature from the perspective of private oil companies is that the government take is defined in the terms of the [PSA] and the oil companies are therefore protected under a PSA from future adverse legislation."(37)

The group also made it clear that in order to maximize investments, the specific terms of the PSAs should be favourable to foreign investors: "PSAs can induce many billions of dollars of foreign direct investment into Iraq, but only with the right terms, conditions, regulatory framework, laws, oil industry structure and perceived attitude to foreign participation."(38)

Recognising the importance of this announcement, The Financial Times noted:

"Production-sharing deals allow oil companies a favourable profit margin and, unlike royalty schemes, insulate them from losses incurred when the oil price drops. For years, big oil companies have been fighting for such agreements without success in countries such as Kuwait and Saudi Arabia."(39)

The article concluded that: "The move could spell a windfall for big oil companies such as ExxonMobil, Royal Dutch/Shell, BP and TotalFinaElf..."



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **SHAPING THE NEW IRAQ**

The US and UK have worked hard to ensure that the future path for oil development chosen by the first elected Iraqi government will closely match their interests. So far it appears they have been highly successful: production sharing agreements, which were first proposed by the U.S. State Department group, have emerged as the model of oil development favoured by all the post-invasion phases of Iraqi government.

#### **Phase 1: Coalition Provisional Authority and Iraqi Governing Council**

During the first fourteen months following the invasion, occupation forces had direct control of Iraq through the Coalition Provisional Authority. Stopping short of privatising oil itself, the CPA began setting up the framework for a longer-term oil policy.

The CPA appointed former senior executives from oil companies to begin this process. The first advisers were appointed in January 2003, before the invasion even started, and were stationed in Kuwait ready to move in. First, there were Phillip Carroll, formerly of Shell, and Gary Vogler, of ExxonMobil, backed up by three employees of the US Department of Energy and one of the Australian government. Carroll described his role as not only to address short-term fuel needs and the initial repair of production facilities, but also to:

“Begin planning for the restructuring of the Ministry of Oil to improve its efficiency and effectiveness; [and]  
Begin thinking through Iraq's strategy options for significantly increasing its production capacity.” (40)

In October 2003, Carroll and Vogler were replaced by Bob McKee of ConocoPhillips, and Terry Adams of BP, and finally in March 2004, by Mike Stinson of ConocoPhillips and Bob Morgan of BP (d). The £147,700 cost of the two British advisers, Adams and Morgan, was met by the UK government. (41)  
Following the handover to the Iraq Interim Government in June 2004, Stinson became an adviser to the US Embassy in Baghdad.

On 13 July 2003, in the first move towards Iraqi self-government, the CPA Administrator Paul Bremer appointed the quasi-autonomous, but virtually powerless, Iraqi Governing Council. On the same day Bremer appointed Ibrahim Bahr al-Uloum, who had been a member of the U.S. State Department oil working group, as Minister for Oil.

Within months of his appointment Bahr al-Uloum announced that he was preparing plans for the privatisation of Iraq's oil sector, but that no decision would be taken until after elections scheduled for 2005. (42)

Speaking to the Financial Times, Bahr al-Uloum, a US-trained petroleum engineer, said: “The Iraqi oil sector needs privatisation, but it's a cultural issue,” noting the difficulty of persuading the Iraqi people of such a policy. He then proceeded to announce that he personally supported:

Production sharing agreements for upstream (i.e. extraction of crude oil) development; giving priority to US oil companies, “and European companies, probably.” (43)

#### **Phase 2: Iraq Interim Government**

In June 2004, the CPA formally handed over Iraqi sovereignty to an interim government, headed by Prime Minister Iyad Allawi.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The position of Minister of Oil was handed to Thamir al-Ghadban, a UK-trained petroleum engineer and former senior adviser to Bahr al-Uloun. In an interview in Shell's in-house magazine, al-Ghadban announced that 2005 would be the "year of dialogue" with multinational oil companies. (44)

About three months after taking power, Allawi issued a set of guidelines to the Supreme Council for Oil Policy, from which the Council was to develop a full petroleum policy. Pre-empting both the Iraqi elections and the drafting of a new constitution, Allawi's guidelines specified that while Iraq's currently producing fields should be developed by the Iraq National Oil Company (INOC), all other fields should be developed by private companies, through the contractual mechanism of production sharing agreements (PSAs). (45)

Iraq has about 80 known oilfields, only 17 of which are currently in production. Thus the Allawi guidelines would grant the other 63 to private companies.

Allawi also added that:

New fields would be developed exclusively by private companies, with the policy ruling out any participation of INOC; (46)

The national oil company INOC, which manages existing oil fields, should be part-privatised; (47)

The Iraqi authorities should not spend time negotiating the best possible deals with the oil companies; instead they should proceed quickly, agreeing whatever terms the companies will accept, with a possibility of renegotiation (e) later. (48)

### **Phase 3: Transitional Government and writing the Constitution**

The interim government was replaced in early 2005 by the election of Iraq's new National Assembly, which led to the formation of the new government with Ibrahim al-Ja'afari as Prime Minister. In a move which no doubt assisted policy continuity from the period of US control, Ibrahim Bahr al-Uloun was reappointed to the position of Minister for Oil.

Meanwhile, Ahmad Chalabi, the Pentagon's former favourite to run Iraq, was appointed chair of the Energy Council, which replaced the Supreme Council for Oil Policy as the key overseer of energy and oil policy. Back in 2002 Chalabi had famously promised that "US companies will have a big shot at Iraqi oil." (49)

By June 2005, government sources reported that a Petroleum Law (f) had been drafted, ready to be enacted after the December elections. According to the sources – although some details are still being debated – the draft of the Law specifies that while Iraq's currently producing fields should be developed by INOC, new fields should be developed by private companies.

In October 2005, a new Constitution was accepted in a referendum of the Iraqi population. Like much of the Constitution, the oil policy section is open to some interpretation. Apparently referring to fields not currently in production, it states:

"The federal government and the governments of the producing regions and provinces together will draw up the necessary strategic policies to develop oil and gas wealth to bring the greatest benefit for the Iraqi people, relying on the most modern techniques of market principles and encouraging investment." (50)

There are two issues here. The reference to "market principles and encouraging investment" indicates a clear direction of travel, in terms of opening to private companies. Meanwhile the first part of this clause, somewhat vaguely, tries to deal with the issue of jurisdiction. However, while this states that the federal and regional governments will work together, a subsequent clause states that:



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



“All that is not written in the exclusive powers of the federal authorities is in the authority of the regions. In other powers shared between the federal government and the regions, the priority will be given to the region's law in case of dispute.”(51)

Signing of contracts for extraction of oil and other natural resources is not listed(52) as one of the exclusive powers of the federal authorities – the implication is thus that on new fields, it is the authority of the regional governments.

This situation is quite unclear, and is further muddled by a last-minute deal, arranged just before the constitutional referendum, that the Constitution could be amended in the first half of 2006, and by comments by Zalmay Khalilzad, US Ambassador to Iraq, that “after that, as Iraq evolves, so, too, will this charter evolve”.(53)

In so far as the decision rests with Baghdad, the Oil Ministry is keen to sign contracts as quickly as possible. According to officials in the Ministry, their aim is to begin signing long-term contracts with foreign oil companies during the first nine months of 2006.(54) In order to achieve this goal, officials wanted to start negotiations with oil companies during the second half of 2005, before a legitimate Iraqi government is elected and in parallel with the writing of a Petroleum Law.(55) This time frame means that contracts will be negotiated without public participation or debate, or proper legal framework.

Meanwhile, the Kurdish authorities are even more impatient to sign deals. In June 2004, the Kurdistan Regional Government (KRG) signed an exploration and development deal with Norwegian company DNO. In a clear sign of the tensions between Baghdad and the regions, the Oil Ministry reacted by warning companies that if they signed deals with regional governments, they would be excluded from contracts at a national level.

Then in October 2005, the KRG signed a memorandum of understanding (MOU) with K Petroleum Company, which is jointly owned by the Canada-based Heritage Oil and the Kurdish company Eagle, to carry out oilfield studies adjacent to the Taq Taq field in Kurdistan. Announcing the deal, Heritage stated that

“Negotiations to formalize the MOU into a Production Sharing Agreement(PSA) are scheduled to commence while the work program is being carried out.KPC is confident these studies will translate into a PSA, although there is no guarantee that a license will be awarded to the Company.”(56)

For the southern oilfields, the outlook is less clear. In any case, regional governments of both Kurdistan and southern Iraq would have far weaker bargaining power in negotiating with foreign oil companies than the Iraqi Oil Ministry (or Iraq National Oil Company), as they lack both the institutional experience and the consolidated weight of handling the entire country's resources. The likely result would be more negative terms than could be achieved at a national level.

As noted above, only 17 of Iraq's 80 known fields are currently in production.(57) As these 17 fields represent only 40 billion of Iraq's 115 billion barrels of known oil reserves, the policy to allocate undeveloped fields to foreign companies would give those companies control of 64% of known reserves.(58) If a further 100 billion barrels are found, as is widely predicted, the foreign companies could control as much as 81% of Iraq's oil; if 200 billion are found, as the Oil Ministry predicts, the foreign company share would be 87%.

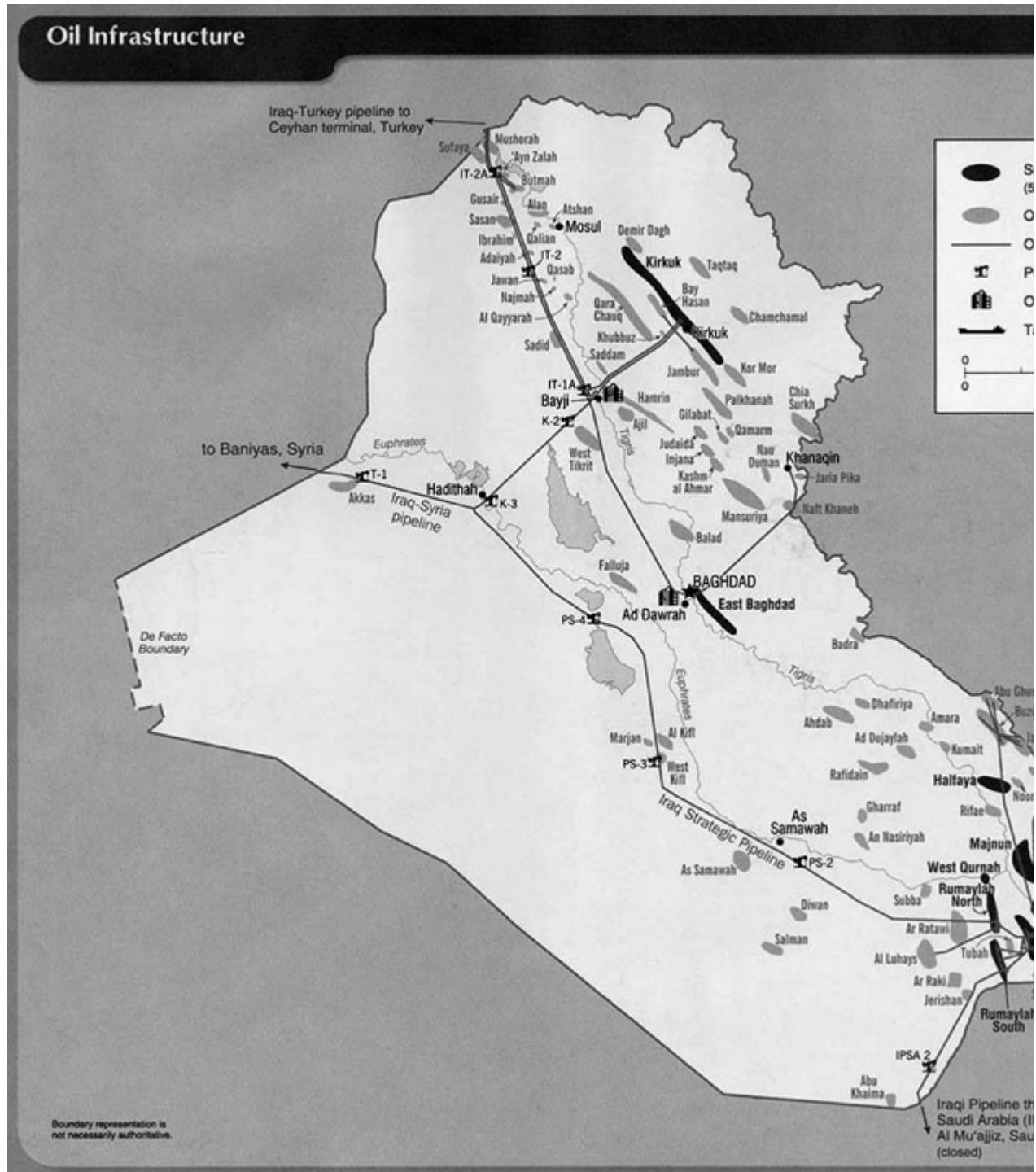
Given that oil accounts for over 95% of Iraq's government revenues(59), the impact of this policy on Iraq's economy would be enormous.



# **BRussells Tribunal Dossier** **Big Oil's occupation of Iraq**



## **Map of Iraqi oil fields and pipelines**



Map: University of Texas Libraries



## 5. Contractual rip-off: The cost of PSAs to Iraq

While the advantages of production sharing agreements for multinational oil companies are clear, there is a severe shortage of independent analysis of whether PSAs are in the short, medium and long-term interests of the Iraqi people. Unfortunately the Iraqi people have not been informed of the pro-PSA oil development plans, let alone their implications, which have transformed so seamlessly from US State Department recommendations into Iraqi government policy. This report hopes to go some way towards redressing this balance.

Our analysis shows that production sharing agreements have two major disadvantages for the Iraqi people:

**1. The loss of hundreds of billions of dollars in potential revenue;**

**2. The loss of democratic control of Iraq's oil industry to international companies;**

PSAs may also undermine an important opportunity to establish effective public oversight and end the current corruption and financial mismanagement in the Iraqi oil sector ([see Section 6](#)).

PSAs generally last (with fixed terms) for between 25 and 40 years: thus once signed the Iraqi people would have to live with the consequences for decades.

### **LOSING REVENUE: HOW MUCH WOULD PSAS COST THE IRAQI PEOPLE?**

In order to understand why foreign oil companies are so keen to invest in Iraq, one needs to look at the economic outcomes that would result from applying PSA contracts to the Iraqi oil sector.

We have produced economic models of 12 of Iraq's oilfields that have been listed as priorities for investment under production sharing agreements. We do not know yet what terms Iraqi contracts might contain (that will not be known until they are signed – and possibly not at all, if they are not disclosed to the public). Therefore we have taken contractual terms used in other comparable countries, and applied them to the physical characteristics of Iraq's oilfields (based on data from the Iraqi Oil Ministry, the US Government and respected industry analysts such as Deutsche Bank – see [Appendix 3](#)). This process allows us to project the cashflows to the Iraqi state and to foreign oil companies, under a range of assumptions (such as oil price).

Specifically, we look at terms used in Oman and Libya (both having comparable physical conditions to Iraq) and Russia (the only country with any PSAs which has reserves at all comparable in scale to Iraq's). The terms recently applied in Libya are widely viewed to be among the most stringent in the world. We have then compared the results with expected revenues of a nationalised system, administered by state-owned oil companies. ([g](#))

**Using an average oil price of \$40 per barrel, our projections reveal that the use of PSAs would cost Iraq between \$74 billion and \$194 billion in lost revenue, compared to keeping oil development in public hands.**

This massive loss is the equivalent of \$2,800 to \$7,400 per Iraqi adult over the thirty-year lifetime of a PSA contract. By way of comparison Iraqi GDP currently stands at only \$2,100 per person, despite the very high oil price. ([60](#))



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



TABLE 5.1: IMPACT OF PSAs ON IRAQI STATE REVENUES

	Total undiscounted revenue (US\$ billion)	State take	Total revenue loss under PSA scenario (US\$ billion)
Nationalised	971	100%	-
Russia PSA terms	779	80%	192
Oman PSA terms	777	80%	194
Libya PSA terms	897	92%	74

Figures in real terms (2006 prices), at constant \$40/bbl oil price, for the period 2006-35. See appendices 3-5 for details of full results, data sources, methodology and modelling assumptions.

It should be noted that these figures relate to only 12 of Iraq's more than 60 undeveloped fields. Iraq has identified 23 priority fields on which to potentially sign contracts in 2006. (h) Thus when the other 11 fields are added, along with a further 35 or more later, and especially other fields yet to be discovered (recall that Iraq's undiscovered reserves may be as large or even double the known reserves), the full cost of the PSA policy could be considerably greater.

We have been deliberately conservative with our assumptions. Our assumptions and methodology are outlined in [Appendix 4](#).

Both the corporate lobby group ITIC (see [section 3](#)) and the British Foreign Office have argued that foreign investment can free up Iraqi government budgets for other priority areas of spending, to the tune of around \$2.5 billion a year. (61) Although technically true, this is deeply misleading – as the investment now would be offset by the loss of revenues later.

Amazingly, in ITIC's report advocating the use of PSAs, the economic impact is only examined up to 2010 (62) – ignoring the fact that any foreign investment must be repaid. (j) It is as if one took out a bank loan but only considered the economic impact prior to paying it back!



In contrast, in this report, we look at the impact of PSAs over the whole length of the contract. Economists and indeed oil companies compare investments using the process of 'discounting', and the concept of 'net present value' (NPV). NPV is a measure of what the later income or expenditure would be worth if they were received or incurred now (See [Appendix 2](#)).

Photo: Greg Muttitt  
The use of PSAs could deprive Iraq of \$190 billion of revenue



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



When looked at in these terms, far from 'saving' the government \$8.5 billion of investment (the whole investment over several years, in 2006 NPV), these contracts will cost Iraq a (2006) NPV of \$16 - \$43 billion, at a 12% discount rate. (k)

Our assumed oil price for these calculations is \$40 per barrel. The oil price is currently fluctuating around \$60 per barrel, and there is an argument that structural factors, such as increasing demand in China and India, mean that oil prices are likely to stay at this level – which would make our \$40 assumption conservative.

However, the oil price is notoriously difficult to predict. We therefore also look at the models at a higher price of \$50 and a lower price of \$30 per barrel. Here the models show that Iraq would lose \$55 to \$143 billion at \$30 per barrel, while if the oil price averaged a higher \$50 per barrel, Iraq would lose far greater revenues of \$94 - \$250 billion, compared to the nationalised model.

TABLE 5.2: IMPACT OF PSAs ON DISCOUNTED IRAQI STATE REVENUES

	State revenue - 2006 net present value (US\$ billion)	State take	Revenue loss under PSA scenario - 2006 NPV (US\$ billion)
Nationalised	183	100%	-
Russia PSA terms	140	77%	43
Oman PSA terms	147	80%	36
Libya PSA terms	167	91%	16

Figures in real terms (2006 prices) , at constant \$40/bbl oil price, using a discount rate of 12%, for the period 2006-35. See appendices 3-5 for details of full results, data sources, methodology and modelling assumptions.

TABLE 5.3: IMPACT OF ALTERNATIVE OIL PRICE SCENARIOS ON IRAQI STATE REVENUES

Loss relative to nationalised scenario shown in brackets'	US\$30/barrel scenario		US\$50/barrel scenario	
	Total undiscounted revenue (US\$ billion)	Total NPV revenue at 12% (US\$ billion)	Total undiscounted revenue (US\$ billion)	Total NPV revenue at 12% (US\$ billion)
Nationalised	716	133	1,227	232
Russia PSA terms	580 (136)	104 (30)	977 (250)	175 (57)
Oman PSA terms	573 (143)	107 (26)	982 (245)	186 (46)
Libya PSA terms	661 (55)	122 (12)	1,133 (94)	212 (20)



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **MASSIVE PROFITS: HOW MUCH DO THE OIL COMPANIES STAND TO GAIN?**

Our economic model has also been used to calculate the key measure of oil project profitability - the Internal Rate of Return (IRR) (see [Appendix 2](#)) - which the oil companies are expected to make. This provides another measure of whether PSAs represent a fair deal for Iraq.

Profitability varies according to the size of the oil field, so we have based our projections on three different fields which (in Iraqi terms) are typical small, medium and large oil fields.

**Our figures show that under any of the three sets of PSA terms, oil company profits from investing in Iraq would be quite staggering, with annual rates of return ranging from 42% to 62% for a small field, or 98% to 162% for a large field.** This shows that under PSAs, Iraq's loss in terms of government revenue will be the oil companies' gain.

By way of comparison, oil companies generally consider any project that generates an IRR of more than a 12% to be a profitable venture. For Iraqi oil fields, even under the most stringent PSA terms, it is clear that the oil companies can expect to achieve stellar returns.

Even at prices of \$30/barrel, profits are excessive on all fields, with any terms, ranging from 33% on a small field with stringent terms to 140% on a large field with lucrative terms. At \$50/barrel, the profits are even greater, ranging from 48% to 178%.

### **LOSING CONTROL: THE DEMOCRATIC COST OF PSAS**

Iraq's democracy is new and weak. Having suffered decades of oppression by Saddam Hussein, Iraq's institutions and civil society need time to develop and mature. In this situation many Iraqis may feel that they do not wish to immediately lock their country into **any** single model of oil development over the long term. Unfortunately this is exactly what Iraqi politicians, under US and UK pressure, appear to want to do.

TABLE 5.4: IMPACT OF PSAS ON OIL COMPANY PROFITABILITY

	Projected oil company Internal Rate of Return (%)		
	Amara field (small)	Nasiriya field (medium)	Majnoon field (Large)
Russia PSA terms	62	105	162
Oman PSA terms	51	83	120
Libya PSA terms	42	67	98

For \$40 per barrel average oil price, in real terms (2006 prices). See appendices 3-5 for details of full results, data sources, methodology and modeling assumptions.



# BRussells Tribunal Dossier

## Big Oil's occupation of Iraq



TABLE 5.5: OIL COMPANY PROFITABILITY AT DIFFERENT OIL PRICES

	US\$30/barrel scenario			US\$50/barrel scenario		
	Amara	Nasiriya	Majnoon	Amara	Nasiriya	Majnoon
Russia PSA terms	46%	82%	140%	74%	122%	178%
Oman PSA terms	41%	67%	107%	60%	95%	131%
Libya PSA terms	33%	53%	91%	48%	79%	109%

As we saw in [section 2](#), in theory PSAs would allow the Iraqi state to retain ownership and control over their oil resources. However, in practice they will impose severe restrictions on current and future Iraqi governments for the full lifetime (25-40 years) of the contract.

PSAs have four key features that will in practice limit and remove democratic control from the Iraqi people:

**They fix terms for 25-40 years, preventing future elected governments from changing the contract.** Once a deal is signed, its terms are fixed. The contractual terms for the following decades will be based on the bargaining position and political balance that exists at the time of signing – a time when Iraq is still under military occupation and its governmental institutions are weak. In Iraq's case, this could mean that arguments about political and security risks in 2006 could land its people with a poor deal that long outlasts those risks and is completely unsuited to a potentially more stable and independent Iraq of the future.

**Secondly, they deprive governments of control over the development of their oil industry.** PSA contracts generally rule out government influence over oil production rates. (63) As a result, Iraq would not be able to control the depletion rate of its oil resources – as an oil-dependent country, the depletion rate is absolutely key to Iraq's development strategy, but would be largely out of the government's control. Unable to hold back foreign companies' production rates, Iraq would also be likely to have difficulty complying with OPEC quotas which would harm Iraq's position within OPEC, and potentially the effectiveness of OPEC itself. The only way to avoid either of these two problems would be for Iraq to cut back production on the fields controlled by state-owned oil companies, reducing revenues to the state.

**Thirdly, they generally over-ride any future legislation that compromises company profitability, effectively limiting the government's ability to regulate.** One of the most worrying aspects of PSAs is that they often contain so-called 'stabilisation clauses', which would immunise the 60-80% of the oil sector covered by PSAs from all future laws, regulations and government policies. Put simply, under PSAs future Iraqi governments would be prevented from changing tax rates or introducing stricter laws or regulations relating to labour standards, workplace safety, community relations, environment or other issues. One common way of doing this is for contracts to include clauses that allocate the 'risks' for such tax or legislative change to the state. (64) In other words, if the Iraqis decided to change their legislation, they would have to pick up the bill themselves. The foreign oil company's profits are effectively guaranteed.

**Fourthly, PSAs commonly specify that any disputes between the government and foreign companies are resolved not in national courts, but in international arbitration tribunals which will not consider the Iraqi public interest.** Within these tribunals, such as those administered by the International Center for Settlement of Investment Disputes in Washington DC, or by



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



the International Chamber of Commerce in Paris, disputes are generally heard by corporate lawyers and trade negotiators who will only consider the narrow commercial issues and who will disregard the wider body of Iraqi law. As the researcher Susan Lebuscher comments, "That system assigns the State the role of just another commercial partner, ensures that non-commercial issues will not be aired, and excludes representation and redress for populations affected by the wide-ranging powers granted [multinationals] under international contracts."<sup>(65)</sup> They may also – especially if connected to bilateral investment treaties – make a foreign company's home state a party to any dispute, thus enabling that country to weigh in on the company's behalf.



Photo: Greg Muttitt  
Under PSAs, Iraq would hand sovereignty over oil resources, to foreign companies and international investment courts

This loss of democratic control is illustrated by the case of BP's Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which is being built from the Caspian Sea to the Mediterranean. This project is governed by a Host Government Agreement, some of whose legal provisions are comparable to those in PSAs.

In November 2002, the Georgian Environment Minister said she could not approve the pipeline routing through an important National Park, as to do so would violate Georgia's environmental laws. Both BP and the US government put pressure on the Minister, through then President Shevardnadze. The Minister was forced first to concede the routing with environmental conditions, and then to water down her conditions. Part of the reason for her weak bargaining position was that two years earlier Georgia had signed the Host Government Agreement for the project, which set a deadline for environmental approval within 30 days of the application and stipulated that the contract had a higher status than other Georgian laws. The environment laws the Minister referred to were irrelevant. Ultimately, on the day of the deadline, the President called the Minister into his office, and kept her there until she signed, in the early hours of the morning.<sup>(6)</sup>

Shortly after Shevardnadze was overthrown in a 'rose revolution' in November 2003, new President Mikhail Sakashvili commented, "We got a horrible contract from BP, horrible"<sup>(67)</sup> – but he could not change it.

### **MULTINATIONAL COMPANIES FAVOUR COMPLEXITY**

Another feature of production sharing agreements is that they are the most contractually complex form of oil contract. PSAs generally consist of several hundred pages of technical legal and financial language (often treated as commercially confidential). It is their complexity, not their simplicity, which is advantageous to oil companies.

The simplest form of oil fiscal system is the royalty (defined as a percentage of the total value of the oil), which can be seen as a company paying the state for its oil – effectively 'buying' it. This is used in most concession agreements, and sometimes in PSAs. In comparison with production sharing formulae, it is very clear what the state should receive from royalties – a fixed percentage of the value of oil. As long as



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



the number of barrels extracted is known, and the oil price, it is easy to work out what royalty is due from the oil companies.

However oil companies dislike royalties and prefer systems based on an assessment of profits, such as PSAs. The reason is that they want what they call 'upside' (i.e. opportunities for greater profits) – ways they can reduce their payments, rather than being subject to a fixed level of payment for oil extracted.

Under profit-based systems, revenue is based on the profit remaining when the oil companies' production costs have been deducted from the total revenue. As such, they depend on complex rules for which costs can be deducted, how capital costs are to be treated, and so on. The more complicated the system, the more opportunities there are for a company to maximise their share of the revenue by sophisticated use of accountancy techniques. Not only do multinational companies have access to the world's largest and most experienced accountancy companies, they also know their business in more detail than the state they are working with. Consequently a more complicated system tends to give multinationals the upper hand.

For example, in the Sakhalin II project in Russia, the complex terms of the PSA resulted in all cost over-runs being effectively deducted from state revenue instead of from the Shell-led consortium's profits. During the planning and early construction of the project, costs inflated dramatically. In February 2005, the Audit Chamber of the Russian Federation published a review of the economics of the project, finding that cost over-runs, due to the terms of the PSA, had already cost the Russian state \$2.5 billion.

Although three PSAs were signed in the mid 1990s in Russia, they have been the subject of extreme controversy ever since. The changing view of PSAs in Russia in general also illustrates the loss of democratic control inherent in PSAs – if the government or political climate changes, the terms of a PSA cannot change to reflect new priorities. PSAs generally last for between 25 and 40 years. In Russia's case, the rush to privatise in the early 1990s is now being questioned – but with the PSAs already in force it is impossible to rectify mistakes.

The Sakhalin II PSA is an example of a special type of PSA, which is growing in prominence. In such PSAs, the sharing of 'profit oil' is based not on a fixed proportion, but on a sliding scale, based on the foreign company's profitability. The state receives only a low proportion of profit oil (or in the Sakhalin case, none) until the company has achieved a specified level of profit. Thus, states are deprived of revenue, while corporate profits are guaranteed. (See [Appendix 1](#)).

### **IRAQ WOULD FARE NO BETTER**

In theory, Iraq may be able to negotiate PSAs with much more stringent terms than those used elsewhere in the world. As noted above, we do not know what exact terms Iraq might adopt if it uses PSAs. Iraq could also, in theory, avoid some of the more draconian legal clauses outlined above.

However, we have also seen that there are a number of structural features of PSAs which are likely to act against Iraq's interests, whatever the terms. Helmut Merklein, a former senior official of the US Department of Energy, explains this based on the concept of economic rents – the excess profits of oil production (after deducting production costs and a reasonable return on capital):

"For all the sophistication and the bells and whistles these contracts have, ... they all have two basic flaws, which make them less than perfect in terms of capturing rent. They are subject to distortions through petroleum price fluctuations in world markets, and they generally fail to provide the host country with its proper rent if the field turns out to be greater than expected. Various triggers in those agreements reduce the host country's exposure, but they never really eliminate it." (68)



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The generation of rents is a feature of oil production. Because of oil's sheer value, its extraction generates profits beyond what is normally expected on an investment. These rents should belong to the country that possesses the oil resource. However, Merklein's point is that PSAs cannot – in unpredictable economic circumstances – deliver the country its fair share of the rents, and inevitably tend to give foreign oil companies excessive profits at the country's expense.

To the flaws identified by Merklein, we would add the long-term and restrictive nature of PSAs, that their terms are fixed as negotiated in a situation which – one hopes – will not persist in Iraq; and that they also place legal constraints beyond the issue of revenue-sharing, as we have seen.

In some countries, circumstances in the oil sector may favour investment through a mechanism such as PSAs, in spite of these disadvantages – such as where fields are offshore, risk capital for exploration is required, or the country lacks technical competence. In Iraq, however, these conditions do not apply, and given the country's huge oil wealth, it does not need to accept the negative consequences of PSAs.

On top of these structural flaws in PSAs, there are grounds to doubt whether the specific terms Iraq might achieve would be any better than in other countries, despite Iraq's enormous oil reserves. The key issue here is bargaining power: the Iraqi state is new and weak, and damaged by the ongoing violence and by corruption, and the country is still under military occupation.

In fact, rather than negotiating a more stringent PSA deal than elsewhere, the oil companies will inevitably wish to focus on the current security situation to push for a deal comparable to – or better than – that in other countries in the world, while downplaying the huge reserves and low production costs which make Iraq an irresistible investment.

Indeed, precisely this point is being pushed by the oil companies and their governments. The corporate lobby group ITIC attempts to invert conventional economic logic, by implying that there is greater competition among oil-producing countries than among private companies:

“Although Iraq's potential petroleum wealth is enormous, the government still faces competition from other countries offering petroleum rights to investors. ... Investors, too, are competing for access to attractive petroleum deposits but competition among them may be limited if the project in question requires scarce expertise or depth of financial resources.”(69)

Thus one of ITIC's key recommendations is that Iraq “offer to companies profit potential consistent with the risk they bear”.(70)

Their argument that countries, not companies, must compete is especially perverse given the high oil price, and the wide recognition of supply constraint: that there is a shortage of access to reserves, not of access to capital.

Similarly, the US government's development agency USAID has advised the Iraqi authorities that

“Countries with less attractive geology and governance, such as Azerbaijan, have been able to partially overcome their risk profile and attract billions of dollars of investment by offering a contractual balance of commercial interests within the risk contract, one that is enforceable under UK and Azeri law with the option of international arbitration.”(71)

If Iraq follows that advice, it could not only concede a contractual form which is not in its interests, but specific terms which radically understate the country's attractiveness to the international oil industry. Along with much of its future income, Iraq could be surrendering its democracy as soon as it achieves it.



## 6. A better deal: Options for investment in Iraq's oil development

A central question for Iraqi planners and politicians is how to invest in the country's oilfields – revenues from which will provide the central plank of the Iraqi economy for the foreseeable future. In the last section we saw, by looking at common practice elsewhere in the world, that investment through production sharing agreements (PSAs), would be likely to come at considerable cost to Iraq.

### A RADICAL DEPARTURE

Much as their proponents like to claim that PSAs are standard practice throughout the world's oil industries, in fact International Energy Agency figures show that **just 12% of world oil reserves are subject to PSAs**, compared to 67% developed solely or primarily by national oil companies.<sup>(72)</sup> Thus it is far from inevitable or necessary that PSAs must be used in order to obtain investment in Iraq's oil development.

PSAs are often used in countries with small reserves; however the nationalised model is almost exclusively used in all countries with very large oil reserves.

The use of PSAs in Iraq would represent a major departure from common practice among the large oil producers of the region. Iraq and three of its neighbours (Saudi Arabia, Iran and Kuwait) are the world's top four countries in terms of oil reserves, with 51% of the world total between them.<sup>(73)</sup> None of them use any form of foreign company equity involvement in oilfields.

Looking further afield, these four Gulf states together with the United Arab Emirates, Venezuela and Russia, hold 72% of the world's oil reserves. These latter three all have some foreign involvement in their oil industry, although both Venezuela and Russia are currently drawing back from it, following unsuccessful expansions in foreign investment in the 1990s. Of these seven countries with major oil reserves, only Russia has any production sharing agreements.

In the Russian case, three PSAs were signed in the mid 1990s; they have been the subject of extreme controversy ever since due to the poor deal the state has obtained from them, and it now looks unlikely that any more will be signed.

TABLE 6.1: FOREIGN INVESTMENT IN THE WORLD'S MAJOR OIL RESERVES<sup>i</sup>

	Reserves (billion barrels) end 2004 <sup>ii</sup>	Share of world total reserves	Foreign company equity investment?	PSAs?
Saudi Arabia	262.7	22.1%	No	No
Iran	132.5	11.1%	No	No
Iraq	115.0	9.7%	No	No
Kuwait	99.0	8.3%	No	No
United Arab Emirates	97.8	8.2%	Yes	No
Venezuela	77.2	6.5%	Yes <sup>i</sup>	No
Russian Federation	72.3	6.1%	Yes <sup>i</sup>	Yes <sup>iii</sup>
<b>TOTAL</b>	<b>856.6</b>	<b>72.1</b>		

<sup>i</sup> In Venezuela, the apertura policy of 1993-8 to allow foreign oil companies in is now being reversed.  
<sup>ii</sup> Russia also saw massive expansion of the private sector's role in the 1990s; the trend is now in the opposite direction.  
<sup>iii</sup> Only three PSAs have been signed, all during the rapid post-Soviet liberalisation of the early-mid 1990s. PSAs are now highly controversial, and no more are likely to be signed.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **OPTIONS FOR INVESTMENT**

One argument that is deployed by proponents of PSAs is that Iraq has no other option to generate the capital investment needed to rebuild and expand its oil industry.

This is simply not true. In fact Iraq has at least three options for generating investment in its oil industry, without giving away its revenue and control over the industry:

**1. Direct investment from government budget.**

**2. Government / state oil company borrowing from banks, multilateral agencies and other lenders.**

**3. Investment by international oil companies using more flexible and equitable forms of contract.**

It is not the role of this report to advocate any particular structure for the Iraqi oil industry, nor to advocate for or against the use of foreign investment. That decision rests with the Iraqi people. However, in this section we briefly explore each of these options, all three of which are superior to PSAs in terms of consequences for the Iraqi economy and people.

First, it should be stressed that there is considerable technical competence among Iraqis themselves and foreign companies are not required to manage the industry. Indeed, the most successful period in the history of Iraq's oil industry was between nationalisation in 1972 and the start of the first of Saddam's wars with Iran in 1980. Freed up from the foreign interference that had unhappily characterised Iraq's previous petroleum history, the Iraq National Oil Company moved forward confidently and effectively: between 1970 and 1979, INOC increased production from 1.5 million to 3.7 million barrels per day and discovered the four super-giant fields West Qurna, East Baghdad, Majnoon and Nahr Umar, and at least eight giant fields.



Photo: Greg Muttitt

After 50 years of rip-off by foreign companies and over 20 years of war, Iraq needs the right policies to develop its oil industry.

In some areas, the state of Iraqi knowledge may not be the most up-to-date, because of the sanctions era. However, this is easily solved within any of the above models by employing specialist companies under short-term technical service contracts to provide drilling and production expertise when required. Thus what is at issue is how capital is obtained, not skills.

### **OPTION 1: FINANCING FROM GOVERNMENT BUDGETS**

The simplest model would be for the required investment to be provided each year out of government budgets. This is quite possible and appropriate in Iraq's case, because in contrast to many other countries:



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The development cost is low when compared to the return;  
As a consequence, the payback period is very quick;  
Since there are considerable proven but currently undeveloped oil reserves, risk to capital is very low (as no exploration is required for immediate field development). In the longer term, Iraq will explore but even this is relatively cheap and low-risk.

Iraq's investment requirement is expected to peak at around \$3 billion per year.<sup>(75)</sup> This is well within the range of current budgetary allocations: the 2005 Iraqi oil investment budget is \$3 billion<sup>76</sup> (out of a total Iraqi budget of around \$30 billion).

Furthermore, within at most three years from the start of development, revenues from new production would well exceed the ongoing investment requirements, and could therefore provide this finance. In other words, at worst Iraq would have to invest \$2.5 – 3.0 bn of its existing budget for three years.

One argument commonly advanced in favour of foreign investment in Iraq's oil is that it would save government budgetary expenditures for other priority areas. For example, the British Foreign Office argued in 2004, in a Code of Practice issued to the Iraqi Oil Ministry:

"In the absence of a very high oil price, Iraq would only be able to finance this investment [in oil development] itself if it could secure a very generous debt reduction deal and was prepared to make substantial cuts in government expenditure in other areas. Given Iraq's needs, it is not realistic to cut government spending in other areas, and Iraq would need to engage with the International Oil Companies (IOCs) to provide appropriate levels of Foreign Direct Investment (FDI) to do this."<sup>(76)</sup>

In other words, if Iraq pursued the option of direct financing, the amount of money invested from the government budget would no longer be available for schools, hospitals, roads etc. Economists say that this capital has an opportunity cost.

However, the use of discounting techniques (see [Appendix 2](#)) is precisely designed to allow for the opportunity cost of capital. In the previous section, we saw that, having considered this opportunity cost by discounting, the Iraqi government is still better off investing its own money. The (2006) net present value lost by the Iraqi state as a result of adopting the PSA policy would be between \$16 and \$43 billion, at 12% discount rate.

This shows that, in purely economic terms, the policy is bad for Iraq. However, the choice of what development path to follow – whether to develop more quickly now, or to build steadily for the long term – is ultimately a political one. As such, this decision should be made by the Iraqi people; but it should be made with a full understanding of the economic implications.

In the previous section, we found that companies could expect rates of return on their investment of between 42% and 162%, depending on the field characteristics and the PSA terms. These rates of return can also be seen as the cost of the capital to the state if Iraq decides to use the PSA financing route.

When looking at it in this way, it is helpful to put all 12 fields together and consider them as a single investment. In this case, we get 'company' internal rates of return of:

**Libya PSA terms: 75%**  
**Oman PSA terms: 91%**  
**Russia PSA terms: 119%.**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The financial structure of PSAs versus bank loans are different, so these are not directly equivalent to bank interest rates. However, by comparison with bank rates, we can see that the cost of PSA capital would be huge and could not justify the political considerations outlined above.

### **THE NEED FOR TRANSPARENCY**

Ensuring that Iraq's oil wealth benefits the majority of Iraqis is not only a question of the contracts themselves. Appropriate development also depends on good governance.

There are very few oil-producing countries that have managed to prevent corruption in their oil sectors, and Iraq is no exception. Indeed, during the three decades of national control over the industry, Iraq's oil wealth was used to sustain a brutal dictatorship and its internal security apparatus, to personally enrich Saddam Hussein and his family, and to finance devastating wars with Iraq's neighbours. Meanwhile, corruption became endemic at all levels of Iraqi officialdom.

Corruption is already a problem in post-Saddam Iraq. Investigations by US and international agencies into the financial operations of the Coalition Provisional Authority and Iraq's interim governments have concluded that billions of dollars have been lost due to corruption, theft and inadequate accountability. The vast majority of that money, estimated to be at least \$4 billion, was derived from Iraq's oil income, which was meant to be invested in the reconstruction of the country. (85)

Whether Iraq's oil is held in the public or the private sector, good governance and effective democratic institutions will be essential. In order to prevent the emergence of another Saddam, it is particularly important to curb the discretionary power of the executive over oil income and expenditure. It is also necessary to ensure that adequate oversight powers are given to appropriate government bodies and that transparency is enshrined in law. (i) Furthermore, all oil income and expenditure must be included in a transparent and accountable budgetary process. Auditors should report to parliament and parliamentarians should be able to call ministers and senior officials to account. No national reserve fund should be allowed to be used as a "slush fund". (86)

These challenges are enormous in Iraq. However, the insistence by the United States, the oil industry and their allies on constitutional and contract terms favourable to foreign investors with minimal state regulation, is likely to hinder, not help, transparency and accountability.

Although civil society around the world is now pressing for disclosure of contracts, with some initial successes (ii), confidentiality remains the norm. Minimum requirements for any form of contract must be the prohibition on non-disclosure clauses and the publication of the contracts themselves. (87) Even then, PSAs present serious difficulties: as this report has already shown, their complexity makes them notoriously difficult to monitor.

The attitude of multinational oil companies can also be unhelpful. Corruption problems often arise from the 'ultra-presidential' status of the executive and Iraq Revenue Watch warns:

"Foreign influence also has had a hand in promoting ultra-presidential systems. During the 20th century, companies mainly preferred to deal with one "negotiator," either the president or his representatives, and the executive branch in many resource rich countries grew all-powerful as oil rents flowed through it. As foreign oil companies engage in more business with Iraq's nationalized oil industry, Iraqis must be vigilant to the potential role of those companies in encouraging an ultra-presidential government." (88)

The emerging lesson from the growing body of evidence of the 'resource curse' – where countries with natural resources such as oil suffer high levels of corruption, and even (paradoxically) economic decline, is



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



that before massive influxes of capital or oil revenue, it is necessary to have in place the institutions to manage them and an economic base that is broader than sole reliance on the oil economy. (89) In this context, it is precisely the speed of Iraq's opening to the oil multinationals, with rapid change and a lack of clear governance structures, which is likely to create the conditions for corruption and economic failure.

i For more on this, see [www.publishwhatyoupay.org](http://www.publishwhatyoupay.org) - website of the Publish What You Pay coalition of over 280 civil society organisations.

ii Such as in Azerbaijan – legal agreements were unavailable until civil society pressed for them to be published. After which BP posted its agreements on its website [www.caspiandevlopmentandexport.com](http://www.caspiandevlopmentandexport.com)

### **OPTION 2: GOVERNMENT / STATE OIL COMPANY BORROWING**

An alternative option would be for state oil companies (or the government) to borrow the money, either as

1. loans from banks, using future oil production as collateral;
2. concessionary loans from multilateral agencies, such as the World Bank; or
3. the issue of government bonds.

As with the direct funding option above, the low cost of development and quick payback make this quite an attractive option.

Helmut Merklein, a former senior official of the US Department of Energy, comments that the foreign investment/PSA approach, "would be like securing a \$300 loan by pledging a fully paid-for \$300,000 residence as collateral. In contrast he notes:

"With that kind of collateral, there will be no shortage of commercial or governmental (bilateral or multilateral) credit institutions eager to supply the required capital needed to rehabilitate oil production in Iraq." (78)

Muhammad Ali Zainy, an expert on Iraqi oil at the Centre for Global Energy Studies, looks specifically at the Majnoon field as an example, noting that:

"If INOC [Iraq National Oil Company] borrows the \$3 billion amount to be repaid over 20 years at 10% interest compounded annually, the debt service (principal and interest) would be around \$352 million/year, or around \$1.6 per barrel per day. ... [Combining this capital cost with production and transportation costs] the total FOBb cost to INOC would be \$3.5 per barrel. If this oil is sold at \$35 per barrel, the rent to INOC would be \$31.5 per barrel. With these prices and costs, it should not be very difficult for INOC to borrow from the banks, with incremental oil as the collateral." (79)

What is unclear at this stage is how such an approach would interact with Iraq's existing national debt – the largest (relative to GDP) of any country in the world.

The International Monetary Fund is expected to issue a Standby Agreement, setting out conditions with which Iraq will have to comply in order to receive some debt relief, by the end of 2005. It is unknown whether this will place restrictions on Iraq's future borrowing. The IMF recognises the need for investment in Iraq's oil sector but the IMF is also infamously keen on pressuring countries to privatise their industries.

There is similarly a question of whether commercial lenders would be deterred by Iraq's high level of debt. Their decision will depend in particular on what agreements are made on repaying the existing debt. In any case, the points made by Merklein and Zainy, above, are convincing: given the huge scale of the



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



available rents, and the corresponding potential collateral (from future oil production), it would seem to be more a question of negotiating the right terms than of finding a lender willing to participate.

Furthermore, in light of the priority given by the international community to rebuilding Iraq, lower-cost loans from the World Bank or other multilateral agencies should also be an option.

There is a very strong case, being made by the Jubilee Iraq network (80) and others, that the bulk of Iraq's debt should be treated as odious debt. That means that the debt was incurred by Saddam Hussein without the consent of, and not for the benefit of, the Iraqi people. Rather, he used it to fight wars and to finance internal repression. Thus, it is argued that the people of Iraq bear no legal or moral responsibility to repay that debt. (81)

Were this argument to be accepted by the Iraqi authorities, international borrowing could be quite straightforward. As the Wall Street Journal pointed out:

"We wouldn't blame (Iraq's) leaders if they decided that some of those financial obligations are indeed odious. And given that this is such an extreme case, international lenders probably wouldn't hold it against them for long." (82)

In any case, it is noteworthy that even the strongest advocates of PSAs – including corporate lobby group ITIC, the British government, and Iyad Allawi – seem to accept that borrowing is an option. (83)

### **OPTION 3: MORE EQUITABLE AND FLEXIBLE CONTRACTS?**

Iraq's neighbours Iran, Kuwait and Saudi Arabia have recently allowed some limited foreign investment in their oil and gas industries, although in a very different way from PSAs.

They have used alternative contractual options such as risk service contracts, buyback contracts or development and production contracts.

Each of these contractual forms allows a foreign company to provide investment in an oil development, but gives it no direct interest in the oil produced. The oil remains with the state and the company is paid as the state's contractor. As such, these contracts can be seen as modifications of the technical service contract to allow investment.

All three give operatorship of the field to a foreign company, but with much more limited rights, and in the case of buybacks and DPCs, for a much more limited period of time than PSAs. Importantly, in all three contract types, the foreign company does not have the opportunity to make excessive profits, as it is paid either a fixed fee or a fixed rate of return.

Obviously any form of external financing has a cost. Indeed, even with the borrowing option above, Iraq will have to carefully consider the terms of any loan, and its future implications (1). Iraq should be careful not to tie its hands, either through contracts, or through collateral arrangements. The challenge will be to weigh the advantages of freeing up government funds against the cost of the finance.

We have seen that if Iraq's oilfields are developed by foreign companies under PSAs, the cost to Iraq's economy will be enormous. We have also seen that PSAs would give considerable control away to the multinationals for many decades.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



It is in these respects that buyback, risk service or development and production contracts may be preferable for Iraq. For the same reasons, the oil companies argue that such forms of contract are not sufficiently appealing to them (not profitable or wide-ranging enough) to justify their investment. (84) In large part, this is a negotiating position – inevitably, companies will downplay their interest in order to get a better deal.

Even if it is true to some extent, Iraqi negotiators should not be pushed into accepting terms that are not in Iraq's interests. In the previous section of this report, we have shown how damaging PSA deals would be; in this section, we have tried to show that other options are available. If the oil companies will not sign fair contracts, then Iraq can develop its oil industry without them.

### **ALTERNATIVE CONTRACT TYPES**

Algeria has made significant use of a mechanism known as the **Risk Service Contract**. In this model, a foreign company invests capital, and when production begins is reimbursed their costs (from oil sales), plus generally a fixed fee per barrel of oil produced. (iii) The company can thus increase its profits by increasing the rate of production; on the other hand, the company carries the risk that the venture will fail (especially where exploration is involved). This model may also be used in Kuwait's opening to investment of four of its northern oilfields (Project Kuwait), which is still under parliamentary debate.

In the 1990s, Iran developed the **Buyback Contract**, which it has applied on a number of oilfield investments. This is very similar to the risk service agreement, but is generally for a shorter period – commonly 5 to 7 years of production (following 2-3 years of development) – after which the state oil company becomes the operator of the project and keeps all revenue. The fee is paid in oil rather than cash and is calculated as a percentage of the capital invested. Thus the company obtains an agreed rate of return on its investment, provided a sufficient rate of production is achieved (although, again, the company carries the risk that little or nothing will be produced). Returns are generally 15-24%.

In the late 1990s, Iraq under Saddam Hussein developed a new form of contract along similar lines, known as the **Development and Production Contract**. In this, a company would develop and operate an oilfield for a fixed period – commonly 12 years. After that, operatorship would be passed to the state oil company, but with the foreign company providing services under a Technical Service Agreement (often for a further 15 years), during which the company also has a right to buy oil – either at market price or at an agreed discounted rate.

All of these contract types limit the profits that can be extracted by foreign companies, so guarantee more effectively the state's income, and do not cede the same degree of sovereignty as PSAs.

iii The term “risk service contract” is slightly ambiguous – it is alternatively revenues are shared (in cash), rather than production itself.

---

## **7. Conclusion**

We have seen in the preceding chapters that, under the influence of the US and the UK, powerful politicians and technocrats in the Iraqi Oil Ministry are pushing to hand all of Iraq's undeveloped fields to multinational oil companies, to be developed under production sharing agreements. They aim to do this in the early part of 2006.

The results for Iraq would be devastating:



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Iraq would lose an enormous amount of revenue (making it conversely highly profitable for the foreign companies);

The terms of the contracts would be agreed while the Iraqi state is very weak and still under occupation, but be fixed for 25-40 years;

PSAs would deny Iraq the ability to regulate or plan its oil industry, leaving foreign companies' operations immune from future legislation;

PSAs would shift decisions on any disputes out of Iraq into international arbitration courts, where the Iraqi constitution, body of law and national interest are simply not relevant.

Yet, Iraq has other options for obtaining investment in its oil sector, including:

- Direct financing from government budgets;

- Government/state oil company borrowing; or

- Less damaging contracts with multinational oil companies, such as buybacks or risk service agreements.

These decisions should be made with the full participation of the Iraqi people, not in secret by unaccountable elites. Care should be taken not to take major irreversible steps that would later be regretted.

Getting these decisions right is vital for the future of Iraq.

---

## **Appendix 1: How a production sharing agreement works**

In a Production Sharing Agreement (PSA), a foreign company provides capital investment. In Iraq's case, in the medium term this will include drilling and the construction of infrastructure, but not exploration – as Iraq has around 65 known but undeveloped fields.

The first proportion of oil extracted is then allocated to the company, which uses oil sales to recoup its operating costs and capital investment – the oil used for this purpose is termed 'cost oil'. There is often a limit to what proportion of oil production in any year can count as cost oil.

Once costs have been recovered, the remaining 'profit oil' is divided between state and company in agreed proportions.

The company is often also taxed on its profit oil and, to add further complexity, there may also be a royalty payable on all oil produced. Often a bonus is paid to the government on signing, and sometimes on start of production. However, such bonuses are generally small compared to the revenues themselves.

### **AN EXAMPLE OF HOW PSAS WORK**

To illustrate how a PSA works, let us consider a hypothetical case which includes all of the above elements, with the following terms. This example illustrates the mechanisms involved, and is not based on terms that would be appropriate to Iraq.

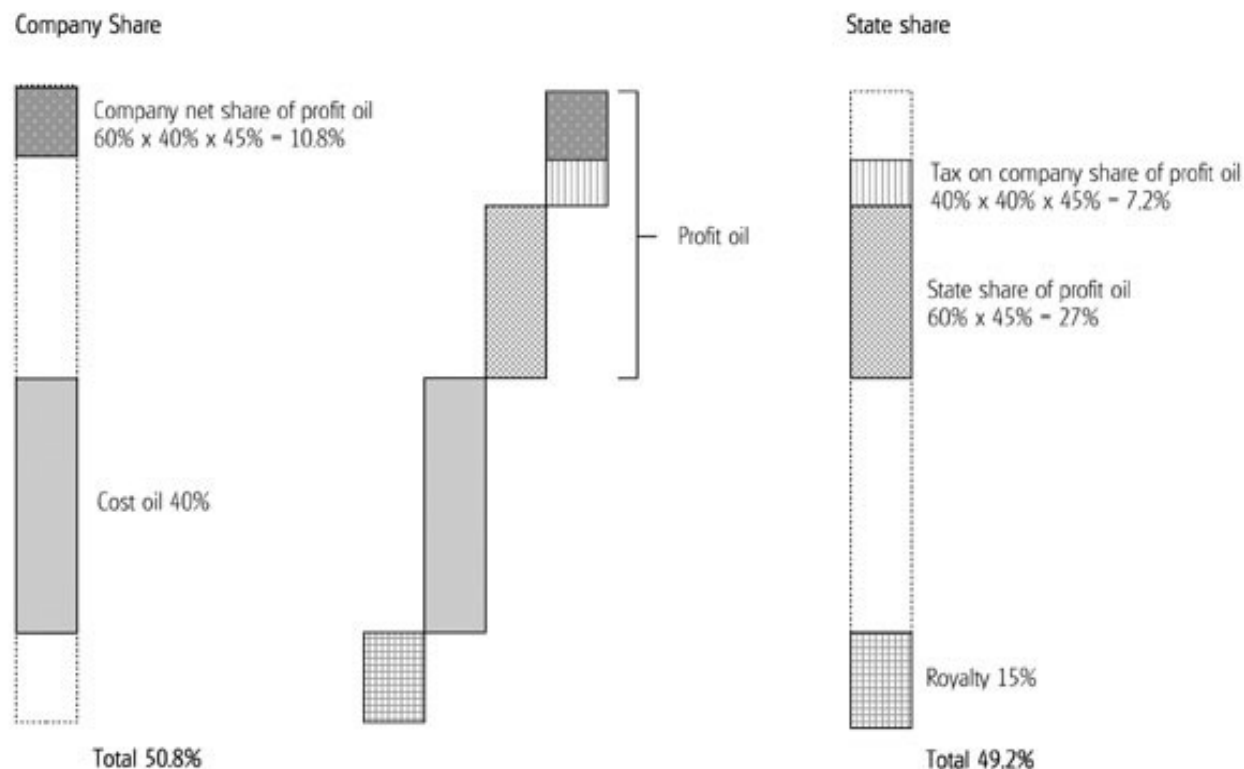
Profit oil split: 60 state : 40 company

Royalty: 15%

Profits tax: 40%



**DIAGRAM A1.1: SPLIT OF REVENUES IN A HYPOTHETICAL PSA**



In the diagram above, we show how these elements are divided. Royalties are charged as a percentage of the total value of the oil. Cost oil is then deducted. In this case, we assume that development and production costs amount to 40% of the total revenue (this is determined by the physical and economic characteristics of the oilfield, rather than by the PSA terms). The remaining 45%, after deducting royalties and cost oil, is divided between state and company 60:40. The company's share of profit oil is then taxed.

Putting all of these together, the company receives 50.2% of total revenues including the recovery of its costs. As the profits of the field are 60% of the revenues (after deducting the 40% costs) – thus the state take is 82% of the profits; the company's take (share of profits) is 18%.

Sometimes the state also participates as a commercial partner in the contract, operating in joint venture with foreign oil companies as part of the consortium (as in Libya, for example). In this case, the state is considered as a shareholder in the 'company' – so the 'company' share of profit oil is split between the state and private investors. If the state has a 50% participation share, it provides 50% of the capital investment, and receives a further 50% of the company share of profit oil (after the state-company split).

A newer form of PSA divides 'profit oil' not in fixed proportions, but on a sliding scale, intended to reflect the profitability of the venture.<sup>a</sup> The theory is that the more profitable a venture, the quicker costs are recovered, and so the more is available for the state. The sliding scale can be based on rates of production (90), 'R'-factors (defined as the ratio of cumulative receipts to cumulative expenditures) or the company's internal rate of return.<sup>(91)</sup>



The argument for rate-of-return style PSAs is based on allowing the state to capture a reasonable share of profits, but in practice this advantage can be outweighed by other consequences:

1. the investor's profits are effectively guaranteed, by denying the state a fair share of revenue until the specified profit has been achieved;
2. while the specified level of profits is assured, this does not preclude the investor from obtaining much higher profits (at the more normal, lower share of profit oil);
3. it is in the investor's interests to inflate costs (a process known as 'gold-plating'), especially if they can sub-contract operations to another company in the same group (for example, from one Shell subsidiary to another Shell subsidiary) – as the subcontractor profits from their work, the project operator still profits according to the PSA, and the state gets little or nothing.

## Appendix 2: Discounting in oilfield economics – key concepts

### THE TIME VALUE OF MONEY

Investments in the oil industry generally last over a period of decades. A large amount of capital is invested up-front, and then income is received over the life of the project.

When modelling such investments, it is important to consider the *time value of money*. A specified amount of money is worth more now than it is at some later date – even neglecting the effect of inflation. This is because money received now can be invested, and so will earn extra profits.

For example, if I have £100 now, and invest it in a bank account with 10% interest (0.1 in decimals), I will get £10 interest in the first year. After one year, I will have:

$$100 + (0.1 \times 100) = 100 \times 1.1 = 110.$$

In the second year, I will get £11 interest (10% of £110) – this includes interest on the original £100, and also on the first year's interest – known as *compound interest*. After the second year I will therefore have:

$$100 \times 1.1 \times 1.1 = £121.$$

Extending this logic, in five years' time, I will have:

$$100 \times 1.1 \times 1.1 \times 1.1 \times 1.1 \times 1.1 = £161.$$

This is written  $100 \times 1.1^5$  (100 times 1.1 to the power of 5). Thus, if this level of interest is available, £100 now is worth 61% more to me than £100 in five years' time.

### DISCOUNTING AND PRESENT VALUE

Put the other way round, money in five years' time is worth less than it is now – to consider its equivalent value today, we have to *discount it*.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



When we compare different transactions at different times, we discount all future amounts to what they would be worth now, allowing for the time value of money. What they would be worth now is called their *present value*.

### **DISCOUNT RATE**

The effect time has on the value of money depends on what return would be available were the 'now' money to be invested. So if we could only get 5% interest, £100 now would be worth  $100 \times 1.055 = £128$  in five years' time.

The annual rate at which today's money would grow – and hence the rate at which 'later' money must be discounted in our model – is called the discount rate.

Reversing the calculations above allows us to work out present values. £100 in five years' time has a present value of:

$100 / 1.055 = £78$  at a discount rate of 5%; and

$100 / 1.15 = £62$  at a discount rate of 10%.

The oil industry commonly uses a discount rate of 12% in real terms, or 15% in nominal terms (allowing for inflation).

The discount rate can be considered to be the opportunity cost of capital. By investing capital in a project, the investors have lost the opportunity to invest it elsewhere. Therefore they will not invest in the project if the capital could be invested elsewhere more profitably (e.g. in another project, or in a bank account, or in bonds or stocks). The discount rate is the return they would expect to get by investing elsewhere.

### **NET PRESENT VALUE (NPV)**

So when we consider the profitability of a capital-intensive project such as an oilfield development, we have to look at discounted values. Rather than simply counting the profit as minus, we look at the net present value (NPV) of the project, which is defined as [sum of present values of receipts] minus [sum of present values of expenditures].

Net present value is always given with a specified discount rate – if the discount rate is not stated, the NPV is meaningless.

We can illustrate this with a simple example of a five-year project, with the following cashflow:

<b>Year</b>	<b>Expenditures</b>	<b>Receipts</b>
1	75	0
2	20	30
3	10	40
4	10	40
5	10	40



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



This project has total expenditures of 125, and total receipts of 150. But to see whether it is profitable, we need to use discounting.

Year	Net cash flow (NCF) (= Receipts less expenditures)	Present value of NCF at 12% discount rate
1	-75	-75
2	10	$= 10 / 1.12 = 8.93$
3	30	$= 30 / 1.122 = 23.92$
4	30	$= 30 / 1.123 = 21.35$
5	30	$= 30 / 1.124 = 19.07$

This project has a net present value of £ -1.73, at a discount rate of 12% (the total of the right-hand column) - so is not considered profitable.

Note that profitability depends on what discount rate we use. At a discount rate of 10%, the same project would have a net present value of £ +1.91 so it becomes profitable at this discount rate.

### **INTERNAL RATE OF RETURN (IRR)**

The other concept that is used to assess profitability of oilfield projects is *internal rate of return* (IRR). This is defined as the discount rate at which the project NPV would be reduced to zero.

IRR can only be worked out numerically – by trial and error. For the project above, we can see that the IRR is somewhere between 10% and 12%. However, modern spreadsheets programmes can calculate IRR automatically. Using a spreadsheet, we can find that in fact the IRR for this project is 11.03%.

The investor considers the project profitable (and will decide to invest in it) if the IRR is greater than the discount rate. The higher the IRR, the more profitable the project.

---

## **Appendix 3: Iraqi oilfield data**

As noted in [section 4](#), Iraq's emerging oil policy is that the Iraq National Oil Company will continue to operate the oilfields which are currently in production, while all new fields will be developed by private companies through production sharing agreements.

In March 1995, the Ministry of Oil (under the Saddam regime) listed 25 new fields to be earmarked for priority development if sanctions were lifted: 11 in the south, 4 in central Iraq and 11 in the north. The list was presented by Ministry officials including Thamer al-Ghadban, who subsequently became “chief executive” of the Ministry during the first few months of the occupation in 2003, and then Oil Minister in the Interim government of Iyad Allawi.



# BRussells Tribunal Dossier

## Big Oil's occupation of Iraq



These fields are listed below, with summary data. This data has been taken from recent reports by the US Department of Energy's Energy Information Administration, Deutsche Bank, the Iraqi Ministry of Oil and BearingPoint strategic consultants for the US Agency for International Development (USAID).

Field <sup>12</sup>	Reserves (bn bbl) <sup>13</sup>	Peak production (kbpd) <sup>14</sup>	Development costs (\$ bn) <sup>15</sup>
<b>SOUTHERN</b>			
Halfaya	3.5	225	2
Bin Umar <sup>16</sup>	6	470	3.4
Majnoon	21	600	4
West Qurna	15	800	4
Gharaf	1	100	0.7
Nasiriya	2	300	1.9
Rafjdain	0.5	75	0.75
Amara	0.3	80	0.5
Noor	n/k	n/k	n/k
Tuba	1	180	1.25
Ratawi	2	200	1.3
<b>NORTHERN</b>			
Hamrin	0.1	60	0.5
Khurmala	1	100	2.5
Taq Taq	n/k	120	0.5
Galabat	n/k		
Qamar	n/k		
Qara Chog	n/k		
Khashm Al Ahmar	n/k		
Qayara	n/k	170	0.3
Qasab	n/k		
Nejmah	n/k		
Jawen	n/k		
<b>CENTRAL</b>			
East Baghdad	11	200	0.8
Balad	n/k		
Ahdab	0.2	100	1.3

In June 2005, the Ministry of Oil announced that it was seeking discussions with multinational companies on the development of 11 oilfields in the south of Iraq. (96) Although they did not list the fields, we assume that it is the same 11 southern fields listed above.

The Khurmala and Hamrin fields in the north are now being developed through technical service agreements, signed respectively with Turkish company Avrasya in December 2004 and with the Canadian OGI in March 2005, leaving just 9 fields in the north, in two groups.



## Appendix 4: Economic analysis - methodology & assumptions

The impact of the proposed Production Sharing Agreement policy on Iraq's revenue will of course depend on the terms of any PSA, as well as on physical circumstances, especially development and production costs, and the oil price.

In this appendix we consider a number of possible terms used in other countries, and apply them to a 'base case' physical scenario; we then test sensitivity to variations in the physical scenario. The aim of the exercise is to examine how PSA performance compares to the current nationalised system.

Theoretically the state's percentage of net revenues from a PSA – known as state take – can range anywhere from 0.1% to 99.9%, according to how the contractual terms are set. In practice, according to Petroconsultants' 1995 review of petroleum fiscal regimes, on economically marginal oil fields, state take ranges from 25.1% in Ireland to 101%<sup>2(m)</sup> in Syria, while on very profitable 'upside' fields it ranged from 25.0% in Ireland to 87.7% in Abu Dhabi. However most PSAs provide for a state take of between 60 to 90%.

We have selected three different scenarios (Oman, Libya and Russia)<sup>(n)</sup>, with varying terms, and then applied them to the physical characteristics of Iraq's oilfields, to consider their economic implications.

**Oman** was selected as, like Iraq, it has relatively low-cost onshore fields, and is one of the only countries of the Gulf region that actually uses PSAs.

**Libya** was selected as it has produced oil for many decades, and has recently reopened to foreign investment following a period of international sanctions. Libya's most recent ("EPSA IV") terms are widely considered within the oil industry to be among the most stringent in the world, so might be considered a 'best case' PSA for Iraq.

**Russia** was selected as it is the only country which currently uses PSAs and has oil reserves which are remotely comparable in size to those of Iraq. Like Iraq, Russia has had an oil industry for many decades. Russia's PSAs were also signed during a period of rapid liberalisation following major regime change. Indeed, there is substantial technical collaboration between Russia and Iraq.

### **PSA TERMS**

#### **Russia (Sakhalin II)**

PSA terms for the Sakhalin II project in Russia are as follow:<sup>(97)</sup>

\$50m of bonuses; \$160m reimbursement of state's exploration costs; \$100m to Sakhalin Development Fund.

6% royalty.

No cost oil limit.

"Profit oil" split only once costs and 17.5% company IRR have been achieved: 10:90 (government:company) for two years, then 50:50 until 24% IRR achieved; then 70:30.

32% tax on company profits, for which capital costs are depreciated over 3 years on a straight-line basis.

#### **Oman**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



PSA terms for Oman are as follows: [\(98\)](#)

Signature bonus of \$0.25m; discovery bonus of \$3m; production bonuses of \$1m each when production levels of 25, 50, 75, 100, 125 and 150 kbpd are reached.  
Cost oil limit of 40% of revenues.  
Profit oil split 80:20.  
No royalty.  
No tax.

### **Libya (EPSA IV round)**

Libya uses a modified joint venture-type PSA. Terms for Libya's EPSA IV round are as follows: [\(99\)](#)

No tax (tax is paid only by the National Oil Company, from its share of profit oil).  
No royalty.

Signature bonuses and state participation share were open for companies to bid in an auction, with the contract going to whichever company offered the highest share of production to the state (or whichever offered the higher signature bonus if two companies bid the same share). State participation shares of profit oil ranged from 61.1% to 89.2% (average 81.5%), and signature bonuses from \$1m to \$25.6m (average \$8.8m). In applying Libyan-type terms to Iraqi oilfields, we take these average bonuses and participation shares.

On top of the signature bonuses, further production bonuses apply for each block. In our model, we take the bonuses of Libya's Block 54, which constitute: \$5m when 100m barrels have been produced, then a further \$3m when each of 130, 160, 190, 220, 250, 280, 310, 340 and 370 million barrels have been produced.

State provides no contribution to exploration costs, 50% of development capital, and share of operating costs equal to its participation share.

Profit oil is split according to production rate and 'R' factor (ratio of contractor's accumulated receipts to accumulated costs). This varies from block to block in Libya. For our analysis, we take the terms from Libya's Block 54, which does not consider production rate, but divides profit oil according to 'R' factor as follows:

<b>'R' factor</b>	<b>Contractor share</b>
0.0 - 1.5	90
1.5 - 3.0	70
> 3.0	50

### **OIL FIELDS CONSIDERED**

We now consider the economic impact on Iraq, using these three sets of PSA terms.

For this assessment, we consider only the fields likely to be opened soonest via PSAs: Halfaya, Bin Umar, Majnoon, West Qurna, Gharaf, Nasiriya, Rafidain, Amara, Tuba, Ratawi, East Baghdad and Ahdab. These are the priority fields identified for development in 1995 (as listed in Appendix 2), excluding Hamrin and Khurmala which are now already being developed, and also excluding 11 smaller fields on which full data was not available.

PSAs could potentially be signed on all of these in 2006.

### **ECONOMIC MODELLING**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



To consider the economic impact of the proposed PSA policy, we have constructed economic models of each of the twelve priority oil fields listed in [Appendix 3](#). The results are shown in [section 5](#).

We consider only oil, not gas, in this analysis.

All figures are in real terms (2006 prices) – i.e. with no inflation.

We assume that economic factors (including production rates, costs etc.) are the same whether oil is extracted by the Iraq National Oil Company or by foreign companies through PSAs. This assumption is based on the technical expertise existing within Iraq's own oil industry, and its access to new technological resources through technical service agreements.

We use a discount rate of 12%.

The analysis assumes PSAs are signed in 2006, followed by feasibility and appraisal expenditures of \$10 million in the three subsequent years. Project sanction (and hence first development investments) occur in 2009. First oil is achieved in 2011, at 30% of the peak level, then rising steadily to peak in 2014.

Production profiles are based on the figures for reserves and peak production cited in Appendix 2, with constant exponential declines in production ranging from 3% for the largest fields (Majnoon, W Qurna, East Baghdad) to 15% for the smallest (Ahdab). Similarly, production plateaus range from zero (single peak) for the small fields to over 20 years for the largest.

Development expenditures are based on those used by PetroConsultants, adjusted according to the field size and production rate, generally continuing until two years after the end of peak/plateau production.

Iraqi oil experts estimate operating costs between \$0.5(100) and \$1.5(101) per barrel. We assume this to relate only to variable operating costs; for our analysis, we take \$1.0 per barrel. We add fixed operating costs of 5% of development costs.

For simplicity, we do not include transport costs – thus the oil price used is effectively the wellhead price. If transport costs \$0.5 per barrel, then the FOB oil price is \$0.5 higher than the wellhead price.

---

### **References**

- (1) Letter to Arthur Balfour, Foreign Secretary, 1918, cited in Daniel Yergin, *The Prize* (Simon & Schuster, London, 1991), p.188
- (2) Introductory paper on the Middle East by the UK, undated [1947], FRUS, 1947, Vol. V, p. 569, cited in Mark Curtis, *The Ambiguities of Power* (Zed Books, London, 1995), p. 21
- (3) Memorandum by the Chief of the Division of Near Eastern Affairs, undated [1945], FRUS, 1945, Vol. VIII, p.45, cited in Mark Curtis, *The Ambiguities of Power* (Zed Books, London, 1995), p. 21
- (4) BP, Putting energy in the spotlight, *Statistical Review of World Energy*, June 2005
- (5) Dick Cheney, speech at the Institute of Petroleum Autumn lunch, London, 15 November 1999
- (6) National Energy Policy Development Group, *National Energy Policy report*, May 2001, p.8-5
- (7) Jack Straw, Secretary of State for Foreign & Commonwealth Affairs, speech on 'Strategic priorities for British foreign policy', 6 January 2003
- (8) Ministry of Defence, *White Paper: Modern Forces for the Modern World (Strategic Defence Review)*, July 1998, chapter 2, paragraph 40



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



- 
- (9)** Foreign and Commonwealth Office, UK International Priorities: A Strategy for the FCO, December 2003
- (10)** US Department of Commerce, Memorandum for the President, Transmittal of the Report on the US-UK Energy Dialogue, 30 July 2003
- (11)** Ibid, Section 1
- (12)** Ibid, Section 1
- (13)** Foreign and Commonwealth Office (FCO), Code of Practice for the Iraq Oil Industry, undated (summer 2004), pp.4-5
- (14)** UK Secretary of State for Foreign and Commonwealth Affairs, Government Response to Seventh report of the House of Commons Foreign Affairs Committee, on 'Foreign Policy Aspects of the War Against Terrorism', September 2004
- (15)** Dr Kim Howells MP, answer to Parliamentary Question by Harry Cohen MP, 12 July 2005, Hansard column 878W
- (16)** James McLaughlin (Iraq Policy Unit, Foreign & Commonwealth Office), letter to Lorne Stockman (PLATFORM), response to request under the Code of Practice on Access to Government Information, 9 December 2004
- (17)** For more on ongoing US influence in Iraq, see Herbert Docena, 'Shock and Awe' Therapy, Focus on the Global South, April 2005
- (18)** Jim Krane, "US will retain sovereign power in Iraq," Associated Press, 21March, 2004
- (19)** Bearing Point, report to USAID, Options for Developing a Long Term Sustainable Iraqi Oil Industry, 19 December 2003
- (20)** Eric Watkins, 'Iraq seeks E&D investment, nixes reserves privatization', Oil & Gas Journal, 16 February 2005
- (21)** Then the Turkish Petroleum Company - renamed in 1928
- (22)** Daniel Johnston, International petroleum fiscal systems and production sharing contracts (Pennwell, 1994), p.39
- (23)** Thomas W Wälde, 'The current status of international petroleum investment: regulating, licensing, taxing and contracting', in CEPMLP Journal, Vol 1, no.5, July 1995 (pub. University of Dundee)
- (24)** Carola Hoyos, 'Big players anticipate Iraq's return to fold', Financial Times, 20 February, 2003
- (25)** Shell in the Middle East magazine, April 2005, available online at [www.shell-me.com/english/apr05/news-me2.htm](http://www.shell-me.com/english/apr05/news-me2.htm)



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



- 
- (26) Glenn Irvine International, recruitment advertisement, August 2004, <http://www.irvine-int.com/irgext.html#irgext>. Luay Jawad was appointed to the post
- (27) Walter van der Vijver, speech to ECSSR conference, 'A new era for international oil companies in the Gulf: opportunities and challenges', Abu Dhabi, 19 October 2003
- (28) International Tax & Investment Centre (ITIC), Strategic Questions For Our Future, undated [2004] [www.iticnet.org/publications/StrategicQuestions.pdf](http://www.iticnet.org/publications/StrategicQuestions.pdf)
- (29) International Tax & Investment Centre (ITIC), Petroleum and Iraq's Future: Fiscal Options and Challenges, Fall 2004, p. 3
- (30) Ibid, p. 3
- (31) Ibid, p.10
- (32) BP, op cit, p.4
- (33) Marc Grossman, Under Secretary for Political Affairs, Testimony before the Senate Foreign Relations Committee, 11 February 2003; Eli J. Lake, 'US plans for post-Saddam Iraqi government', The Washington Times, 5 June 2002.
- (34) Nicolas Pelham, 'Oil to be privatised but not just yet, says Iraqi minister', Financial Times, 5 September 2003
- (35) Carola Hoyos, 'Exiles Call for Iraq to Let in Oil Companies', Financial Times, 7 April 2003
- (36) Ibid
- (37) US State Department, Future of Iraq Project, Oil and Energy Working Group (Oil Policy Subgroup), April 2003, published in Middle East Economic Survey, 'Iraqi oil policy recommendations after regime change', 5 May 2003, pp.D1-D11
- (38) Ibid
- (39) Carola Hoyos, op cit
- (40) Philip J Carroll, 'Personal commentary', in Oxford Energy Forum (pub Oxford Institute for Energy Studies) November 2004
- (41) Dr Kim Howells MP, answer to Parliamentary Question by Harry Cohen MP, 13 July 2005, Hansard column 1123W
- (42) Nicolas Pelham, op cit
- (43) Ibid
- (44) Thamer al-Ghadban, interviewed by Bobby Schuck in Shell in the Middle East magazine, October 2004



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



**(45)** Energy Compass, 'Iraq: Puzzling over the future', 1 October 2004

**(46)** "For new development of undeveloped oil and gas fields, and for exploration, all of which must start as soon as possible and in tandem with INOC's efforts, these should be accomplished through private sector investment via competent international ... oil companies... However, these new ventures should specifically not be allowed to partner with any state-owned enterprises, including INOC, in order to ensure state impartiality and avoid the pitfall of state interference in corporate enterprise management". [Cited in Middle East Economic Survey, 'Allawi outlines new Iraqi petroleum policy: INOC for currently producing fields/IOCs for new areas', 13 September 2004, pp. A1-A4]

**(47)** "Eventually, in years to come, INOC may be partially privatised through wide distribution of ownership among Iraqis through public subscription" [ibid]

**(48)** "Should we spend months and years trying to exact the last penny in negotiating the commercial terms? I would suggest that there is no need to waste time. Time is of the essence". [ibid]

**(49)** Dan Morgan and David B. Ottaway, 'In Iraqi War Scenario, Oil Is Key Issue', Washington Post, 15 September 2002, Page A01

**(50)** Text of the draft Iraq Constitution, translated by Associated Press, 28 August 2005, article 110

**(51)** Ibid, article 111

**(52)** Ibid, article 108

**(53)** Embassy of the United States, Baghdad, Ambassador Khalilzad statement on the referendum results, October 26, 2005

**(54)** Christian Schmollinger, 'Iraqi officials hopeful foreign oil firms will return in 2006', International Oil Daily, 15 June 2005

**(55)** Glen Carey & Faleh al-Khayat, 'Iraq looks to woo majors for field revivals', Platts Oilgram News, 22 June 2005

**(56)** Heritage Oil Corporation press release, 'Heritage Oil signs agreement for Kurdistan, Iraq field study', 28 September 2005

**(57)** US Department of Energy (US DOE), Energy Information Administration, Iraq - Country Analysis Brief, June 2005, [www.eia.doe.gov/emeu/cabs/iraq.html](http://www.eia.doe.gov/emeu/cabs/iraq.html)

**(58)** Ibid

**(59)** Adil Abd Al-Mahdi, Finance Minister, remarks at the National Press Club, Washington DC, December 21, 2004

**(60)** Population and economic data taken from US Central Intelligence Agency, The World Factbook 2005

**(61)** ITIC, Petroleum and Iraq's Future, op cit, p.17; FCO, Code of Practice for the Iraq Oil Industry, op cit p.5



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



**(62)** ITIC, Petroleum and Iraq's Future, op cit, Annex 3, pp. 64-70

**(63)** Like many of the other details of the contracts, the extent to which this is a problem will depend on the outcome of negotiations. However, experience elsewhere suggests it will be difficult. For example, OPEC members Algeria and Nigeria have consistently struggled, and largely failed, to rein in foreign companies' production rates. Of the 11 members of OPEC, these two (along with Indonesia, which has recently under-produced its quota anyway, due to declining capacity) are the ones with the greatest level of foreign oil company involvement. Similarly, when Iraq under Saddam Hussein attempted to attract foreign investment in 1995, the Oil Minister admitted in an interview with Middle East Economic Survey that guarantees would have to be given to oil companies that they would be able to produce at their desired level. [Dr Safa Hadi Jawad al\_Habubi, interview with MEES, 38:25, 20 March 1995, p.A5]

**(64)** E.g. in Azerbaijan's ACG PSA [Article XXIII, clause 23.2]: "In the event that the Government or other Azerbaijan authority invokes any present or future law, treaty, intergovernmental agreement, decree or administrative order which contravenes the provisions of this Contract or adversely or positively affects the rights or interests of Contractor hereunder, including, but not limited to, any changes in tax legislation, regulations, administrative practice, or jurisdictional changes pertaining to the Contract Area the terms of this Contract shall be adjusted to re-establish the economic equilibrium of the Parties, and if the rights or interests of Contractor have been adversely affected, then SOCAR shall indemnify the Contractor (and its assignees) for any disbenefit, deterioration in economic circumstances, loss or damages that ensue therefrom."

In the PSA for Shell's Sakhalin II oil developments in Russia, Appendix E exempts the project from, amongst other laws, the Russia Water Code which forbids discharge of flows and drainage waters in spawning and wintering areas for valuable and protected fish species and in habitat for Red Book protected wildlife and plant species. Destruction of salmon spawning sites as a result of oil spillage is a major concern in the project. Article 24 (f) also provides blanket compensation for damage caused to Shell's profits: The Russian Party shall compensate the Company for any damage caused to the consortium's "commercial position" by "adverse changes in Russian laws, subordinate laws and other acts taken by Government bodies after December 31, 1993 (including changes in their interpretation or their application procedure by government bodies and by the courts in the Russian Federation)."

**(65)** Susan Leubuscher, 'The privatisation of justice: international commercial arbitration and the redefinition of the state'. MRes thesis, Birkbeck College, 2 June 2003  
[www.fern.org/pubs/reports/dispute%20resolution%20essay.pdf](http://www.fern.org/pubs/reports/dispute%20resolution%20essay.pdf)

**(66)** Nino Chkhobadze (Georgian Minister for the Environment), letter to BP CEO John Browne, 26 November 2002; AFP, 'Georgia approves \$2.9bn oil pipeline', 2 December 2002

**(67)** "We won't be bullied", Transitions Online, 9 August 2004

**(68)** Helmut Merklein, 'Who needs big oil in Iraq: The case for going it alone', Middle East Economic Survey, 12 January 2004

**(69)** ITIC, Petroleum and Iraq's Future, op cit, p.33

**(70)** Ibid, p.8

**(71)** Bearing Point, op cit, p.5



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



**(72)** Dunia Chalabi (International Energy Agency), 'Perspective for Investment in the Middle East/North Africa Region', Presentation to the OECD, Istanbul, 11-12 February 2004, p.7

**(73)** BP, op cit, p.4

**(74)** Putting energy in the spotlight - BP Statistical Review of World Energy June 2005

**(75)** Oil Ministry figures give an investment requirement of \$25 billion over ten years. In our economic models, the investment peaks at \$3.0 bn in 2012 (the fourth year of development). However, in the models first oil is expected in 2011 - thus this will contribute to the 2012 investment. The highest annual net investment in the models is \$2.3 billion, in 2011.

**(76)** International Oil Daily, 'Iraqi Oil Ministry Gets Big Leap in Funds', 26 October 2004

**(77)** FCO, Code of Practice, op cit p.4

**(78)** Helmut Merklein, op cit. In this comment, Dr Merklein is actually referring to the smaller cost of rehabilitating production to pre-Gulf War levels; but the same applies to the larger investment too

**(79)** Dr Muhammad Ali Zainy (Energy Economist and Analyst, Centre for Global Energy Studies), at the 10th Annual Energy Conference of The Emirates Center for Strategic Studies and Research (ECSSR), 26-27 September 2004, Abu Dhabi, UAE, reproduced in Middle East Economic Survey, 47:42, 'Iraq's Oil Sector: Scenarios For The Future', 18 October 2004

**(80)** [www.jubileeiraq.org](http://www.jubileeiraq.org)

**(81)** See e.g. Justin Alexander, 'Saddam's Odious Debt', Swans Commentary, 2 February 2004, [www.swans.com/library/art10/iraq/alexander.html](http://www.swans.com/library/art10/iraq/alexander.html)

Also The Economist, 'Those odious debts', 18 October 2003: "The Iraqi debt problem highlights a huge unresolved flaw in the international financial system. There is an overwhelming case, both in terms of economic expediency and justice, for writing off most of Iraq's debts, and doing so fast... It is clearly unfair to expect the Iraqi people to pay for the reckless waste of the regime that brutally oppressed them for so long."

**(82)** Wall Street Journal, editorial, 30 April 2003, quoted in Jubilee Iraq, 'Saddam's Odious Debt - Iraqis address the Paris Club', November 2004

**(83)** See for example, ITIC, Petroleum and Iraq's Future, op cit, p.6; FCO, Code of Practice, op cit p.5; Iyad Allawi guidelines on oil policy, reported in Middle East Economic Survey, 47:37, 13 September 2004, p.A2.

**(84)** For example, ITIC, Petroleum and Iraq's Future (op cit), pp.30-31: "For the most part, international oil companies do not favor risk service contracts. Such contracts have sometimes been accepted as an interim measure, or a cost of access, on the route towards eventual creation of a PSA regime. Typically risk service contracts offer relatively low returns and present difficulties for companies in booking reserves." ITIC indicates reluctant acceptance of development and production contracts, but indicates a strong preference for PSAs



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



**(85)** Ed Harriman, 'Where has all the money gone?', London Review of Books, Vol. 27 No. 13 7 July 2005; Iraq Revenue Watch, 'Audits find more irregularities and mismanagement of Iraq's revenues', December 2004

**(86)** Iraq Revenue Watch, Protecting the Future: Constitutional Safeguards for Iraq's Oil Reserves, Report No.8, May 2005

**(87)** Publish What You Pay objectives - <http://pwyp.gn.apc.org/english/objectives/>

**(88)** Iraq Revenue Watch, Protecting the Future, op cit

**(89)** See e.g. Striking a Better Balance: The World Bank Group and Extractive Industries, Final Report of the Extractive Industries Review Vol 1, pp.12-16 and 45-52

**(90)** For example, in Syria the state's share of profit oil ranges from 79% for fields producing less than 50,000 barrels per day, to 87.5% for fields producing more than 200,000 barrels per day.

**(91)** For example, in the Azeri-Chirag-Guneshli PSA, the Azerbaijan state only gets 30% of the profit oil until the BP-led consortium has achieved 16.75% rate of return - a comfortable level of profits. After that, the state's share goes up to 55%. Only after the consortium has achieved a 22.75% rate of return - a high level of profits - does the state's share of profit oil go up to a more normal 80%. [ACG PSA, article XI, clause 11.6]

The Sakhalin II PSA goes even further. In that case, the Russian state gets no profit oil until the Shell-led consortium has achieved 17.5% rate of return. The state then receives just 10% for a further two years, and then 50% until the consortium has obtained 24% rate of return, after which the state receives 70%. [Sakhalin II PSA, section 14. For detailed analysis, see Ian Rutledge, 'The Sakhalin II PSA - A production non-sharing agreement' (pub CEE Bankwatch Network, PLATFORM, Friends of the Earth, Sakhalin Environment Watch, Pacific Environment, WWF), November 2004]

**(92)** Some of these fields are producing small amounts of oil, including Majnoon, West Qurna and East Baghdad. However, their production is well below their potential, respectively 50,000, 250,000 and 20,000 barrels per day prior to the March 2003 invasion [US DOE, op cit] - essentially amounting to minor development of small parts of the fields. As such, they are commonly described as "undeveloped". [See e.g. Mohammad Al-Gailani (MD, GeoDesign Ltd), 'Assessing Iraq's oil potential', Geotimes, October 2003]

**(93)** Reserves figures are taken from Deutsche Bank, Baghdad Bazaar - Big Oil in Iraq?, 21 October 2002, p.12; and from US DOE, op cit

**(94)** Peak production figures are taken from al-Ghadban et al (Iraq Ministry of Oil), paper presented at seminar on 'The future of oil and gas markets', Baghdad, 11-12 March 1995, reproduced in Middle East Economic Survey, 38:25, 20 March 1995, pp.D1-D15; Deutsche Bank, op cit; and Bearing Point, op cit

**(95)** Development cost data is taken from Deutsche Bank, op cit; Bearing Point, op cit; except Gharaf field, which is taken from average of 7,000 per daily barrel, cited in al-Ghadban et al, op cit

**(96)** Glen Carey & Faleh al-Khayat, op cit

**(97)** For detailed analysis, see Ian Rutledge, op cit



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



---

**(98)** From PetroConsultants, Annual Review of Petroleum Fiscal Regimes, 1995

**(99)** For detailed analysis, see Daniel Johnston<sup>5</sup>, 'Impressive Libya licensing round contained tough terms, no surprises', in Oil and Gas Journal, 18 April 200, pp.29-37

**(100)** E.g. Dr Muhammad-Ali Zainy, op cit

**(101)** E.g. Fadhil Chalabi (former OPEC Deputy Secretary-General and Iraq Oil Ministry official, now of Centre for Global Energy Studies), quoted in Carola Hoyos, 'Big players anticipate Iraq's return to fold', Financial Times, 20 February 2003

---

**(a)** In the USA, onshore reserves belong to the landowner, which may be a public or private body or individual

**(b)** The last remnants of concessions were nationalised in 1975.

**(c)** During the final years of Saddam Hussein's regime, Iraq tried to re-open its oil industry to foreign capital. This process was highly political, and contracts were negotiated with and awarded primarily to companies from UN Security Council member countries Russia, China and France, in an attempt to win support for the dropping of UN sanctions. A PSA deal was actually signed in 1997 - with Russian company Lukoil for the West Qurna field - but never implemented, due to the sanctions. Ultimately, Saddam cancelled the contract. Disputes still continue with the new Iraqi authorities as to whether this contract has any validity. Saddam also signed a development and production contract (DPC) with China National Petroleum Corporation for the al-Ahdab field (also never implemented, and ultimately frozen), and came very close to signing a PSA deal with French company Total, on the Majnoon field. Negotiations also took place on various other fields for PSAs, buybacks or DPCs ([see section 6](#)).

**(d)** Bob Morgan died as a result of a rocket attack on his car in Baghdad, in May 2004

**(e)** In this, Allawi was being highly unrealistic. Although contracts can allow a certain degree of renegotiation, companies will not sign them if the potential for renegotiation is substantive or meaningful.

**(f)** Following the agreement on a Constitution, a Petroleum Law is the next step in defining how the oil industry is to be run.

**(g)** We also ran the models with the terms used in PSAs Qurna field in 1997 (which was never implemented, outlined here.

**(h)** Of these, we were unable to obtain full data on 11 fields projected production (and hence revenue).

**(j)** This omission compounds the inaccuracy of ITIC's assumption barrels per day – on this point, see the [section 6](#).

**(k)** We have used a 12% discount rate, as the rate most commonly used in the oil industry. However, it should be noted there is some debate among development economists as to what discount rate should be used for public sector investments. It is commonly argued that, since states can borrow capital at lower interest rates than private companies, and since states do not invest in the same way as companies (and so do not experience the same extent of opportunity costs), the discount rate should be lower than for private



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



sector investments. For example, US public institutions use a discount rate of 7%. Some economists even argue that states should apply a zero discount rate, as the process of discounting undervalues expenditure for future generations. A lower discount rate would mean a higher NPV loss to the Iraqi state.

**(l)** See for example, the 'Drilling into debt' report by Oil Change International, which finds that oil-producing countries tend to experience major indebtedness.

**(m)** These figures are produced by applying all the countries' terms to the same hypothetical oilfields. Clearly, the marginal field here would not be developed if found in Syria, as it would be uneconomic – the company would make a net loss.

**(n)** We noted in section 6 that no countries comparable to Iraq use PSAs – indeed we would argue that PSAs are not appropriate to Iraq's situation of plentiful, low-cost, known fields. Thus there is no natural choice of country's terms to apply in this analysis. Therefore it should be noted that the Oman and Libya PSAs are for exploration and production, and thus carry the exploration risk that no oil will be found. As a result they give potentially more lucrative terms to compensate for the risk of failure to find oil. The short- and medium-term development of Iraq's oil will be of the roughly 65 known but undeveloped fields, whereas new exploration (especially in the Western Desert) will deliver longer-term development. However, against the lack of exploration risk in potential early PSA contracts, Iraq carries more political risk than any of these other cases. On the other hand the Sakhalin II field (which like the Iraqi fields was known before the PSA was signed) is offshore and hence higher-cost which may be reflected in more lucrative terms for the company. However, the current high political risk in Iraq could quite plausibly lead to similarly lucrative terms.

The exception would be the PSA deal signed by Saddam Hussein with Lukoil in 1997 for the West Qurna field which was never implemented and was cancelled in 2002. We have not used these terms as one of our three featured scenarios because of its unusual status. However, we did test the model against those terms. The loss of state revenue (undiscounted and NPV) is within the range of these three scenarios. The company internal rates of return, remain high by international oil industry standards (20%, 40%, 57% at \$40/barrel) for the 3 fields we examined in section 5) but at lower than the three featured scenarios due to an unusually high \$100 million up-front signature bonus. While the bonus is small compared to the total value of revenue, the fact that it is paid up-front impacts more significantly on the rate of return (due to the time value of money - see Appendix 2). The context of this decision was that it was signed during the sanctions era, when the regime was desperate for up-front cash, but conversely keen to win Russia's political support in the UN Security Council. In this sense it was not a 'normal' PSA so we have not used it in our main analysis. The Lukoil terms were not officially published, so in our test we used those reported by the Middle East Economic Survey [11 November 2004 - 'Lukoil Seeks West Qurna Development/Iraq Debt Deal'].

---

## About the publishers

### **Lead publisher**

PLATFORM is an interdisciplinary organisation working on issues of environmental and social justice. Founded in 1984, it specialises in addressing the impacts of British oil corporations on development, environment and human rights. [www.carbonweb.org](http://www.carbonweb.org)

### **US co-publishers**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Global Policy Forum monitors policy making at the United Nations, promotes accountability of global decisions, educates and mobilizes for global citizen participation, and advocates on vital issues of international peace and justice. [www.globalpolicy.org](http://www.globalpolicy.org)

The Institute for Policy Studies strengthens social movements with independent research, visionary thinking, and links to the grassroots, scholars and elected officials. With an emphasis on the UN and the Middle East, IPS's New Internationalism Project works to strengthen the US and global peace movements. [www.ips-dc.org](http://www.ips-dc.org)

Oil Change International campaigns to expose the true costs of oil and facilitate the coming transition towards clean energy. We are dedicated to identifying and overcoming political barriers to that transition. [www.priceofoil.org](http://www.priceofoil.org)

### **UK co-publishers**

The New Economics Foundation (NEF) works to construct a new economy centred on people and the environment. Founded in 1986, it is now one of Britain's most creative and effective independent think tanks, combining research, policy, training and practical action. [www.neweconomics.org](http://www.neweconomics.org)

War on Want is a UK-based campaigning charity. Founded in 1951 it has links to the labour movement and supports progressive, people-centred development projects around the world. War on Want campaigns in the UK against the causes of world poverty. [www.waronwant.org](http://www.waronwant.org)

<http://www.globalpolicy.org/security/oil/2005/crudedesigns.htm>

<http://www.carbonweb.org/showitem.asp?article=57&parent=4&link=Y&gp=3>

---

## **Oil, Power and Empire: Iraq and the U.S. Global Agenda**

**by Scott D. O'Reilly**

Global Research, October 5, 2004

Plato wrote that the greatest political calamity imaginable was the divided state where you have one half of the population triumphing, and the other half plunged into grief. Today Plato's warning applies most manifestly to the globe itself, with the relationship between the first and third world – between the haves and have nots – duplicating the tragic and precarious conditions described by the west's most influential political philosopher more than 2,000 years ago.

Larry Everest, author of timely and well-argued book, "Oil, Power, & Empire: Iraq and the U.S. Global Agenda," outlines many of the catastrophic consequences that invariably follow when the world is divided into imperial exploiters and suppressed colonies. His book arrives at a propitious moment, at a time when the United States under the Bush administration is unabashedly assuming the mantle of a global empire with the aim of securing natural resources for its own consumption while ensuring strategic rivals and indigenous peoples remain unable to contest American hegemony.

But the Bush administration's attempts to establish a *Pax Americana* are not, as Everest contends, a radical deviation from past U.S. policies, so much as a dramatic acceleration of longstanding imperial hubris. A study of the U.S. role in The Middle East over the last half-century, and Iraq in particular, reveals the shortsighted, self-serving and wantonly destructive character of America's involvement in



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



the region. In no small measure, Everest argues the terrorist threat the United States now faces has arisen from the oppression and exploitation the our government has sanctioned in the Middle East.

The complications, contradictions, and consequences from America's dysfunctional relationship with the Middle East are nowhere more sadly illustrated than the heartrending case of Iraq. The official Washington narrative has the United States intervening twice in the birthplace of civilization, first to repel an unprovoked invasion by the brutal tyrant Saddam Hussein, and second to depose the dictator in an effort to bring democracy to a beleaguered Iraq. Everest lays out a comprehensive and persuasively argued alternative narrative that completely debunks America's self-aggrandizing delusion that it has been a benevolent force in Iraq or the region.

The study of history is valuable because the past is often prologue, and Everest provides one of the most trenchant, concise, and useful accounts of U.S. involvement in the Gulf over the past half-century, as well as the experience of the British Empire in the region going back to the First World War.

Oil, in fact, was an indispensable factor that fueled the allied victories in WWI and WW II, and control of this strategically and economically vital resource has remained a dominant concern among elites managing and overseeing empires. The British recognized that their ability to control and exploit this vital resource rested on their ability 'divide and conquer,' so to speak the indigenous Arab fiefdoms, ensuring oil resources could be diverted for their own imperial needs while their Arab colonies like Iraq remained weak and compliant.

This could not, of course, be accomplished without a high degree of morality laundering. When the British forces entered Baghdad in 1917 their commander Sir Stanley Maude explained the occupation as follows:

*"Our armies do not come into your cities and lands as conquerors or enemies, but as liberators . . . [so]the Arab race may rise once more to greatness." Things didn't quite work out as promised, in large measure because the victories allied powers in WWI were busy carving up the Middle East into spheres of influence to exploit for their colonial ends. When the Iraqi's realized what was happening their response was a widespread insurgency that was crushed by British forces using artillery shells containing poison gas, prompting Winston Churchill to refer to Iraq as that "ungrateful volcano."*

The British soon found Iraq virtually unmanageable, so they simply installed a puppet government, extracted the most generous oil concessions they could, kept their troops garrisoned in Iraq to back up the despised monarchy and protect British interests, most often by air power. Ever since, Everest argues, "Iraq has been a testing ground for the tactics – and crimes – of empire."

The U.S. have simply picked up where the British left off according to Everest. After WWII as the British Empire waned the U.S. was determined to fill the void in the Middle East and secure the region's vast petroleum resources to fulfill its own imperial designs. Everest describes in compelling detail how control of oil translates into vast economic and military power, providing the means to accumulate leverage over rivals abroad and accumulate wealth at home.

Contrary to the Bush administration's contentions that the war on Iraq was about Saddam's WMD or part of the broader 'war on terror' Everest contends that invading Iraq was all about extending America's empire. More precisely, Everest argues, securing Iraq's oil reserves was a way of 'escaping



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



forward,' that is a way of escaping some of the contradictions of empire, most particularly America's increasing vulnerability because of its reliance on foreign oil and foreign capital to fuel its consumptive binge. Or as Everest baldly puts it, to use America's military might to attain economic supremacy. For instance, with American oil conglomerations controlling the spigot in Iraq the U.S. will insure that it profits from the rapid economic expansion expected from China's in the coming decades.

The cost of maintaining and extending America's hegemony has been high, and perhaps no people have paid a higher price than the Iraqis. As Everest details the United States aided and abetted the rise of Saddam Hussein and his oppressive Ba'ath party because Washington saw it as an effective counterweight to Islamic fundamentalism and potential Soviet expansionism. Following the British example, however, the United States saw its interests best served by keeping all the states in the region relatively weak and divided, and to that end the Reagan/Bush administration cynically armed both sides in the unusually bloody Iran/Iraq war, including providing Saddam with chemical and biological weapons. Two subsequent Bush administrations, Everest contends, would shed crocodile tears while citing Saddam's use of WMD against Iran and the Iraqi people as a pretext for two invasions that may have resulted in the deaths of as many as two million Iraqis when one factors in the costs of sanctions and collateral damage from U.S. targeting of Iraq's critical infrastructure.

In the midst of the second Gulf War it is clear that most Iraqis view U.S. troops as occupiers, not liberators. Everest's analysis helps explain why the Iraqis have good reason to doubt U.S. intention, and why most Americans might be wise to doubt the Bush administration's intentions as well. For if Everest is right the U.S. invasion has little to do with alleviating the global rift between the Arab world and the West -- the rift between the have and have nots that feeds terrorism -- but of perpetuating it.

**About the Author -- Scott D. O'Reilly is an independent writer with degrees in philosophy and psychology. His work has been published in *The Humanist*, *Philosophy Now*, *Intervention Magazine*, *Think*, *The New Standard*, and *The Philosopher's Magazine*. He is a contributor to the book *The Great Thinkers A-Z* (Continuum, 2004) and writes the monthly "Voice From America" column for *Compass Magazine*. He is working on a book called *Socrates in Cyberspace* that examines traditional conceptions of the soul in light of the latest neuroscientific findings.**

Contact [neuroscott@aol.com](mailto:neuroscott@aol.com)

<http://www.globalresearch.ca/index.php?context=viewArticle&code=EVE20041005&articleId=570>



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



**BBC NEWS**

### **Secret US plans for Iraq's oil**

By Greg Palast - Reporting for Newsnight

**The Bush administration made plans for war and for Iraq's oil before the 9/11 attacks, sparking a policy battle between neo-cons and Big Oil, BBC's Newsnight has revealed.**

Two years ago today - when President George Bush announced US, British and Allied forces would begin to bomb Baghdad - protesters claimed the US had a secret plan for Iraq's oil once Saddam had been conquered.

In fact there were two conflicting plans, setting off a hidden policy war between neo-conservatives at the Pentagon, on one side, versus a combination of "Big Oil" executives and US State Department "pragmatists".

"Big Oil" appears to have won. The latest plan, obtained by Newsnight from the US State Department was, we learned, drafted with the help of American oil industry consultants.

Insiders told Newsnight that planning began "within weeks" of Bush's first taking office in 2001, long before the September 11th attack on the US.

#### **We saw an increase in the bombing of oil facilities and pipelines [in Iraq] built on the premise that privatisation is coming**

Mr Falah Aljibury

An Iraqi-born oil industry consultant, Falah Aljibury, says he took part in the secret meetings in California, Washington and the Middle East. He described a State Department plan for a forced coup d'etat.

Mr Aljibury himself told Newsnight that he interviewed potential successors to Saddam Hussein on behalf of the Bush administration.

#### **Secret sell-off plan**

The industry-favoured plan was pushed aside by a secret plan, drafted just before the invasion in 2003, which called for the sell-off of all of Iraq's oil fields. The new plan was crafted by neo-conservatives intent on using Iraq's oil to destroy the Opec cartel through massive increases in production above Opec quotas.

The sell-off was given the green light in a secret meeting in London headed by Fadhil Chalabi shortly after the US entered Baghdad, according to Robert Ebel.

Mr Ebel, a former Energy and CIA oil analyst, now a fellow at the Center for Strategic and International Studies in Washington, told Newsnight he flew to the London meeting at the request of the State Department.

Mr Aljibury, once Ronald Reagan's "back-channel" to Saddam, claims that plans to sell off Iraq's oil, pushed by the US-installed Governing Council in 2003, helped instigate the insurgency and attacks on US and British occupying forces.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



"Insurgents used this, saying, 'Look, you're losing your country, you're losing your resources to a bunch of wealthy billionaires who want to take you over and make your life miserable,'" said Mr Aljibury from his home near San Francisco.

"We saw an increase in the bombing of oil facilities, pipelines, built on the premise that privatisation is coming."

### **Privatisation blocked by industry**

Philip Carroll, the former CEO of Shell Oil USA who took control of Iraq's oil production for the US Government a month after the invasion, stalled the sell-off scheme.

Mr Carroll told us he made it clear to Paul Bremer, the US occupation chief who arrived in Iraq in May 2003, that: "There was to be no privatisation of Iraqi oil resources or facilities while I was involved." Ariel Cohen, of the neo-conservative Heritage Foundation, told Newsnight that an opportunity had been missed to privatise Iraq's oil fields.

He advocated the plan as a means to help the US defeat Opec, and said America should have gone ahead with what he called a "no-brainer" decision. Mr Carroll hit back, telling Newsnight, "I would agree with that statement. To privatize would be a no-brainer. It would only be thought about by someone with no brain."

New plans, obtained from the State Department by Newsnight and Harper's Magazine under the US Freedom of Information Act, called for creation of a state-owned oil company favoured by the US oil industry. It was completed in January 2004 under the guidance of Amy Jaffe of the James Baker Institute in Texas.

Formerly US Secretary of State, Baker is now an attorney representing Exxon-Mobil and the Saudi Arabian government.

**[View segments of Iraq oil plans at www.GregPalast.com](http://www.GregPalast.com)**

Questioned by Newsnight, Ms Jaffe said the oil industry prefers state control of Iraq's oil over a sell-off because it fears a repeat of Russia's energy privatisation. In the wake of the collapse of the Soviet Union, US oil companies were barred from bidding for the reserves.

Ms Jaffe says US oil companies are not warm to any plan that would undermine Opec and the current high oil price: "I'm not sure that if I'm the chair of an American company, and you put me on a lie detector test, I would say high oil prices are bad for me or my company."

The former Shell oil boss agrees. In Houston, he told Newsnight: "Many neo conservatives are people who have certain ideological beliefs about markets, about democracy, about this, that and the other. International oil companies, without exception, are very pragmatic commercial organizations. They don't have a theology."

*A State Department spokesman told Newsnight they intended "to provide all possibilities to the Oil Ministry of Iraq and advocate none".*

**Greg Palast's film - the result of a joint investigation by Newsnight and Harper's Magazine - will be broadcast on Thursday, 17 March, 2005.**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



---

Newsnight is broadcast every weekday at 10.30pm on BBC Two in the UK.

Story from BBC NEWS:

<http://news.bbc.co.uk/go/pr/fr/-/1/hi/programmes/newsnight/4354269.stm>

Published: 2005/03/17 15:41:31 GMT

---



## **The Failed War for Oil**

*By Michael T. Klare, Tomdispatch.com*

*Posted on September 23, 2005, Printed on December 29, 2006*

<http://www.alternet.org/story/25876/>

It has long been an article of faith among America's senior policymakers -- Democrats and Republicans alike -- that military force is an effective tool for ensuring control over foreign sources of oil.

Franklin D. Roosevelt was the first president to embrace this view, in February 1945, when he promised King Abdul Aziz of Saudi Arabia that the United States would establish a military protectorate over his country in return for privileged access to Saudi oil -- a promise that continues to govern U.S. policy today. Every president since Roosevelt has endorsed this basic proposition, and has contributed in one way or another to the buildup of American military power in the greater Persian Gulf region.

American presidents have never hesitated to use this power when deemed necessary to protect U.S. oil interests in the Gulf. When, following the Iraqi invasion of Kuwait, the first President Bush sent hundreds of thousands of U.S. troops to Saudi Arabia in August 1990, he did so with absolute confidence that the application of American military power would eventually result in the safe delivery of ever-increasing quantities of Middle Eastern oil to the United States. This presumption was clearly a critical factor in the younger Bush's decision to invade Iraq in March 2003.

Now, more than two years after that invasion, the growing Iraqi quagmire has demonstrated that the application of military force can have the very opposite effect: It can diminish -- rather than enhance -- America's access to foreign oil.

### **An Occupation Floating on a Sea of Oil**

Oil was certainly not the only concern that prompted the American invasion of Iraq, but it weighed in heavily with many senior administration officials. This was especially true of Vice President Dick Cheney who, in an August 2002 speech to the Veterans of Foreign Wars, highlighted the need to retain control over Persian Gulf oil supplies when listing various reasons for toppling Saddam Hussein. Nor is there any doubt that Cheney's former colleagues in the oil industry viewed Iraq's oilfields with covetous eyes. "For any oil company," one oil executive told the New York Times in February 2003, "being in Iraq is like being a kid in F.A.O. Schwarz." Likewise oil was a factor in the pre-war thinking of many key neoconservatives who argued that Iraqi oilfields -- once under U.S. control -- would cripple OPEC and thereby weaken the Arab states facing Israel.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Still, for some U.S. policymakers, other factors were preeminent, especially the urge to demonstrate the efficacy of the Bush Doctrine, the precept that preventive war is a practical and legitimate response to possible weapons-of-mass-destruction ambitions on the part of potential adversaries. Whatever the primacy of their ultimate objectives, these leaders shared one basic assumption: that, when occupied by American forces, Iraq would pump ever increasing amounts of petroleum from its vast and prolific reserves.

This sense of optimism about Iraq's future oil output was palpable in Washington in the months leading up to the invasion. In its periodic reports on Iraqi petroleum, the Department of Energy (DoE), for example, confidently reported in late 2002 that, with sufficient outside investment, Iraq could quickly double its production from the then-daily level of 2.5 million barrels to 5 million barrels or more. At the State Department, the Future of Iraq Project set up a Working Group on Oil and Energy to plan the privatization of Iraqi oil assets and the rapid introduction of Western capital and expertise into the local industry. Meanwhile, Iraqi exile Ahmed Chalabi -- then the Pentagon's favored candidate to replace Saddam Hussein as suzerain of Iraq (and now Iraq's Deputy Prime Minister in charge of energy infrastructure) -- met with top executives of the major U.S. oil companies and promised them a significant role in developing Iraq's vast petroleum reserves. "American companies will have a big shot at Iraqi oil," he insisted in September 2002.

Aside from the purely pecuniary benefits of seizing Iraqi oil, administration officials of all persuasions saw another key attraction: once Iraqi fields were pumping oil again, the resulting revenues would essentially pay for the war and the costs of occupation. "We can afford it," White House economic adviser Larry Lindsey said of the planned U.S. invasion, because rising Iraqi oil output would invigorate the U.S. economy. "When there is regime change in Iraq, you could add three to five million barrels [per day] of production to world supply," he told the Wall Street Journal in September 2002. Hence, "successful prosecution of the war would be good for the economy." In one of the most striking comments of this sort, Deputy Secretary of Defense Paul Wolfowitz told a congressional panel, "The oil revenue of [Iraq] could bring between 50 and 100 billion dollars over the course of the next two or three years. We're dealing with a country that could really finance its own reconstruction, and relatively soon."

Clearly, gaining control of what Wolfowitz once described as a country that "floats on a sea of oil" was one of the Pentagon's highest priorities in the early days of the invasion. As part of its planning for the assault, the Department of Defense established detailed plans to seize Iraqi oil fields and installations during the first days of the war. "It's fair to say that our land component commander and his planning staff have crafted strategies that will allow us to secure and protect these fields as rapidly as possible," a top Pentagon official told news reporters on January 24, 2003. Once U.S. troops entered Iraq, special combat teams spread out into the oil fields and occupied key installations. In fact, the very first operation of the war was a commando raid on an offshore loading platform in the Persian Gulf. "Swooping silently out of the Persian Gulf night," an over-stimulated reporter for the New York Times wrote on March 23, "Navy Seals seized two Iraqi oil terminals in bold raids that ended early this morning, overwhelming lightly armed Iraqi guards and claiming a bloodless victory in the battle for Iraq's vast oil empire."

This early "victory" was followed by others, as U.S. forces occupied key refineries and, most conspicuously, the Oil Ministry building in downtown Baghdad. So far, so good. But almost instantaneously things began to go seriously wrong. Lacking sufficient troops to protect the oil facilities and all the other infrastructure in Baghdad and other key cities, the military chose to protect the oil alone -- allowing desperate and rapacious Iraqis to go on a rampage of looting that fatally undermined the authority of the military occupation and the U.S.-backed interim government. To make matters worse, the very visible American emphasis on protecting oil facilities while ignoring other infrastructure gave the distinct -- and not completely inaccurate -- impression that the United States had invaded Iraq less to liberate it from a tyrannical regime than to steal, or at least control, its oil. And from this perception came part of the anger and resentment that constituted the essential raw materials for the outbreak of an armed insurgency



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



against the American occupation and everything associated with it. The Bush administration never recovered from this disastrous chain of events.

### **An Occupation Engulfed in a Sea of Fire**

The Iraqi insurgency is not monolithic, and it is not always possible to determine the intentions of its various components. Nevertheless, it is clear that oil -- that is, the association between Iraqi oil and the American occupation -- plays a central role in the insurgents' hazy ideology. "The insurgents used this," Iraqi-born oil consultant Falah Alijbury said of American plans to privatize the Iraqi oil industry. As he put it, the insurgents are telling fellow Iraqis, "Look, you're losing your country, you're losing your resources to a bunch of wealthy billionaires who want to take you over and make your life miserable." From Alijbury's perspective, this is one of the insurgency's most powerful appeals.

The disparate Iraqi insurgent groups were also aware of Washington's intent to finance its war and occupation through sales of Iraqi petroleum, and so have made sabotage of Iraq's pipelines, pumping stations, and loading terminals one of their most important strategic objectives. According to one source, insurgents conducted 230 major attacks on Iraq's oil infrastructure between January 2004 and September 7, 2005, causing billions of dollars in losses. Here, for instance, is a listing of some of the most recent attacks, as compiled by the Institute for the Analysis of Global Security:

- August 20: Attack on a major pipeline between Bayji and Baghdad stopped electricity to the capital.
- August 26: Insurgents sabotaged an exporting oil well north of Kirkuk.
- August 27: Bomb beneath an oil pipeline supplying the Daura oil refinery in Baghdad, causing an hour-long fire.
- August 29: Rebels fired a mortar at Iraq's oil ministry building in Baghdad.
- August 30: Lt. Colonel Mohammed Rashad, commander of a unit protecting Iraq's oil pipeline network, was assassinated in front of his home in Kirkuk as he was leaving for work.
- Sept 3: An explosion on oil pipeline 2.5 miles from Fatha, between Kirkuk and Bayji, stopping oil flow from Kirkuk to Ceyhan after insurgents ignited an oil leak.
- Sept. 5: Oil pipeline connecting Bayji and Baghdad was set on fire west of Samarra.

As a result of such attacks, which continue to occur on a near-daily basis, Iraqi oil output has actually declined since the United States invaded Iraq and overthrew Saddam Hussein. According to the DoE, total production stood at 1.9 million barrels per day in May 2005, compared to 2.6 million barrels in January 2003, just before the American invasion. Quite the opposite of paying for the American occupation, as promised by administration officials, Iraqi production is costing U.S. taxpayers billions of dollars per year. Underwriting the costs of using American soldiers and U.S.-paid private guards to protect Iraq's highly vulnerable pipelines and refineries has proved expensive indeed.

At present, American forces are protecting two main components of Iraq's oil infrastructure: the Kirkuk-to-Ceyhan export pipeline in the north, near Iraq's border with Turkey; and offshore loading terminals in the south, on the edge of the Persian Gulf. Protection of the northern pipeline is the responsibility of Task Force Shield, a mobile combat unit made up of Army forces drawn from Fort Wainright, Alaska and Fort Lewis in Washington State. In the Gulf, protection of the loading platforms is the responsibility of the U.S. Navy and the Coast Guard.

These oil-protection operations have proved extremely hazardous. In April 2004, for example, suicide bombers in a small boat approached the Khor al-Amaya offshore loading terminal and detonated their explosives when approached by a U.S. patrol ship, killing two Navy sailors and one Coast Guard sailor -- the latter being the first Coast Guardsman to be killed in combat since the Vietnam War. Adding further



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



symbolism to this event, the platform involved was one of those occupied by Navy Seals in March 2003 in that "bloodless victory in the battle for Iraq's vast oil empire."

Despite the deployment of American troops at key oil facilities and the ever-rising amounts of money invested in pipeline security, the Department of Defense has made zero progress in its drive to boost Iraqi oil output. "In the north, Iraq's main export pipeline looks all but impossible to protect from sabotage," the British Financial Times reported in June. "Meanwhile in the south, local tribal disputes, which often go unreported, hamper efforts to restore oilfields, while security costs and other reconstruction bills all reduce the amount of money available for [the rehabilitation of] the oil industry."

Efforts to boost Iraqi oil production have also been hampered by two other problems: pervasive corruption in the Oil Ministry and severe differences between the Kurds, the Sunnis, and the Shiites over the future allocation of oil revenues.

Just how much Iraqi oil has been lost to corruption or black-market transactions is impossible to determine, but experts believe the amounts are substantial. "Administrative corruption takes on so many forms," Muhammad al-Abudi, the Oil Ministry's director-general of drilling, observed in March 2005. "The robberies and thefts that are taking place on a daily basis and on all levels ... are committed by low-level government employees and also by high officials in leadership positions in the Iraqi state," he noted. Typically, these losses are blamed on insurgent activity, thereby diverting attention from the government figures actually responsible. "It seems there that there is an implicit alliance between the smuggling and sabotage forces aimed at increasing the rates of exhaustion of the state resources," Diya al-Bakka, another senior Oil Ministry official told Oil & Gas Journal in May.

The corruption and mismanagement has had another serious consequence for Iraq's long-term oil potential: in order to maximize output now, and thereby keep the dollars rolling in, Iraqi oil executives are employing faulty pumping methods, thus risking permanent damage to underground reservoirs. For example, managers are continuing to pump oil from Iraq's main Rumailia oilfield, one of the world's largest, even though water injection systems (used to maintain underground pressure) have failed; in so doing, they are thought by experts to be causing irreversible damage to the field. "The problem is that [underground] pressure problems could lead to a permanent decline in production," observed one European buyer of Iraqi oil quoted in the Financial Times last June. Even if U.S. companies later were to gain access to Iraqi fields, therefore, they might find yields to be disappointing.

Just as significant is the warring between Iraq's three main ethnic and religious communities over the distribution of future oil royalties. Most of Iraq's large oilfields are concentrated in the Kurdish north and the Shiite south. The Kurds and Shiites want most of the royalties to be distributed to Iraq's provinces on a per capita basis which would benefit them, but leave funds relatively scarce for the Sunni region and for any future central government in Baghdad. A failure to reach agreement on this issue was one of the main obstacles to final adoption of the new Iraqi constitution, and helped prompt the Sunni delegates to reject the final text. The Sunnis are also worried by provisions of the proposed constitution that allow groups of provinces (presumably in the Kurdish and Shiite areas) to form self-governing regional entities which could lead to the breakup of Iraq into three semi-independent statelets, with the Sunnis occupying the smallest and poorest region in the center. Not only would such a breakup enhance the Sunnis' sense of alienation from the Iraqi nation-building project -- thereby further invigorating an already vigorous insurgency -- but it would also disrupt Iraqi oil operations and make investment in Iraq's petroleum industry even less attractive to foreign oil companies. The net result, in all likelihood, will be a further decline in Iraqi petroleum output.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



---

### **The Oil Evaporates**

From all that can be seen, oil production in Iraq is likely to remain depressed for years, no matter how much more blood is shed in its pursuit. It is already evident that American military action will not lead to democracy in Iraq, merely to the division of the country into separate ethnic enclaves, one possibly ruled by Iranian-like ayatollahs; it can now also be said that we will not gain any additional petroleum supplies as a result of all this sacrifice and tragedy. Not only has the use of force to procure Iraqi oil failed to achieve its intended results, it has actually made the situation worse.

This is an important conclusion to draw from Iraq as the United States becomes ever more dependent on imported petroleum. Even before Katrina struck a blow to our domestic oil industry, the Department of Energy was already projecting our reliance on imports to grow from about 53 percent of total consumption in 2002 to 66 percent by 2025. As a result of the hurricane, that percentage will in all likelihood be pushed much higher, because most of the growth in domestic petroleum output was expected to occur in the deep waters of the Gulf of Mexico -- the area most heavily affected by Katrina and its 2004 predecessor Ivan. A number of the drilling platforms in these waters were sunk by the storms which also played havoc with the pipelines connecting them to shore. True, many of the platforms that survived will be repaired and put back into operation, but insurance rates have skyrocketed; and investors may prove hesitant, even with oil prices soaring, to put up billions of dollars to install new platforms that will only be washed away in the next major hurricane. As a result, domestic U.S. output may fall well below DoE projections, and so more of our supply will have to be imported.

And there is no question where this additional oil will have to be procured: in the Middle East, Central Asia, Africa, the Andes, and other areas beset by chronic instability and conflict. These are the only areas capable of increasing oil output sufficiently to satisfy rising U.S. demand, and so these are the areas that will attract the greatest American attention and potential Pentagon involvement. If past experience is any indication, U.S. policymakers will respond to the dilemma of our growing dependence on unstable foreign providers by sending more and more American military forces to these areas in a desperate attempt to ensure uninterrupted access to oil. This is, in fact, the underlying reason for the Pentagon's search for new military bases in Central Asia, the Persian Gulf, and Africa.

Despite the debacle of Iraq, most senior policymakers appear to retain their blind faith in the efficacy of military force as a tool for securing access to foreign sources of petroleum. This, as Iraq makes painfully clear, is delusional. Yet they persist in risking the lives of young Americans and others in their continued adherence to a failed and immoral strategy. Any attempt to reconstruct American foreign policy on a more rational and ethical basis must, therefore, begin with the repudiation of the use of force in procuring foreign oil and the adoption of a forward-looking energy strategy based on increased conservation and the rapid development of alternative fuels.

*Michael Klare is a professor of peace and world security studies at Hampshire College in Amherst, Mass., and the author of "Blood and Oil: The Dangers and Consequences of America's Growing Petroleum Dependency."*

© 2006 Independent Media Institute. All rights reserved.  
View this story online at: <http://www.alternet.org/story/25876/>

---



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### So Iraq Was About the Oil

By Robert Parry  
November 8, 2005

When Colin Powell's former chief of staff Lawrence Wilkerson publicly decried the Bush administration's bungling of U.S. foreign policy, the focus of the press coverage was on Wilkerson's depiction of a "cabal" headed by Vice President Dick Cheney that had hijacked the decision-making process.

Largely overlooked were Wilkerson's frank admissions about the importance of oil in justifying a long-term U.S. military intervention in Iraq. "The other thing that no one ever likes to talk about is SUVs and oil and consumption," the retired Army colonel said in a speech on Oct. 19.

While bemoaning the administration's incompetence in implementing the war strategy, Wilkerson said the U.S. government now had no choice but to succeed in Iraq or face the necessity of conquering the Middle East within the next 10 years to ensure access to the region's oil supplies.

"We had a discussion in (the State Department's Office of) Policy Planning about actually mounting an operation to take the oilfields of the Middle East, internationalize them, put them under some sort of U.N. trusteeship and administer the revenues and the oil accordingly," Wilkerson said. "That's how serious we thought about it."

The centrality of Iraq's oil in Wilkerson's blunt comments contrasted with three years of assurances from the Bush administration that the war had almost nothing to do with oil.

When critics have called the Iraq War a case of "blood for oil," George W. Bush's defenders have dismissed them as "conspiracy theorists." The Bush defenders insisted the president went to war out of concern about Iraq's weapons of mass destruction and Saddam Hussein's links to al-Qaeda, neither of which turned out to be true. Later, Bush cited humanitarian concerns and the desire to spread democracy.

Always left out of the administration's war equation – or referenced only obliquely – was the fact that Iraq sits atop one of the world's largest known oil reserves at a time when international competition is intensifying to secure reliable oil supplies.

#### **O'Neill's Revelations**

But Wilkerson is not the first senior Bush administration official to cite the importance of oil in the U.S. calculus toward Iraq. Former Treasury Secretary Paul O'Neill made similar assertions in 2004.

O'Neill, who was fired in late 2002 after disagreeing with Bush on tax cuts and Iraq, told author Ron Suskind that Bush's first National Security Council meeting just days into his presidency included a discussion of invading Iraq. O'Neill said even at that early date, the message from Bush was "find a way to do this."

Oil and Iraq were soon mixing in the administration's thinking about energy and politics.

On Feb. 3, 2001 – only two weeks after Bush took office – an NSC document instructed NSC officials to cooperate with Cheney's Energy Task Force because it was "melding" two previously unrelated areas of



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



policy: “the review of operational policies towards rogue states” and “actions regarding the capture of new and existing oil and gas fields.”

Before this disclosure, which appeared in *The New Yorker* three years later, it was believed that Cheney’s secretive task force was focusing on ways to reduce environmental regulations and fend off the Kyoto protocol on global warming.

But the NSC document suggested that the Bush administration from its first days recognized the linkage between ousting unreliable leaders like Saddam Hussein and securing oil reserves for future U.S. consumption. In other words, the Cheney task force appears to have had a military component to “capture” oil fields in “rogue states.” [For more on the NSC document, see *The New Yorker*, Feb. 16, 2004.]

After al-Qaeda’s Sept. 11, 2001, terror attacks, Bush had the political opening he needed to turn his designs on Iraq into reality. Though there was no credible evidence connecting Hussein to al-Qaeda and Sept. 11, Bush and Cheney made the linkage anyway.

Active preparations for war with Iraq were soon underway. Behind the scenes, O’Neill said he watched as the administration refined its plans for how to divvy up Iraq’s oil reserves after the invasion.

“Documents were being prepared by the Defense Intelligence Agency, (Defense Secretary Donald) Rumsfeld’s intelligence arm, mapping Iraq’s oil fields and exploration areas and listing companies that might be interested in leveraging the precious asset,” Suskind wrote in *The Price of Loyalty*.

Beyond giving U.S. firms access to Iraq’s oil, the Bush administration recognized how the oil could help induce both allies and rivals to back broader U.S. policies.

“One document, headed ‘Foreign Suitors for Iraqi Oilfield Contracts,’ lists companies from 30 countries – including France, Germany, Russia and the United Kingdom – their specialties, bidding histories, and in some cases their particular areas of interest,” Suskind wrote in recounting O’Neill’s observations.

“An attached document maps Iraq with markings for ‘supergiant oilfield,’ ‘other oilfield,’ and ‘earmarked for production sharing,’ while demarking the largely undeveloped southwest of the country into nine ‘blocks’ to designate areas for future exploration.

“The desire to ‘dissuade’ countries from engaging in ‘asymmetrical challenges’ to the United States ... matched with plans for how the world’s second largest oil reserve might be divided among the world’s contractors made for an irresistible combination, O’Neill later said.”

In pronouncements to the American people, however, Bush and other administration officials denied that oil was a reason for the Iraq invasion. Instead they stressed the danger posed by Iraq’s supposed WMD, then the humanitarian interest in removing Hussein, then encouraging democracy to flourish in the region, and finally preventing the spread of Islamic extremism.

Air Force Lt. Col. Karen Kwiatkowski, who was among the career military officers pulled into the war planning, said she and her fellow officers were troubled by how the American people were manipulated.

“Many of us in the Pentagon, conservatives and liberals alike, felt that this (Iraq) agenda, whatever its flaws or merits, had never been openly presented to the American people,” she wrote. “Instead, the public story line was a fear-peddling and confusing set of messages, designed to take Congress and the country into a war of executive choice, a war based on false pretenses.” [See Salon.com’s [“The New Pentagon Papers.”](#)]



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



---

### **Wilkerson's Critique**

By contrast, Wilkerson openly acknowledged the oil factor both in explaining the U.S. invasion and in justifying the need to remain in Iraq to ensure that any new government is not hostile to American interests.

Despite his earlier doubts about the wisdom of invading, the former chief of staff to Secretary of State Powell said the Middle East's oil reserves makes withdrawal from Iraq more dangerous than leaving Vietnam three decades ago.

"We can't leave Iraq; we simply can't," Wilkerson said in his Oct. 19 speech to the New America Foundation in Washington.

"I'm not evaluating the decision to go to war. That's a different matter. But we're there, we've done it, and we cannot leave. I would submit to you that if we leave precipitously or we leave in a way that doesn't leave something there we can trust, if we do that, we will mobilize the nation, put five million men and women under arms and go back and take the Middle East within a decade. That's what we'll have to do."

Wilkerson made clear that what made Iraq such a strategic concern was the oil.

"We consume 60 percent of the world's resources," he said. "We have an economy and we have a society that is built on the consumption of those resources. We better get fast at work changing the foundation – and I don't see us fast at work on that, by the way, another failure of this administration, in my mind – or we better be ready to take those assets (in the Middle East)."

"If you want those resources and you want (Middle Eastern) governments that aren't inimical to your interests with regard to those resources, then you better pay attention to the area and you better not leave it in a mess."

So, it appears those Iraq "blood-for-oil" accusations were right all along, at least in identifying one of the real reasons for invading Iraq. The present danger, however, is that U.S. policy-makers have no better solution to the quagmire in Iraq than continuing indefinitely to barter more blood for a continued supply of oil.

---

Robert Parry broke many of the Iran-Contra stories in the 1980s for the Associated Press and Newsweek. His latest book, *Secrecy & Privilege: Rise of the Bush Dynasty from Watergate to Iraq*, can be ordered at [secrecyandprivilege.com](http://secrecyandprivilege.com). It's also available at [Amazon.com](http://Amazon.com), as is his 1999 book, *Lost History: Contras, Cocaine, the Press & 'Project Truth.'*

<http://consortiumnews.com/2005/110705.html>

---



## **Document Says Oil Chiefs Met With Cheney Task Force**

By Dana Milbank and Justin Blum  
Washington Post Staff Writers  
Wednesday, November 16, 2005; A01

A White House document shows that executives from big oil companies met with Vice President Cheney's energy task force in 2001 -- something long suspected by environmentalists but denied as recently as last week by industry officials testifying before Congress.

The document, obtained this week by The Washington Post, shows that officials from Exxon Mobil Corp., Conoco (before its merger with Phillips), Shell Oil Co. and BP America Inc. met in the White House complex with the Cheney aides who were developing a national energy policy, parts of which became law and parts of which are still being debated.

In a joint hearing last week of the Senate Energy and Commerce committees, the chief executives of Exxon Mobil Corp., Chevron Corp. and ConocoPhillips said their firms did not participate in the 2001 task force. The president of Shell Oil said his company did not participate "to my knowledge," and the chief of BP America Inc. said he did not know.

Chevron was not named in the White House document, but the Government Accountability Office has found that Chevron was one of several companies that "gave detailed energy policy recommendations" to the task force. In addition, Cheney had a separate meeting with John Browne, BP's chief executive, according to a person familiar with the task force's work; that meeting is not noted in the document.

The task force's activities attracted complaints from environmentalists, who said they were shut out of the task force discussions while corporate interests were present. The meetings were held in secret and the White House refused to release a list of participants. The task force was made up primarily of Cabinet-level officials. Judicial Watch and the Sierra Club unsuccessfully sued to obtain the records.

Sen. Frank Lautenberg (D-N.J.), who posed the question about the task force, said he will ask the Justice Department today to investigate. "The White House went to great lengths to keep these meetings secret, and now oil executives may be lying to Congress about their role in the Cheney task force," Lautenberg said.

Lea Anne McBride, a spokeswoman for Cheney, declined to comment on the document. She said that the courts have upheld "the constitutional right of the president and vice president to obtain information in confidentiality."

The executives were not under oath when they testified, so they are not vulnerable to charges of perjury; committee Democrats had protested the decision by Commerce Chairman Ted Stevens (R-Alaska) not to swear in the executives. But a person can be fined or imprisoned for up to five years for making "any materially false, fictitious or fraudulent statement or representation" to Congress.

Alan Huffman, who was a Conoco manager until the 2002 merger with Phillips, confirmed meeting with the task force staff. "We met in the Executive Office Building, if I remember correctly," he said.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



A spokesman for ConocoPhillips said the chief executive, James J. Mulva, had been unaware that Conoco officials met with task force staff when he testified at the hearing. The spokesman said that Mulva was chief executive of Phillips in 2001 before the merger and that nobody from Phillips met with the task force.

Exxon spokesman Russ Roberts said the company stood by chief executive Lee R. Raymond's statement in the hearing. In a brief phone interview, former Exxon vice president James Rouse, the official named in the White House document, denied the meeting took place. "That must be inaccurate and I don't have any comment beyond that," said Rouse, now retired.

Ronnie Chappell, a spokesman for BP, declined to comment on the task force meetings. Darci Sinclair, a spokeswoman for Shell, said she did not know whether Shell officials met with the task force, but they often meet members of the administration. Chevron said its executives did not meet with the task force but confirmed that it sent President Bush recommendations in a letter.

The person familiar with the task force's work, who requested anonymity out of concern about retribution, said the document was based on records kept by the Secret Service of people admitted to the White House complex. This person said most meetings were with Andrew Lundquist, the task force's executive director, and Cheney aide Karen Y. Knutson.

According to the White House document, Rouse met with task force staff members on Feb. 14, 2001. On March 21, they met with Archie Dunham, who was chairman of Conoco. On April 12, according to the document, task force staff members met with Conoco official Huffman and two officials from the U.S. Oil and Gas Association, Wayne Gibbens and Alby Modiano.

On April 17, task force staff members met with Royal Dutch/Shell Group's chairman, Sir Mark Moody-Stuart, Shell Oil chairman Steven Miller and two others. On March 22, staff members met with BP regional president Bob Malone, chief economist Peter Davies and company employees Graham Barr and Deb Beaubien.

Toward the end of the hearing, Lautenberg asked the five executives: "Did your company or any representatives of your companies participate in Vice President Cheney's energy task force in 2001?" When there was no response, Lautenberg added: "The meeting . . ."

"No," said Raymond.

"No," said Chevron Chairman David J. O'Reilly.

"We did not, no," Mulva said.

"To be honest, I don't know," said BP America chief executive Ross Pillari, who came to the job in August 2001. "I wasn't here then."

"But your company was here," Lautenberg replied.

"Yes," Pillari said.

Shell Oil president John Hofmeister, who has held his job since earlier this year, answered last. "Not to my knowledge," he said.

*Research editor Lucy Shackelford contributed to this report.*



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



© 2005 The Washington Post Company

[http://www.washingtonpost.com/wp-dyn/content/article/2005/11/15/AR2005111501842\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2005/11/15/AR2005111501842_pf.html)

### **Iraq's oil: The spoils of war**

[Philip Thornton, Economics Correspondent, The Independent](#)



Published: 22 November 2005

Iraqis face the dire prospect of losing up to \$200bn (£116bn) of the wealth of their country if an American-inspired plan to hand over development of its oil reserves to US and British multinationals comes into force next year. A report produced by American and British pressure groups warns Iraq will be caught in an "old colonial trap" if it allows foreign companies to take a share of its vast energy reserves. The report is certain to reawaken fears that the real purpose of the 2003 war on Iraq was to ensure its oil came under Western control.

The Iraqi government has announced plans to seek foreign investment to exploit its oil reserves after the general election, which will be held next month. Iraq has 115 billion barrels of proved oil reserves, the third largest in the world.

According to the report, from groups including War on Want and the New Economics Foundation (NEF), the new Iraqi constitution opened the way for greater foreign investment. Negotiations with oil companies are already under way ahead of next month's election and before legislation is passed, it said.

The groups said they had amassed details of high-level pressure from the US and UK governments on Iraq to look to foreign companies to rebuild its oil industry. It said a Foreign Office code of practice issued in summer last year said at least \$4bn would be needed to restore production to the levels before the 1990-91 Gulf War. "Given Iraq's needs it is not realistic to cut government spending in other areas and Iraq would need to engage with the international oil companies to provide appropriate levels of foreign direct investment to do this," it said.

Yesterday's report said the use of production sharing agreements (PSAs) was proposed by the US State Department before the invasion and adopted by the Coalition Provisional Authority. "The current government is fast-tracking the process. It is already negotiating contracts with oil companies in parallel with the constitutional process, elections and passage of a Petroleum Law," the report, Crude Designs, said.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Earlier this year a BBC Newsnight report claimed to have uncovered documents showing the Bush administration made plans to secure Iraqi oil even before the 9/11 terrorist attacks on the US. Based on its analysis of PSAs in seven countries, it said multinationals would seek rates of return on their investment from 42 to 162 per cent, far in excess of typical 12 per cent rates.

Taking an assumption of \$40 a barrel, below the current price of almost \$60, and a likely contract term of 25 to 40 years, it said that Iraq stood to lose between £74bn and \$194bn. Andrew Simms, the NEF's policy director, said: "Over the last century, Britain and the US left a global trail of conflict, social upheaval and environmental damage as they sought to capture and control a disproportionate share of the world's oil reserves. Now it seems they are determined to increase their ecological debts at Iraq's expense. Instead of a new beginning, Iraq is caught in a very old colonial trap."

Louise Richards, chief executive of War on Want, said: "People have increasingly come to realise the Iraq war was about oil, profits and plunder. Despite claims from politicians that this is a conspiracy theory, our report gives detailed evidence to show Iraq's oil profits are well within the sights of the oil multinationals."

The current Iraqi government has indicated that it wants to treble production from two million barrels a day this year to six million. The US Energy Information Administration said such an increase would ease "market tensions" that have kept the price high. But governments and oil companies in the West said the report was purely hypothetical and that the issue was a matter for the Iraqi people. They also pointed out that Iraq needed money to rebuild in the sector.

A spokesman for the Foreign Office said the country's oil industry was in desperate need of investment after years of under-investment, UN sanctions, vandalism by Saddam Hussein and more recent sabotage by insurgents and general looting. "The Iraqi government has made it clear that the decision is a matter for its authorities but they understand that it would require a lot of investment," he said. He said it was not surprising that Iraq should look to outside experts to help rebuild an industry that was the key source of revenue to help rebuild the country.

"We work closely with other departments such as the Treasury to give assistance and advice," he said, adding that the Foreign Office had not been involved in specific lobbying.

Gregg Muttitt, of Platform, a campaign group that co-authored the report, said Iraq had an existing - albeit damaged - network of oil expertise and could use current revenues or new borrowings to fund investment. The report named several companies, including the Anglo-Dutch Shell group, as jockeying for position before a new government is elected. In 2003, Walter van de Vijver, then head of exploration and production, said investors would need "some assurance of future income and a supportive contractual arrangement". The group said yesterday that the involvement of foreign oil companies would be determined by the new Iraqi administration. "We aspire to establish a long-term presence in Iraq and a long-term relationship with the Iraqis, including the newly elected government."

No multinationals are operating in Iraq now because of the poor security situation.

:: Article nr. 18096 sent on 23-nov-2005 04:56 ECT  
[www.uruknet.info?p=18096](http://www.uruknet.info?p=18096)



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **Did Big Oil participate in planning the invasion of Iraq?**

**By Thomas Eley**

Global Research, December 11, 2005

World Socialist Web Site

An official White House document recently acquired by the *Washington Post* puts the lie to testimony given by executives of five leading oil firms on November 9 before a joint meeting of the Senate Energy and Commerce committees regarding their collaboration in 2001 with Vice President Dick Cheney's "energy task force," officially known as the National Energy Policy Development Group.

Even before the hearings, the oil bosses had been offered a blank check to lie by Republican Commerce Committee Chairman Ted Stevens of Alaska. Stevens, in a transparent attempt to spare the executives possible charges of perjury, waived the normal procedure of swearing in witnesses before congressional committees. The hearings were ostensibly called to discuss the suspiciously rapid increase in oil prices in the wake of Hurricane Katrina, but Stevens's maneuver suggests that he expected the matter of Cheney's task force might arise. Nonetheless, the executives have placed themselves in potential legal jeopardy through their apparently false testimony. According to US Code, it is illegal to make "any materially false, fictitious or fraudulent statement or representation" before Congress.

During the hearing, Democratic Senator Frank Lautenberg of New Jersey asked the executives, "Did your company or any representatives in your companies participate in Vice President Cheney's energy task force in 2001—the meeting?" Lee R. Raymond of Exxon Mobil, David J. O'Reilly of Chevron and James J. Mulva of ConocoPhillips responded in the negative, while Ross Pillari of BP America and John Hofmeister of Shell Oil pleaded ignorance.

The document acquired by the *Washington Post*, which is based on Secret Service data of those admitted to the White House, directly contradicts this testimony. Meetings occurred among top oil executives and task force director Andrew Lundquist along with Cheney's personal aide, Karen Y. Knutson, and possibly Cheney himself.

As the *Post* reports, "According to the White House document, Rouse [former Exxon vice president] met with task force staff members on Feb. 14, 2001. On March 21, they met with Archie Dunham, who was chairman of Conoco. On April 12, according to the document, task force staff members met with Conoco official Huffman and two officials from the US Oil and Gas Association, Wayne Gibbens and Alby Modiano.

"On April 17, task force staff members met with Royal Dutch/Shell Group's chairman, Sir Mark Moody-Stuart, Shell Oil chairman Steven Miller and two others. On March 22, staff members met with BP regional president Bob Malone, chief economist Peter Davies and company employees Graham Barr and Deb Beaubien."

Confronted with documentation that such meetings in fact took place, the oil executives and the vice president have remained obstinate. Only one former executive who met the task force, Allan Huffman, previously CEO of Conoco, confirmed that he attended such a meeting in 2001. Spokesmen representing the current CEOs stood by their apparently false testimony given to the joint Energy and Commerce committee hearing. Cheney's office refused to comment.

After its creation in 2001, Cheney shrouded his energy task force in secrecy and refused to turn over relevant transcripts to the Congress's Government Accountability Office (GAO) under the bogus and utterly cynical claim that any public scrutiny of White House documents would constitute an attack on the



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



independence of the executive branch. It had long been assumed, although never proven, that the task force's policy recommendations—many of which have subsequently become law—had been either suggested or actually written by the largest oil firms. Environmentalist groups protested that they and other concerned parties were barred from participation.

The *Post* article's revelations arrive after a protracted legal struggle failed to force the release of White House documents related to the energy task force. The GAO dropped its lawsuit against the White House over the affair in 2003 after losing a court case in 2002. The environmentalist organization Sierra Club and the right-wing Judicial Watch carried forward a joint lawsuit that began in 2001, alleging that Cheney maintained improper contact with the oil industry in the drafting of the task force's reports. The suit, which demanded that the records be released, was appealed to the Supreme Court, which on June 24, 2004, reversed a lower court ruling ordering Cheney to release the records.

If released, task force papers will no doubt demonstrate conclusively that the largest oil executives played a dominant role in crafting Bush's energy policy. That would come as no surprise to any serious observer, and would demonstrate once again the degree to which the federal government has become a pliant tool wielded directly by powerful corporate interests for their own benefit. Yet, even if especially egregious, such pandering to big business does not necessarily imply a formal illegality, and in any case would be in keeping with longstanding Washington tradition. So why have Cheney and the White House for so long refused to release documentation of the meetings? And why would the oil executives care if it were revealed they were present at task force meetings—so much so that they provided apparently false testimony before Congress on the matter?

Only the release of the documents would have fully resolved these questions. But one possible explanation relates directly to the immediate source of the crisis that threatens to consume the Bush administration: the war in Iraq.

In fact, the Bush administration's energy policy was not based only on the dismantling of corporate regulations and the loosening of restrictions on oil exploration in the United States. It had an even more important foreign component: the plan to invade and colonize Iraq, and then privatize and expropriate its enormous oil wealth for the direct benefit of American oil concerns and US capitalism as a whole.

It has been long-since established that in 2001, Cheney's task force discussed Iraq's oil. In 2003, Judicial Watch gained access to Commerce Department papers that had been produced by the task force. Found among the documents, according to a July 18, 2003, Associated Press report, were "a detailed map of Iraq's oil fields, terminals and pipelines as well as a list entitled 'Foreign Suitors of Iraqi Oilfield Contracts.'" Among the specifically listed "foreign suitors" were Russian and French concerns.

It is more than plausible that during White House meetings, oil executives discussed such a "hypothetical" invasion of the defenseless country. The oil companies stood to benefit enormously, and there is no reason to believe that these powerful and well-connected men were unaware that the Bush administration and its coterie of neo-liberal strategists had placed the invasion of Iraq as a top priority. Indeed, the plan to invade Iraq was well known and publicly discussed among the Washington elite for years.

Revelations that the White House in 2001—two years before the invasion of Iraq and months before 9/11—invited oil executives to contribute planning toward the division of Iraq's oil wealth would take on an explosive character under conditions in which all the official justifications—especially WMD—have been conclusively debunked as crude fabrications, and the war itself spirals uncontrollably toward ever-greater disaster. It would also explain why Cheney and the White House remain so intent on preventing any public accounting of what went on during the energy task force's meetings, and why the oil executives would attempt to deny their very presence.



# **BRussells Tribunal Dossier** **Big Oil's occupation of Iraq**



© Copyright Thomas Eley, [World Socialist Web Site](http://www.worldsocialist.com), 2005

The url address of this article is: [www.globalresearch.ca/PrintArticle.php?articleId=1444](http://www.globalresearch.ca/PrintArticle.php?articleId=1444)

**GNN**  
guerrilla news network  
<http://gnn.tv>

## **Mission Accomplished**

### **Big Oil's occupation of Iraq**

By Heather Wokusch

Published: Tuesday December 13th, 2005

The Bush administration's covert plan to help energy companies steal Iraq's oil could be just weeks away from fruition, and the implications are staggering: continued price-gouging by Big Oil, increased subjugation of the Iraqi people, more U.S. troops in Iraq, and a greater likelihood for a U.S. invasion of Iran.

That's just for starters.

The administration's challenge has been how to transfer Iraq's oil assets to private companies under the cloak of legitimacy, yet simultaneously keep prices inflated.

But Bush & Co. and their Big Oil cronies might have found a simple yet devious solution: production sharing agreements (PSAs).

Here's how PSAs work. In return for investment in areas where fields are small and results are uncertain, governments occasionally grant oil companies sweetheart deals guaranteeing high profit margins and protection from exploration risks. The country officially retains ownership of its oil resources, but the contractual agreements are often so rigid and severe that in practical terms, it can be the equivalent of giving away the deed to the farm.

Since Iraq sits on the world's third largest oil reserves, the PSA model makes little sense in the first place; Iraq's fields are enormous and the exploration risks are accordingly miniscule, so direct national investment or more equitable forms of foreign investment would be in order. But as a comprehensive new report by the London-based advocacy group PLATFORM details, the PSA model "is on course to be adopted in Iraq, soon after the December elections, with no public debate and at enormous potential cost."

PLATFORM's "Crude Designs: The Rip-off of Iraq's Oil Wealth" points out that the proposed agreements (with U.S. State Department origins) will prove a bonanza for oil companies but a disaster for the Iraqi people:

"At an oil price of \$40 per barrel, Iraq stands to lose between \$74 billion and \$194 billion over the lifetime of the proposed contracts, from only the first 12 oilfields to be developed. These estimates, based on conservative assumptions, represent between two and seven times the current Iraqi government budget."



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



“Under the likely terms of the contracts, oil company rates of return from investing in Iraq would range from 42% to 162%, far in excess of usual industry minimum target of around 12% return on investment.”

Of course, given the current political chaos, Iraqi citizens have little power over whether their politicians sign the proposed PSA agreements. That critical decision could be left to con-men like the former Interim Oil Minister Ahmad Chalabi, who recently met with no less than Cheney, Rumsfeld and Rice during his red-carpet visit to the White House. One can assume the topic of Iraq's proposed PSAs came up more than once.

Chalabi's successor as Oil Minister, Ibrahim Mohammad Bahr al-Uloum, is expected to toe the corporate line, and Iraq's former Interim Prime Minister Iyad Allawi issued post-invasion guidelines stating: “The Iraqi authorities should not spend time negotiating the best possible deals with the oil companies; instead they should proceed quickly, agreeing to whatever terms the companies will accept, with a possibility of renegotiation later.”

But PSAs are notoriously hard to renegotiate. According to PLATFORM, “under PSAs future Iraqi governments would be prevented from changing tax rates or introducing stricter laws or regulations relating to labour standards, workplace safety, community relations, environment or other issues.” The Iraqi people would be locked into inflexible agreements spanning 25-40 years with disputes solved by corporate-friendly international arbitration tribunals, rather than by national courts.

Is that really the same thing as liberation?

According to Greg Muttitt, co-author and lead researcher of the “Crude Designs” report, “for all the U.S. administration's talk of creating a democracy in Iraq, in fact, their heavy pushing of PSAs stands to deprive Iraq of democratic control of its most important natural resource. I would even go further: the USA, Britain and the oil companies seem to be taking advantage of the weakness of Iraq's new institutions of government, and of the terrible violence in the country, by pushing Iraq to sign deals in this weak state, whose terms would last for decades. The chances of Iraq getting a good deal for its people in these circumstances are minimal; the prospect of mega-profitable deals for multinational oil companies is fairly assured.”

Of course, ongoing oil exploration in Iraq by administration-friendly companies would require permanent U.S. bases, a massive ongoing troop presence and billions more in taxpayer-dollar subsidies to sleazy outfits like Halliburton.

The implications of all of this for domestic oil prices is unclear. While neo-conservatives initially pushed for privatizing Iraq's oil reserves as a way of destroying OPEC (they wanted to boost production and flood world markets with cheap oil) the administration seems to have taken a more corporate-friendly stance. After all, the last thing oil executives want is to break OPEC's stranglehold on pricing, because keeping supply low has delivered record profits.

But the “National Strategy for Victory in Iraq” which Bush released this week as part of his pro-occupation PR blitz lists a surprising goal: “facilitating investment in Iraq's oil sector to increase production from the current 2.1 million barrels per day to more than 5 million per day.” OPEC's quota for Iraq currently sits at around 4 million barrels per day, so the administration's goal is not only significantly higher, but (at “more than 5 million”) a little too open-ended for the cartel's comfort. Could be that Bush & Co. want to have their cake and eat it too: tighten the screws on OPEC, yet continue to rip off consumers through elevated prices.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The whole PSA affair may also stoke the fires for a U.S. invasion of Iran, which sits on oil reserves even greater than those of Iraq.

Tehran already is on the administration's hit list, less for its nuclear aspirations than for its plans to open a euro-based international oil-trading market in early 2006. Iran's oil "bourse" would compete with the likes of New York's NYMEX and provide OPEC the opportunity to snub the greenback in favor of "petroeuros," a development the administration will avoid at all costs. So if the PSA model is adopted in Iraq, it would provide a clear precedent for implementing it in Iran too, and hand the administration another reason to start the next invasion.

GNN contributor **Heather Wokusch** can be reached via her web site: [www.heatherwokusch.com..](http://www.heatherwokusch.com..)

[http://gnn.tv/articles/1949/Mission\\_Accomplished](http://gnn.tv/articles/1949/Mission_Accomplished)

## **The corporate plunder of Iraq**



**Two officials from Custer Battles pose with \$100,000 "cash bricks" of \$100 notes. The \$2 million was hauled off in duffle bags**

**The looting of Iraq's oil wealth is unprecedented in the history of corporate crime, writes criminologist Dave Whyte**

The neo-liberal transformation of Iraq is portrayed as a humanitarian venture. Western corporations and occupying governments now talk of the liberation of Iraq from the "tyranny of Saddam's planned economy".

On the day that major hostilities were declared over, Tony Blair told the Iraqi people, "Saddam Hussein and his regime plundered your nation's wealth. While many of you live in poverty, they have the lives of luxury. The money from Iraqi oil will be yours – to be used to build prosperity for you and your families."

This has turned out to be another shameless lie. Saddam's regime was undoubtedly corrupt, in the sense that he established a system of patronage and rewards for the elite that remained closest to him. But the scale and intensity of the corruption and fraud perpetrated by the occupation is unprecedented in modern history.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The largest part of the money spent by the US-British occupation was not US or international donor funds, but oil revenue that belongs to the Iraqi people. During the period of direct rule the US spent, or committed to spend, around £11.3 billion, most of which was disbursed to US corporations.

Of this expenditure, £5 billion is unaccounted for. From the available evidence we know that much of it has vanished into the hands of corporations, corrupt public officials and elite Iraqi deal fixers.

During 14 months of its existence the Coalition Provisional Authority (CPA) – the body set up to rule Iraq and headed up by Bush favourite Paul Bremer – issued 100 legal orders by decree.

Those orders, implemented without the consent of Iraqi people, represent a pure form of neo-liberal orthodoxy that has had profound and irreversible consequences for the Iraqi economy.

The explicit aim was to promote fast entry into Iraq's oil rich economy. CPA Order 12, implemented a month after George Bush declared major hostilities over, suspended customs and duty charges on goods entering the country.

Within a few days of the order being passed, mass produced chicken legs were dumped on the Iraqi economy by US companies, forcing the market price of chicken down to 71p a kilogram, below the cheapest price that Iraqi producers could sustain.

Those chicken legs were surplus to the US market because the average American prefers breast meat. Before the invasion, those chicken legs would have most likely been sold as pet food.

Order 39 permitted full foreign ownership of a wide range of state owned assets.

The intention is that over 200 state owned enterprises – including electricity, telecommunications and the pharmaceuticals industry – will be sold off, permitting 100 percent foreign ownership of banks, mines and factories. The decree allowed these firms to move their profits out of the country.

Order 81 created a patent regime to ensure that agriculture would depend on foreign agri-biotech firms. It outlawed the sharing of seeds, forcing farmers to use the protected varieties sold to them by transnational corporations.

There can be no doubt that the occupation has presided over a progressive weakening of Iraq's industrial and commercial base.

The biggest scandal involves reconstruction contracts.

In one period between 2003 and 2004, more than 80 percent of prime contracts were given to US firms, with the remainder split between British, Australian, Italian, Israeli, Jordanian and Iraqi firms. One source estimates the total received by Iraqi firms during the CPA's rule at around 2 percent.

The CPA managed to concentrate funds in the hands of US firms by issuing non-competitive bids. From records of expenditure we can estimate that around 66 percent of contracts between April 2003 and April 2004 were issued non-competitively to hand-picked favourite companies.

### ***Smash and grab***

The restructuring of the Iraqi economy is best characterised as a "smash and grab" operation.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The “smash” involved the imposition of a set of administrative instruments which established US and other western contractors as the prime agents of reconstruction thus marginalising and undermining Iraqi capital.

The appropriation (the “grab”) of Iraq’s oil wealth ensured that the rapid entry of foreign capital was underwritten by Iraqi revenue. It has been executed with a guarantee of immunity.

On the same day that the CPA came into being, Bush signed Executive Order 13303 which exempted the Development Fund for Iraq (DFI) – the agency set up to distribute reconstruction contracts – from all legal proceedings and judicial oversight. The order effectively granted the CPA immunity from prosecution and judicial interference.

The CPA kept no list of companies it issued contracts to, and it had no system for metering the oil that it exported and sold. Officials were authorised to disperse revenue with little or no adequate system of monitoring or accounting.

Very deliberately the US delayed the establishment of auditing bodies and then refused to cooperate with their inquiries. A full 11 months after the CPA took control of the Iraqi economy, they appointed Stuart Bowden, a close associate of Bush, to audit the authority. Bowden served Bush in the Texas governor’s office in the early 1990s and latterly as a White House official.

Despite the fact that the dice was loaded in favour of the CPA, the US and UN audit reports that eventually appeared still read like a textbook of corporate accounting fraud.

Iraqi oil revenue was flown in to the CPA in \$100 dollar bills, shrink wrapped in \$100,000 (£57,000) bundles of “cash bricks”. One CPA official has described how cash was distributed to contractors from the back of a lorry.

The use of cash payments enabled the CPA to distribute the reconstruction funds without leaving a paper trail.

One review found that a payment made by the CPA to the Kurdish regional government for £794 million was entered under the budget heading “transfer payments”.

The Kurdish authorities insisted that the money was not spent but could not provide any evidence to support this. It was widely reported that this payment was delivered by Blackhawk helicopters to a courier in the Kurdish city of Erbil who subsequently disappeared.

Apparently no one even bothered to record the courier’s name.

One audit found 37 contracts totalling more than £105 million for which no contracting files could be located. It noted a case where an unauthorised advance of almost £1.7 million was paid out by a CPA senior advisor, and a case in which the CPA appointed head of the ministry of health could not account for £346,000 worth of spending under his direct control.

A total of £5 billion of Development Fund for Iraq funds cannot be properly accounted for.

Iraqi business people report that they had to pay “middle men” substantial bribes even to be allowed to bid for contracts.

The routine kickbacks and bribes demanded by the CPA officials fuelled a culture of corporate corruption.

The lack of basic record keeping and monitoring, and the culture of cash handouts that emerged inside the CPA, created fertile conditions for corporate crime to flourish.



# ***BRussells* Tribunal Dossier**

## **Big Oil's occupation of Iraq**



---

### ***Bags of cash***

In one of the most reported cases, the private military firm Custer Battles collected £8.5 million to provide security for Iraq's civilian airline.

Custer Battles was one of hundreds of firms that were set up specifically to get a slice of the war spoils. This company was established by Mike Battle and Scott Custer, reputedly a descendant of general George Custer of Little Big Horn fame.

One CPA official giving evidence to a US senate committee, told Custer Battles to "bring a bag" to pick up their cash.

He produced a picture of two company officials smiling to the camera as they loaded up duffel bags with over £1.1 million of Iraqi oil money.

Custer Battles never did the job they were contracted for, but ran off with the cash, using it instead to set up barrack accommodation for cheap imported labourers that they hired out to other Western firms.

Over-charging was routine in reconstruction contracts.

An audit of Kellogg, Brown and Root's (KBR) contract to restore Iraqi oil fields found £61 million in "unresolved costs" (spending that had not been properly accounted for).

In one incident KBR charged the US army more than £15.3 million for transporting £46,500 worth of fuel from Kuwait.

This was merely one in a long line of audits that uncovered millions of dollars worth of discrepancies.

The firm implicated in the Abu Ghraib tortures, CACI International, was accused by the US General Accounting Office of billing for inflated employee hours and falsely upgrading job descriptions to inflate the wage bill.

Ghost armies of employees are everywhere in Iraq and payrolls are inflated as a matter of routine.

Institutionalised corruption in occupied Iraq has been, purely and simply, a technique of neo-liberal domination. The economic occupation has used fraud and corruption to underwrite the economic occupation in precisely the same way that torture and assassination have been used to perpetuate the military occupation.

The invasion of Iraq was a brutal act of criminal violence on the part of Bush and Blair.

This war crime has been sustained by the systematic economic criminality of the occupying governments and their corporations.

---

### **Gatekeepers of Baghdad**

**The largest part of the billions of dollars in reconstruction funds were disbursed to the US prime contractors.**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



The prime contractors include Kellogg, Brown and Root (a subsidiary of Halliburton), Parsons Delaware, Fluor Corporation, Washington Group, Bechtel Group, Contrack International, Louis Berger and Perini.

The prime contractors act as “gatekeepers”, controlling entry into the Iraqi market.

Almost all of the foreign delegates at the Rebuild Iraq 2005 conference held in Jordan were doing business with US prime contractors rather than with Iraqi firms.

According to the British delegations, not one deal was tied up with an Iraqi business over the four days.

When William Lash, the US undersecretary of state for commerce, finished his presentation to the 2005 conference, he was confronted by Assad al-Khudhairi, the head of the Iraqi Contractors Federation.

Al-Khudhairi castigated the occupation for the damage done to the economy and complained that “product dumping” had forced 25,000 local businesses to the wall.

---

**£4.5bn** – The value of contracts awarded to Halliburton subsidiary Kellogg, Brown and Root in Iraq for 2003

**£1.4bn** – Moeller-Maersk profits for 2004. The Danish company was awarded the contract to run Iraq's major oil terminal. It sacked the local workers and replaced them with foreign labour

**£386m** – The value of contracts awarded to the Bechtel Group. The contracts will eventually be worth around £56.7 billion, to be paid from Iraqi oil revenues

**The following should be read alongside this article:**

» **Philippe Sands: when Bush and Blair set off to war**

Dave Whyte is a lecturer in criminology at the University of Stirling. To read **Cash from Chaos**, Dave Whyte's reports on corporate crime in Iraq, go to [www.dass.stir.ac.uk/staff/d-whyte/davewhyte.php](http://www.dass.stir.ac.uk/staff/d-whyte/davewhyte.php)



---

### Production sharing agreements: oil privatisation by another name?

*Paper presented to the General Union of Oil Employees' conference on privatisation  
Basrah, Iraq, 26 May 2005*



By Greg Muttitt of PLATFORM

---

## **Introduction**

Oil is Iraq's most important asset. Handled correctly, it will be the basis of the country's future development.

Yet it is not only Iraqis who hope to benefit from the oil. With around 10% of the world's oil reserves – the equal second largest in the world, the oil-hungry West has a keen interest in those resources; indeed, oil was the central reason behind the US-led invasion and subsequent occupation.

For these reasons, discussion of privatisation of Iraq's oil is understandably sensitive. In Paul Bremer's sweeping privatisations of the Iraqi economy in 2003, oil was one sector that was not included.

However, behind the scenes, much work has been done throughout the occupation to formulate a structure for Iraq's oil industry – and most of this work has been geared towards giving Western corporations access to Iraq's reserves for the first time in more than 30 years.

Western oil corporations do not have a good record on workers' rights or workplace safety. Very often, they insist on bringing in their own foreign workforce, especially managers and technical staff. And the pay and conditions – including workplace safety – are often considerably worse for workers from the countries where they operate than for their foreign counterparts in the same roles.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



However, while this kind of treatment is unfortunately common to privatisation and foreign investment in all sectors, when it comes to extraction of Iraq's oil reserves, it is also the revenue – and the prospects for broader economic development – which are at stake.

The author of this paper believes that these decisions are too important for the future of Iraq to be made behind closed doors. Indeed, if Iraq is to be considered democratic, it is fundamental that these decisions be open to public scrutiny, including by oil workers and by civil society organisations. The author is therefore honoured to have been invited by the General Union of Oil Employees to present this paper at its important conference on privatisation.

There are numerous important issues that should be considered in relation to oil development – including political issues, economic issues and environmental issues, especially climate change.

In this paper, we will focus on one key plank of Iraq's developing oil policy – the proposal that foreign companies should be given access to oil reserves through the mechanism of production sharing agreements – and its implications for Iraq and its people.

### **What is “privatisation”?**

Much of the public debate about the future of Iraq's oil industry has centred on the prospect of “privatisation”.

For example, Oil Minister Ibrahim Bahr al-Uloul (who was recently reappointed into the role) commented in September 2003 that “The Iraqi oil sector needs privatisation, but it's a cultural issue,”<sup>1</sup> noting the difficulty of persuading the Iraqi people of such a policy.

But Interim Oil Minister Thamer Ghadban, who served in between Bahr Al-Uloul's two terms, stated in February 2005 that “As for the extraction sector, that is, dealing with the oil and gas reserves, which are 'assets,' privatization is completely out of question at the moment.”<sup>2</sup>

In fact, this discussion hides more than it reveals: these two men have similar views on oil policy – that new fields should be operated by foreign companies, through the mechanism of production sharing agreements.

When Ghadban said the reserves will not be privatised, he was referring to their legal status: whether – legally and constitutionally – they are owned by the state, or by private owners.

Only certain neoconservatives in the USA ever proposed that the legal title to oil *reserves* (prior to their extraction) be in private hands, and there is no realistic prospect of it happening in Iraq. In fact, the USA is one of the only countries in the world where oil reserves are privately owned (by the landowner) rather than state-owned.

That the state owns the oil reserves however does not necessarily mean that the state obtains all the revenue from the oil, nor even that it has control over the development. The important distinction here is between the privatisation of the oil *reserves* and private control of the *industry* that extracts them.

In the UK, for instance, oil in the ground is legally the property of the state, but oil companies extract it under license. The oil then becomes their property once it is extracted, and they are free to then sell it. For most of the 1990s, they did this with no payments to the state for that publicly owned oil – paying only corporation tax, the usual tax on doing business.<sup>a</sup> It is as though the government allowed a company to use



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



a publicly owned field to grow crops, and did not charge any rent for the field, only charging business taxes on the company's profits (the same taxes that would apply if the company rented the field from a private owner).

The reality of Iraq's oil future does not simply come down to whether reserves below the ground are "public" or "private". The key questions to look at are:

- 1) who gets the **revenue** from the oil, and
- 2) who **controls** the way in which oil is developed?

Now, the companies pay a special rate of Corporation Tax, of 40%, compared to the 30% for other industries – a small improvement

<sup>1</sup> *Financial Times*, September 5, 2003, 'Iraqi Minister Sees Oil Privatization Obstacles', by Nicolas Pelham

<sup>2</sup> *Oil & Gas Journal*, February 16 2005, 'Iraq seeks E&D investment, nixes reserves privatization', by Eric Watkins

### **What is currently proposed?**

The West began working to redesign Iraqi oil policy well before the invasion of March 2003. In 2002, the US State Department set up a Future of Iraq working group (of which Bahr al-Uloun was part) to plan what to do with Iraq's oil.

At the start of the occupation, the Coalition Provisional Authority appointed senior executives from oil companies to help create oil policy for Iraq. First, there were Phillip Carroll, formerly of Shell, and Gary Vogler, of ExxonMobil. In October 2003, they were replaced by Bob McKee of ConocoPhillips, and Terry Adams of BP.

Meanwhile, throughout the occupation, the oil companies have worked hard to build relationships with the Oil Ministry, in order to influence its policies, and to be viewed favourably when it comes to the awarding of contracts. To this end, they have appointed lobbyists, provided training (often for free) for Iraqi officials and technicians, sponsored Oil Ministry participation in international conferences, and entered contracts (again, often for free) to analyse oilfield geological data.

Oil companies have repeatedly called for Iraqi oilfields to be opened up to them, using the mechanism of production sharing agreements.

The US and UK governments have been busy too. For example, the British Foreign Office is working with the Oil Ministry on "fiscal and regulatory issues"<sup>3</sup> – in other words, how the revenue is shared, and how much control the government has over operations.

The official forum in which long-term decisions on oil policy should be made is in the drafting of the Constitution in 2005. The Constitution is intended to be ratified by the parliament in August 2005, and presented to the Iraqi people in a referendum in October.

However, former Interim Prime Minister Ayad Allawi tried to pre-empt the election and the constitution, by setting Iraqi oil policy on his own course.<sup>4</sup> His plan was that:

all new reserves should be developed by foreign multinationals, through the mechanism of production sharing agreements.

that the national oil company (which manages existing fields) should be part-privatised.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



that the domestic marketing and sale of petroleum products should be transferred to the private sector.  
that new refineries and refinery expansions should also be carried out by private companies.

In a sinister remark, he added that these issues should not be debated in the Iraqi parliament, as that would slow progress.

Allawi's economic adviser Hilal Aboud al-Bayati told journalists that the January elections would not change what Allawi had put in place.<sup>5</sup> Certainly, the 10-week delay in forming a government can only have helped the interim government in firming up its own plans. And as we noted above, new oil minister Bahr al-Uloum has stated that he favours production sharing agreements.

In this paper, we will examine the implications of this policy.

<sup>3</sup> UK Secretary of State for Foreign and Commonwealth Affairs, September 2004, Government Response to Seventh report of the House of Commons Foreign Affairs Committee, on 'Foreign Policy Aspects of the War Against Terrorism'

<sup>4</sup> *International Oil Daily*, September 30, 2004, 'Iraqi Plan for Radical Oil Reform Runs Into Controversy', by Ruba Husari

<sup>5</sup> *Christian Science Monitor*, January 3 2005, 'Exploring new fields in Iraq: a risky business', by David Francis

### **Options for oil policy**

There are essentially three models a country may choose from for the structure of its oil industry, plus a number of variations on these themes.

1) The system currently in place in Iraq, which has largely been the case since the early 1970s, is a **nationalised industry**. In this model, the state makes all of the decisions, and takes all of the revenue. The extent of involvement of foreign private companies is that they might be hired to carry out certain services under contract (a **technical service contract**) – a well-defined piece of work, for a limited period of time, and for which they receive a fixed fee. This is the model used throughout most of the Gulf region.

One variant on the technical service contract is the **buyback agreement**, which has been used on some fields in Iran. In this system, a foreign company provides capital to invest in a project, but is paid a fixed rate of return, agreed in the contracts (thus preventing excessive profits). Companies have a right to buy the oil or gas.

2) In the **concession** model, sometimes known as the **tax and royalty system**, the government grants a foreign company (or more often, a consortium of foreign companies) a license to extract oil, which becomes the company's property (to sell, transport or refine) once extracted. The company pays the government taxes and royalties for the oil.

An extreme version of this system existed in Iraq until nationalisation took place in 1961 and 1972. A relic of the colonial era, it gave companies ownership and control over all of the oil in the entire country, for a period of 75 years, and give the government minimal influence over development decisions, regulation or tax.

3) The favoured system of the oil corporations is the **production sharing agreement (PSA)**. This is a more complex system. In theory, the state has ultimate control over the oil, while a foreign company or consortium of companies extracts it under contract. In practice, however, the actions of the state are severely constrained by stipulations in the contract.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



In a PSA, the foreign company provides the capital investment, first in exploration, then drilling and the construction of infrastructure. The first proportion of oil extracted is then allocated to the company, which uses oil sales to recoup its costs and capital investment – the oil used for this purpose is termed ‘cost oil’. There is usually a limit on what proportion of oil production in any year can count as cost oil (commonly 40-60%). Once costs have been recovered, the remaining ‘profit oil’ is divided between state and company in agreed proportions. The company is taxed on its profit oil. There may also be a royalty payable on all oil produced.

Sometimes the state also participates as a commercial partner in the contract, operating in **joint venture** with foreign oil companies as part of the consortium – in this case, the state provides its percentage share of capital investment, and directly receives the same percentage share of cost oil and profit oil.<sup>b</sup> The foreign company's share of the profit oil is then subdivided according to the production sharing terms.

Many of these systems are extremely complex, and often ‘the devil is in the detail’: it is more the precise terms of any legal agreement or contract that determine the balance of control and revenues between the state and foreign companies, rather than which type of model is employed.

Even mainstream commentators admit that the difference between PSAs and concessions is more about giving the appearance of state control, than about any practical implications. Daniel Johnston, a recognised industry expert on PSAs, comments<sup>6</sup>

*“At first [PSAs] and concessionary systems appear to be quite different. They have major symbolic and philosophical differences, but these serve more of a political function than anything else. The terminology is certainly distinct, but these systems are really not that different from a financial point of view”.*

<sup>b</sup> For example, in a 50-50 joint venture, the state provides 50% of the investment and directly receives 50% of the cost oil and profit oil.

### **The West's interest in Iraqi oil**

<sup>6</sup> Daniel Johnston, 1994, *International petroleum fiscal systems and production sharing contracts*, pub. Pennwell, p.39

Five countries in the Gulf region hold almost two thirds of the world's oil reserves. 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.”<sup>7</sup>*

During the occupation, 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.

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



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Coalition Provisional Authority or the Interim Government would not have the legal legitimacy to stand up to challenges in international courts; for this reason, they decided to wait until after the elections.

On this subject, as with many issues of foreign policy, the interests of the world's largest oil corporations mesh closely with those of their home governments. While the governments seek secure and affordable supplies of oil to feed their economies, the corporations need control over reserves to ensure their future profitability, to feed their shareholders. For the governments, "secure" often means in fact controlled by major oil corporations based in their countries.

The keenness of the corporations to gain access to Iraq's reserves can be seen from some of the comments they have made. For example, Archie Dunham, chairman of US oil major ConocoPhillips, said of Iraq in February 2003,

*"We know where the best reserves are [and] we covet the opportunity to get those some day."*<sup>8</sup>

British companies BP and Shell also stated their interest prior to the invasion, both calling on Prime Minister Tony Blair to ensure that there were a "level playing field"<sup>9</sup> – meaning that they should have as many opportunities as American companies.

Oil corporations are looking for three things when they invest in a country:

A right to oil reserves. Companies want a deal that guarantees their right to extract the reserves for many years – thus ensuring their future growth and profits. Furthermore, they want a contract that allows them to 'book' these reserves, to demonstrate them to financial markets, and thereby boost their share price. For example, in 2004, when British/Dutch oil company Shell was found to have lied about how much reserves it had in its global portfolio, overstating them by over 20%, it lost the trust of the financial markets. Shell is desperate now to acquire new reserves – which is a key reason why Shell has made more effort than most oil companies to make friends in the Iraqi Oil Ministry.

An opportunity to make large profits. Generally, oil companies achieve large profits by investing and risking their capital, in a calculated way. In many cases, their capital will be lost, for example when they drill a 'dry well'. But in some cases, they will find huge amounts of oil. In this sense they are very different from oil service companies like Halliburton, which make money from the fixed fees of predictable contracts. Oil companies aim for deals which may be more speculative, but which give them a chance of super-profits.

Predictability of tax and regulation. While companies can manage exploration risk (that they won't find oil) or price risk (that the oil price falls), they try to avoid 'political risk' (that tax or regulatory demands will increase). They thus seek to lock governments into long contracts that fix the terms of investment.

All of these requirements would be met by production sharing agreements.

<sup>7</sup> quoted in Kjell Aleklett (Uppsala University / Association for the Study of Peak Oil), May 12, 2004, 'Dick Cheney, Peak Oil and the Final Count Down'

<sup>8</sup> *Financial Times*, February 20, 2003, 'Big players anticipate Iraq's return to fold'. By Carola Hoyos

<sup>9</sup> *The Guardian*, October 30, 2002, 'BP chief fears US will carve up Iraqi oil riches', Terry Macalister; and *Financial Times*, March 11, 2003, Oil Groups Eye Stake in Wake of Conflict, By Cathy Newman



### **Iraq's share of revenue**

For many people in oil-producing countries, the question of who should benefit from oil revenues is one of principle. In countries such as Kuwait, Iran and Saudi Arabia, oil production sharing agreements are ruled out by the constitutions or by national law, and foreign companies are only able to participate in technical service agreements, for fixed fees. In Russia, although three PSAs were signed in the mid 1990s, PSAs have been the subject of extreme controversy ever since, and it now looks unlikely that any more will be signed. In Venezuela, the *apertura* policy of 1993-8 to allow foreign oil companies in is now being reversed.

Bernard Mommer, an oil industry expert formerly at the Oxford Institute for Energy Studies, and now the Venezuelan deputy Oil Minister, identifies a difference in taxation behaviour between net oil exporting countries and net oil importing countries.

Net oil importers (essentially, major oil-consuming countries) have an interest in minimising the cost to their economies of oil imports (the balance of payments), and in maximising secure supplies: thus they aim to maximise the level of investment, in order to maximise oil production in their countries.

Oil exporters such as Iraq, on the other hand, for which oil is primarily a source of revenue, have less concern for the scale of investment *per se*, and more for the scale of their income from it. In contrast to the importers, they have no interest in developing fields which provide no revenue to the state.<sup>10</sup>

Although restricted and carefully controlled private sector involvement is not *necessarily* incompatible with maximising government revenue, in this paper we will explore some of the challenges.

Many governments that do allow private investment in oil favour the use of a royalty (a percentage of the total value of the oil), which can be seen as a company paying the state for its oil – effectively 'buying' it.

The advantage of a royalty is that since it is a percentage of production rather than of profits, it gets paid whatever the profitability of a field – the state is assured the payments. The disadvantage is that when profits are extremely high, that state gets less of the revenue than it could.

Oil companies dislike royalties, and prefer taxes based on profits. The reason is that when it comes to taxation, like with all of their business management, they want what they call 'upside' (ie opportunities for greater profits) – ways they can reduce their tax payment, rather than being subject to a fixed level.

With royalties, it is very clear what should be paid – it is a fixed percentage of the value of oil. As long as the number of barrels extracted is known, and the oil price, it is easy to work out what royalty is due.

Profit taxes, on the other hand, are based on the profit remaining when costs have been deducted from the total revenue. As such, they depend on complex rules for what costs are allowed to be deducted, how capital costs (the big payments which occur in the early years) are to be treated, and so on.

The more complicated a tax system, the more opportunities there are for a company to avoid tax, by clever use of accountancy techniques. Not only do multinationals have access to the world's largest and most experienced accountancy companies, they also know their business in more detail than the government which is taxing them, so a more complicated system tends to give them more of an upper hand.

Furthermore, while it is possible to devise ever more sophisticated tax systems, which respond better to both circumstances and policy priorities, the drawback is that complexity removes transparency: if only the experts can understand the meaning of a tax system, there is little chance of public accountability.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



Production sharing agreements consist of often several hundred pages of technical legal and financial language. Even when they are not treated as commercially confidential (which often they are), they do not lend themselves to public scrutiny.

One result of this complexity can be that even when a country thinks it has got a good deal, it may later find itself receiving rather less income than it had bargained for. For example, Chad signed a 'convention agreement' with neighbouring Cameroon and with a consortium led by ExxonMobil in 1988 – this was a broad contract covering both production sharing terms on Chad's Doba oilfields, and a pipeline through Cameroon to the coast. Even though outside observers commented that the government's agreed share of revenue was low<sup>11</sup>, the government found itself getting even less than it expected. In October 2004, a year after the oil started flowing, the Chadian government accused the consortium of under-paying the revenues agreed in their contract. Oil Minister Youssouf Abassalah announced:

*"Regarding the application of the contract, we have different views on what should be going to Chad in terms of the share of oil revenues".<sup>12</sup>*

Even countries with long experience of oil development are not immune to this problem. For example, in the Sakhalin II project in Russia, the way the PSA is written, all cost over-runs are effectively deducted from the state's revenue, not the Shell-led consortium's profits.<sup>13</sup> During the planning and early construction of the project, costs have inflated dramatically. In February 2005, the Audit Chamber of the Russian Federation published a review of the economics of the project, finding that cost over-runs, due to the terms of the PSA, had already cost the Russian state \$2.5 billion.<sup>14</sup>

The changing view of PSAs in Russia in general illustrates another problem – that if the government or political climate change, the terms of a PSA cannot change to reflect the country's new priorities. PSAs generally last for between 25 and 40 years. In Russia's case, the rush to privatise in the early 1990s is now being questioned – but with the PSAs already in force it is too late.

Similarly, in neighbouring Georgia. In 2000, the government signed a host government agreement (a pipeline contract in some ways comparable to PSAs) with a BP-led consortium to build the Baku-Tbilisi-Ceyhan oil pipeline. After the corrupt and unpopular regime of Eduard Shevardnadze was overthrown in a 'rose revolution' in November 2003, new President Mikhail Sakashvili commented, "We got a horrible contract from BP, horrible"<sup>15</sup> – but he could not change it.

<sup>10</sup> Bernard Mommer, 2002, *Global oil and the nation state*, pub Oxford University Press

<sup>11</sup> eg a World Bank Inspection Panel commented that "The Panel was struck by the estimated financial returns to Chad over a 28-year period, having regard to the magnitude of the Project, and is concerned that it was unable to find any analysis to justify the allocation of revenues among Chad, Cameroon and the Consortium. While the Panel recognizes that Management sought to ensure that Chad had access to reputable legal and financial services in its negotiations with the Consortium, it remains concerned about the adequacy of the allocation of revenues to Chad" [Cameroon Investigation Report (no. 25734, dated 2/5/03), para 39, p.xviii]

<sup>12</sup> Reuters, October 11, 2004, 'Chad Criticizes Exxon-Led Consortium Over Oil Money'

<sup>13</sup> Ian Rutledge, *The Sakhalin II PSA – A production 'non-sharing' agreement*, November 2004, available at <http://www.carbonweb.org/documents/SakhalinPSA.pdf>

<sup>14</sup> see eg Associated Press, February 10 2005, 'State Audit Chamber accuses Shell consortium of overspending'

<sup>15</sup> Alex van Oss, Eurasianet, June 8 2004: *We Won't Be Intimidated*



### **How oil companies negotiate bargains**

How revenues are split comes down less to what is considered 'fair'; more to what either side feels it can get away with: in the industry language, 'what the market will bear'. Thus countries with very small reserves, or high extraction costs, or high exploration risk, generally accept a lower share of revenues than those which are more attractive to companies.

For example, Nigeria, with 3% of world oil reserves, gets 81% of oil profits<sup>c</sup>, whereas Argentina, with 0.3% of reserves, gets 44% of profits<sup>d 16</sup>.

However, company negotiators will of course always play down the attractiveness of a country, in order to strengthen their bargaining position. A standard tactic is for a company to threaten to pull out and go elsewhere. In the UK, for example, the industry has consistently warned that investment would dry up if the highly favourable tax regime were made less generous. These threats reached their crescendo in 1997, when the new Labour government instituted a review of oil taxation. BP warned:

*"Any fiscal change is likely to alter the way in which oil companies view the attractiveness of the opportunities and options still existing in the North Sea... In the context of this fiscal review any change in [UK] taxation would be assessed ... from the totality of our global operations".<sup>17</sup>*

Yet, at exactly the time that BP and other North Sea oil companies were 'talking down' the viability of the North Sea, oil companies voted the UK as their favourite country in the world in

which to invest for two successive years, 1997 and 1998.<sup>18</sup> Analysis by economists Ian Rutledge and Philip Wright of Sheffield University revealed that, on top of Britain's supportive and predictable government policy, it is also one of the world's most profitable oil provinces, with a profitability 1.6 times higher than the global average. Indeed, BP's own profitability in the UK in 1997 was twice as high as its non-UK profitability.<sup>19</sup>

In the case of Iraq, if the government were to hold negotiations with foreign oil companies, the companies would highlight security concerns and political risks. They would push for a deal comparable to – or perhaps even better than – that in other countries in the world. This would ignore Iraq's huge reserves and low production costs.

Furthermore, once a deal is signed, its terms are fixed. Thus the contract terms for the next 40 years would be based on the bargaining position or political balance that exists at the time of signing. So, in Iraq's case, the arguments about political and security risk could land Iraq with a poor deal that long outlasted those risks, and not suited to a potentially stronger Iraq of the future.

For all their likely *apparent* wariness, it is very clear that oil companies are desperate to get hold of Iraq's oil. In the same survey where companies voted for Britain as their favourite place to invest, last year they voted Iraq as their third choice out of 147 countries.<sup>20</sup>

c Technically, of project cash flow

d The rate of return depends on field size, development cost and oil price. These figures are obtained by applying the countries' terms to hypothetical 'upside' (ie profitable) fields (defined by Petroconsultants)

<sup>16</sup> BP Statistical Review of World Energy 2004, and Petroconsultants, *Annual Review of Petroleum Fiscal Regimes*, 1995.

<sup>17</sup> Dick Olver, 15/9/97, speech to the conference 'New Government, New Prospects – The Future of the Oil and Gas Industry', London



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



<sup>18</sup> Robertson Research International Ltd, *International New Ventures Survey*, 1997 and 1998. The survey involves interviews of 105 companies accounting for 70% of total oil industry upstream expenditure, invited to choose between 146 countries.

<sup>19</sup> Calculations by Ian Rutledge and Philip Wright (of Energy Studies Programme, University of Sheffield), published in Financial Times Energy, October 2000 *Energy Economist Briefing*: 'Taxing petroleum: don't forget the upstream'. Profitability is measured as net present value per barrel of oil equivalent, sourced from company annual reports of Forms 10-K and 20-F filed at US Securities and Exchange Commission, 1997

<sup>20</sup> Fugro-Robertson press release, June 8 2004, 'United Kingdom top country for second year running in Fugro Robertson's new ventures survey', [http://www.robresint.co.uk/ar/whatsnew/pdfs/NVS2004\\_PressRelease.pdf](http://www.robresint.co.uk/ar/whatsnew/pdfs/NVS2004_PressRelease.pdf) The survey was based on a questionnaire with over 200 senior executives in the oil industry as to their interest in new ventures in 147 countries outside North America. Britain came first and Libya second in the 2004 survey.

### **Fair shares?**

In a production sharing agreement, looking at the split of oil between state and company does not tell us the full state revenue, because in most cases there are taxes on top of that. Combining the profit oil split, royalties and taxes, it is possible to calculate a *state take* as a percentage of the profits of a project. For example, in the case of Nigeria, the state share of profit oil is 60-65%, but state take is 81%<sup>e</sup> of profits, for an field.<sup>21</sup>

However, the energy economist Ian Rutledge points out that it is not enough to look just at that figure to judge fairness – as that will vary according to a country's geological, political and infrastructural attractiveness. A key measure of whether the state has got a fair deal is what level of profits a company is making.

For example, on a field of 750 million barrels, with capital expenditure of \$1.5 per barrel and an oil price of \$23, the PSA terms in Oman would give a state take of 81%. Although this sounds high, it should be contrasted with the company internal rate of return (a measure of profitability) of 31% - compared with a usual target for companies of 12-15%. Thus, this field would be very profitable.

Rutledge calculates that if the same terms (80-20 split plus bonuses) were applied to a 300-million barrel field in Iraq (a relatively small field, by Iraq's standards), with capital cost of \$0.41 per barrel, companies would be receiving an enormous 59% IRR at an oil price of \$25, and 66% IRR at \$30.<sup>22</sup>

Even then, with state take and company IRR, we do not have the whole picture. Often a company can obtain profit not just from the *profit oil*, but also from cost oil. Although that is not intended in the deal, careful accounting and financial management can allow the companies to exploit loopholes in the tax rules. For this reason, the details of how profits are calculated, what costs are allowable etc, are very important.

<sup>e</sup> for Petroconsultants' 'upside' hypothetical fields

### **Who controls the oil?**

<sup>21</sup> Petroconsultants, *Annual Review of Petroleum Fiscal Regimes*, 1995

<sup>22</sup> Ian Rutledge, 2005, *Addicted to oil*, pub. IB Tauris, p.185



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



While PSAs give the impression of giving the state ownership and control over oil resources, in practice, its hands are tied by the restrictions in the contract. As with the revenue sharing, the key is in the detail.

Most production sharing contracts specify that any disputes would be resolved not in the courts of the country concerned, but in international arbitration tribunals, such as ICSID in Geneva or the International Chamber of Commerce in Paris. These arbitration hearings are often held in secret, and presided over by tribunals consisting generally of corporate lawyers and trade negotiators – as such, they tend to narrowly favour the investment interest, rather than broader issues of national interest or sovereignty.

The researcher Susan Leubuscher comments,

*“That system assigns the State the role of just another commercial partner, ensures that non-commercial issues will not be aired, and excludes representation and redress for populations affected by the wide-ranging powers granted [multinationals] under international contracts”.*<sup>23</sup>

Furthermore, Leubuscher points out that investment contracts are largely self-standing and self-referential: they are judged by the goals and conditions that each individual contract sets for itself, rather than by external standards within the broader body of law.

Even worse, many of these contracts contain so-called ‘stabilisation clauses’, which can prevent future laws or tax policies applying to the project concerned. For example, a future government may not be able to introduce stricter laws, or to change tax rates. This is generally achieved by one of two mechanisms in the contract:

- 1) giving the production sharing agreement a higher legal status than other laws (except the Constitution) – thus, if there is a conflict with a future law, the PSA takes precedence; or
- 2) including clauses that allocate certain risks such as tax or legislative change to the state oil company – in other words, if tax is increased, the state oil company pays, not the foreign company.

As a result, laws and regulations relating to labour standards, workplace safety, community relations or environment would be unable to be strengthened<sup>f</sup> in relation to a project during the life of the contract (25-40 years), and may even be weakened, depending on the contract.

One example is the case of Georgia. In November 2002, when the BTC pipeline was seeking environmental approval, the Environment Minister said she could not approve the pipeline routing through an important National Park, as to do so would violate Georgia’s environmental laws.<sup>24</sup>

Both BP and the US government put pressure on the Minister, through then President Shevardnadze.<sup>25</sup> The Minister was forced first to concede the routing with environmental conditions, and then to water down her conditions. Part of the reason for her weak bargaining position was that two years earlier Georgia had signed the host government agreement for the project, which set a deadline for environmental approval within 30 days of the application. Since that agreement has a higher status than other Georgian laws, the environment laws the Minister referred to were irrelevant.

Ultimately, on the day of the deadline, the President called the Minister into his office, and kept her there until she signed, in the early hours of the morning.<sup>26</sup>

The host government agreements for the BTC pipeline have been better studied than most. They were one of the first sets of such agreements to be made public (the Azerbaijan PSAs are also public). Although in



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



that case it took pressure from civil society and from the World Bank, such publication is now expected to become the norm.

The BTC agreement with Turkey contains a number of other features, common to many other HGAs and PSAs, on top of those referred to above<sup>27</sup> :

- The consortium is exempted from any current or future domestic law that may conflict with the project during the lifetime of the contract (40 years).
- The consortium has the power to terminate the contract at any time; Turkey does not have this power.
- The consortium has the right to decide what structures can be built in the pipeline corridor, an effective right to restrict the geographical development of villages, without compensation.
- The project takes priority over local populations in access to water.
- The only reference to compensation is to compensation to the consortium. Compensation to the state or to third parties is not provided for and thus the consortium is exempt from all liability for loss or damage.

f alternatively, some contracts allow such laws to be strengthened, but require compensation to be paid to investors for their loss of profits.

<sup>23</sup> Susan Leubuscher, June 2 2003, 'The privatisation of justice: international commercial arbitration and the redefinition of the state'

<sup>24</sup> letter of 26 November 2002 from Nino Chkhobadze (Georgian Minister for the Environment) to BP CEO John Browne

<sup>25</sup> letter of November 7 2002, from David Woodward (BP Azerbaijan) and Natiq Aliyev (Socar) to Eduard Shevardnadze. The US special envoy on energy, Steven Mann, was called in to "mediate" the dispute, and began by saying that if Georgia did not approve the routing within the deadline, it would not get investment in other big energy projects [Rustavi-2 TV, November 25 02, reported on BBC Monitoring, 'Georgian environment minister under pressure to back pipeline impact report'].

<sup>26</sup> AFP, December 2 2002, 'Georgia approves \$2.9bn oil pipeline',

<sup>27</sup> *See Campagna per la Riforma della Banca Mondiale, Kurdish Human Rights Project, The Corner House, Ilisu Dam campaign, Platform, October 2002, 'Preliminary Analysis of the Implications of the Host Government Agreement between Turkey and the BTC Consortium'*

## **Does Iraq need foreign investment?**

As noted above, Western companies and governments – and institutions aligned with them, such as the International Energy Agency (part of the OECD group of 30 industrialised nations) – argue that foreign investment will be essential for the development of Iraq's oil.

Although sometimes the arguments refer to multinational companies' skills, often there is a somewhat arrogant subtext to that, which ignores Iraq's own strong skills base in the oil industry – albeit one that was damaged by Saddam Hussein's dictatorship and by the impact of economic sanctions. Meanwhile, technology, and technical capacity, can be hired through technical service agreements.

The arguments for investment are perhaps more plausible when it comes to access to capital. Certainly, multinational companies have access to capital beyond that of many oil-producing states. They also have a propensity to take risks (for example, in exploration), which many states prefer to avoid, for fear of the political repercussions of spending tax money with no return.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



On the other hand, the capacities of multinationals to raise capital and technically manage projects must be weighed against their different objectives. In one sense, multinationals lack capacity compared to state companies, as their economic drivers are different. In general, their imperatives are to deliver short-term profitability to shareholders, meaning maximising production rates in the short term, and maximising profitability obtained from that production. These may conflict with a country's objectives, in undermining sustainability of revenue, and in minimising the government's tax take.

Some industry commentators point out that the accumulation of wealth and political power by state-owned oil companies tends to either destabilise or weaken democratic governments (such as in Venezuela), or conversely to strengthen undemocratic regimes, insulated from accountability to their populations (such as in Saudi Arabia). This anti-democratic effect of oil wealth is a real concern, and has been seen in numerous oil producing countries.

However, it is a myth that foreign investment in an oil industry can reduce this effect. In fact, the opposite can be true. Oil corporations are interested in regimes that they can do lucrative deals with; the deals which give them the most excessive profits are very often those that would not survive in a democracy, and which depend on autocratic governments to enforce them (such as in Azerbaijan).

The Centre for Global Energy Studies estimates that the Iraqi oil industry needs investment of \$2.5 billion per year, to achieve production of 6 million barrels per day by 2010.<sup>28</sup> This could potentially be financed out of Iraq's own revenues, and is within the range of budget allocations to date. Alternatively, it could be raised as loans – the considerable increased reserves could be used as collateral to secure the loans. CGES estimates a financing cost of \$1.6 per barrel. Combined with production costs of \$1.5 and transport costs of \$0.4, leaving Iraq with still a net income of \$26 per barrel at an average oil price of \$30. Given the current oil price, it will be even easier and cheaper for Iraq to borrow money to finance development.

Some would argue that introducing foreign companies only to new, unexplored areas of Iraq, where the national company is not operating anyway, can only add revenue – even if it is not 100% of the profit generated. However, even in this case, the impact on revenue could be negative. When Iraq receives a quota from OPEC, if it has to restrict production to shore up prices, contracts may prevent it from doing so in any foreign-controlled fields. As a result, to comply with OPEC decisions, Iraq would instead have to cut production from fields controlled by the national oil company – and lose the revenue from those as a result.

Perhaps one potential benefit of foreign involvement is that it would allow production to grow faster than under a purely national model – in that investment could take place very quickly. However, it is precisely fast development that presents the greatest risk of getting a poor deal with foreign corporations.

However, if it were decided that foreign capital were required, there are options such as the buyback agreements which maintain the majority of the decision-making control, rather than surrendering it to the extent that would occur with production sharing agreements.

<sup>28</sup> *Middle East Economic Survey*, October 18 2004, 'Iraq's oil sector: scenarios for the future', by Muhammad-Ali Zainy

## **Conclusion**



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



We have illustrated some of the features of oil taxation and production sharing agreements. We conclude that while it may be possible *in theory* for production sharing agreements and other forms of foreign involvement to be done in a beneficial way; in practice, they have often created negative outcomes for other countries.

It is a question for the people of Iraq as to whether they want foreign investment in their oil at all. We would argue that "privatisation" is best understood in terms of the concrete impacts on the revenues from and the control over oil production, rather than purely legal status. As such, production sharing agreements can be seen as presenting many threats to the country's economy, in common with more direct or overt forms of "privatisation".

If Iraq were to rush in to signing lots of contracts, and especially if it were to do so without public debate or transparency as to what were on the table, negative outcomes could be expected. The wrong contract – whether as a result of the political context or of mistakes in drafting (such as lack of clarity about implications of certain clauses) – would impact Iraq's economy for the next 40 years.

When Ayad Allawi issued his guidelines for Iraq's oil policy in 2004, he insisted that there should not be public debate on these issues, as that would delay progress. We disagree – without public debate, the outcome cannot be considered progress.



## **Bush's Petro-Cartel Almost Has Iraq's Oil**

**By Joshua Holland, AlterNet**

**Posted on October 16, 2006, Printed on December 29, 2006**

**<http://www.alternet.org/story/43045/>**

*Editor's note: This is the first of a two-part series. [Go here](#) to read the second installment.*

Iraq is sitting on a mother lode of some of the lightest, sweetest, most profitable crude oil on earth, and the rules that will determine who will control it and on what terms are about to be set.

The Iraqi government faces a December deadline, imposed by the world's wealthiest countries, to complete its final oil law. Industry analysts expect that the result will be a radical departure from the laws governing the country's oil-rich neighbors, giving foreign multinationals a much higher rate of return than with other major oil producers and locking in their control over what George Bush called Iraq's "patrimony" for decades, regardless of what kind of policies future elected governments might want to pursue.

Iraq's energy reserves are an incredibly rich prize. According to the [U.S. Department of Energy](#), "Iraq contains 112 billion barrels of proven oil reserves, the second largest in the world (behind Saudi Arabia), along with roughly 220 billion barrels of probable and possible resources. Iraq's true potential may be far greater than this, however, as the country is relatively unexplored due to years of war and sanctions." For perspective, the Saudis have 260 billion barrels of proven reserves.

Iraqi oil is close to the surface and easy to extract, making it all the more profitable. James Paul, executive director of the Global Policy Forum, [points out](#) that oil companies "can produce a barrel of Iraqi oil for less than \$1.50 and possibly as little as \$1, including all exploration, oilfield development and production costs." Contrast that with other areas where oil is considered cheap to produce at \$5 per barrel or the North Sea, where production costs are \$12-16 per barrel.



And Iraq's oil sector is largely undeveloped. Former Iraqi Oil Minister Issam Chalabi (no relation to the neocons' favorite exile, Ahmed Chalabi) told the Associated Press that "Iraq has more oil fields that have been discovered, but not developed, than any other country in the world." British-based analyst Mohammad Al-Gallani told the *Canadian Press* that of 526 prospective drilling sites, just 125 have been opened.

But the real gem -- what one oil consultant called the "Holy Grail" of the industry -- lies in Iraq's vast western desert. It's one of the last "virgin" fields on the planet, and it has the potential to catapult Iraq to No. 1 in the world in oil reserves. Sparsely populated, the western fields are less prone to sabotage than the country's current centers of production in the north, near Kirkuk, and in the south near Basra. The *Nation's* Aram Roston [predicts](#) Iraq's western desert will yield "untold riches."

Iraq also may have large natural gas deposits that so far remain virtually unexplored.

But even "untold riches" don't tell the whole story. Depending on how Iraq's petroleum law shakes out, the country's enormous reserves could break the back of OPEC, a wet dream in Western capitals for three decades. James Paul predicted that "even before Iraq had reached its full production potential of 8 million barrels or more per day, the companies would gain huge leverage over the international oil system. OPEC would be weakened by the withdrawal of one of its key producers from the OPEC quota system." Depending on how things shape up in the next few months, Western oil companies could end up controlling the country's output levels, or the government, heavily influenced by the United States, could even pull out of the cartel entirely.

Both independent analysts and officials within Iraq's Oil Ministry anticipate that when all is said and done, the big winners in Iraq will be the Big Four -- the American firms Exxon-Mobile and Chevron, the British BP-Amoco and Royal Dutch-Shell -- that dominate the world oil market. Ibrahim Mohammed, an industry consultant with close contacts in the Iraqi Oil Ministry, told the [Associated Press](#) that there's a universal belief among ministry staff that the major U.S. companies will win the lion's share of contracts. "The feeling is that the new government is going to be influenced by the United States," he said.

During the 12-year sanction period, the Big Four were forced to sit on the sidelines while the government of Saddam Hussein cut deals with the Chinese, French, Russians and others (despite the sanctions, the United States ultimately received 37 percent of Iraq's oil during that period, according to the independent committee that investigated the oil-for-food program, but almost all of it arrived through foreign firms). In a 1999 speech, Dick Cheney, then CEO of the oil services company Halliburton, told a London audience that the Middle East was where the West would find the additional 50 million barrels of oil per day that he predicted it would need by 2010, but, he lamented, "while even though companies are anxious for greater access there, progress continues to be slow."

Chafing at the idea that the Chinese and Russians might end up with what is arguably the world's greatest energy prize, industry leaders lobbied hard for regime change throughout the 1990s. With the election of George W. Bush and Dick Cheney in 2000 -- the first time in U.S. history that two veterans of the oil industry had ever occupied the nation's top two jobs -- they would finally get the "greater access" to the region's oil wealth, which they had long lusted after.

If the U.S. invasion of Iraq had occurred during the colonial era a hundred years earlier, the oil giants, backed by U.S. forces, would have simply seized Iraq's oil fields. Much has changed since then in terms of international custom and law (when then-Deputy Secretary of Defense Paul Wolfowitz did in fact [suggest](#) seizing Iraq's Southern oil fields in 2002, Colin Powell dismissed the idea as "lunacy").

Understanding how Big Oil came to this point, poised to take effective control of the bulk of the country's reserves while they remain, technically, in the hands of the Iraqi government -- a government with all the trappings of sovereignty -- is to grasp the sometimes intricate dance that is modern *neocolonialism*. The Iraq oil grab is a classic case study.



It's clear that the U.S.-led invasion had little to do with national security or the events of Sept. 11. Former Treasury Secretary Paul O'Neill [revealed](#) that just 11 days after Bush's inauguration in early 2001, regime change in Iraq was "Topic A" among the administration's national security staff, and former Terrorism Tsar Richard Clarke [told 60 Minutes](#) that the day after the attacks in New York and Washington occurred, "[Secretary of Defense Donald] Rumsfeld was saying that we needed to bomb Iraq." He added: "We all said ... no, no. Al-Qaeda is in Afghanistan."

On March 7, 2003, two weeks before the United States attacked Iraq, the U.N.'s chief weapons inspector, Hans Blix, told the U.N. Security Council that Saddam Hussein's cooperation with the inspections protocol had improved to the point where it was "active or even proactive," and that the inspectors would be able to certify that Iraq was free of prohibited weapons within a few months' time. That same day, IAEA head Mohammed ElBaradei reported that there was no evidence of a current nuclear program in Iraq and flatly refuted the administration's claim that the infamous aluminum tubes cited by Colin Powell in making his case for war before the Security Council were part of a reconstituted nuclear program.

But serious planning for the war had begun in February of 2002, as Bob Woodward [revealed](#) in his book, *Plan of Attack*. Planning for the future of Iraq's oil wealth had been under way for longer still.

In February of 2001, just weeks after Bush was sworn in, the same energy executives that had been lobbying for Saddam's ouster gathered at the White House to participate in Dick Cheney's now infamous Energy Task Force. Although Cheney would go all the way to the Supreme Court to keep what happened at those meetings a secret, we do know a few things, thanks to documents obtained by the conservative legal group JudicialWatch. As Mark Levine wrote in *The Nation* [\(SS\)](#):

... a map of Iraq and an accompanying list of "Iraq oil foreign suitors" were the center of discussion. The map erased all features of the country save the location of its main oil deposits, divided into nine exploration blocks. The accompanying list of suitors revealed that dozens of companies from 30 countries -- but not the United States -- were either in discussions over or in direct negotiations for rights to some of the best remaining oilfields on earth.

Levine wrote, "It's not hard to surmise how the participants in these meetings felt about this situation."

According to the [New Yorker](#), at the same time, a top-secret National Security Council memo directed NSC staff to "cooperate fully with the Energy Task Force as it considered melding two seemingly unrelated areas of policy." The administration's national security team was to join "the review of operational policies towards rogue states such as Iraq and actions regarding the capture of new and existing oil and gas fields."

At the State Department, planning was also underway. Under the auspices of the "Future of Iraq Project," an "Oil and Energy Working Group" was established. The full membership of the group -- described by the [Financial Times](#) as "Iraqi oil experts, international consultants" and State Department staffers -- remains classified, but among them, according to Antonia Juhasz's ["The Bush Agenda"](#), was Ibrahim Bahr al-Uloum, who would serve in Iyad Allawi's cabinet during the period of the Iraqi Governing Council, and later as Iraq's oil minister in 2005. The group concluded that Iraq's oil "should be opened to international oil companies as quickly as possible after the war."

But the execs from Big Oil didn't just want access to Iraq's oil; they wanted access on terms that would be inconceivable unless negotiated at the barrel of a gun. Specifically, they wanted an Iraqi government that would enter into production service agreements (PSAs) for the extraction of Iraq's oil.

PSAs, developed in the 1960s, are a tool of today's kinder, gentler neocolonialism; they allow countries to retain technical ownership over energy reserves but, in actuality, lock in multinationals' control and extremely high profit margins -- up to 13 times oil companies' minimum target, according to an analysis by the British-based oil watchdog Platform [\(PDF\)](#).



As Greg Muttit, an analyst with the group, [notes](#):

Such contracts are often used in countries with small or difficult oilfields, or where high-risk exploration is required. They are not generally used in countries like Iraq, where there are large fields which are already known and which are cheap to extract. For example, they are not used in Iran, Kuwait or Saudi Arabia, all of which maintain state control of oil.

In fact, Muttit adds, of the seven leading oil producing countries, only Russia has entered into PSAs, and those were signed during its own economic "shock therapy" in the early 1990s. A number of Iraq's oil-rich neighbors have constitutions that specifically prohibit foreign control over their energy reserves.

PSAs often have long terms -- up to 40 years -- and contain "stabilization clauses" that protect them from future legislative changes. As Muttit points out, future governments "could be constrained in their ability to pass new laws or policies." That means, for example, that if a future elected Iraqi government "wanted to pass a human rights law, or wanted to introduce a minimum wage [and it] affected the company's profits, either the law would not apply to the company's operations or the government would have to compensate the company for any reduction in profits." It's Sovereignty Lite.

The deals are so onerous that they govern only 12 percent of the world's oil reserves, according to the International Energy Agency. Nonetheless, PSAs would become the Future of Iraq Project's recommendation for the fledgling Iraqi government. According to the *Financial Times*, "many in the group" fought for the contract structure; a Kurdish delegate told the *FT*, "everybody keeps coming back to PSAs."

Of course, the plans for Iraq's legal framework for oil have to be viewed in the context of the overall [transformation of the Iraqi economy](#). Clearly, the idea was to pursue a radical corporatist agenda during the period of the Coalition Provisional Authority when the U.S. occupation forces were a de facto dictatorship. And that's just what happened; under L. Paul Bremer, the CPA head, corporate taxes were slashed, a flat-tax on income was established, rules allowing multinationals to pull all of their profits from the country and a series of other provisions were enacted. These were then integrated into the Iraqi Constitution and remain in effect today.

Among the provisions in the Constitution, unlike those of most oil producers, is a requirement that the government "develop oil and gas wealth ... relying on the most modern techniques of market principles and encouraging investment." The provision mandates that foreign companies would receive a major stake in Iraq's oil for the first time in the 30 years since the sector was nationalized in 1975.

Herbert Docena, a researcher with the NGO Focus on the Global South, [wrote](#) that an early draft of the constitution negotiated by Iraqis envisioned a "Scandinavian-style welfare system in the Arabian desert, with Iraq's vast oil wealth to be spent upholding every Iraqi's right to education, health care, housing, and other social services." "Social justice," the draft declared, "is the basis of building society."

What happened between that earlier draft and the constitution that Iraqis would eventually ratify? According to Docena:

While [U.S. Ambassador to Iraq Zalmay] Khalilzad and his team of U.S. and British diplomats were all over the scene, some members of Iraq's constitutional committee were reduced to bystanders. One Shiite member grumbled, "We haven't played much of a role in drafting the constitution. We feel that we have been neglected." A Sunni negotiator concluded: "This constitution was cooked up in an American kitchen not an Iraqi one."

With a constitution cooked up in D.C., the stage was set for foreign multinationals to assume effective control of as much as 87 percent of Iraq's oil, according to projections by the Oil Ministry. If PSAs become the law of the land -- and there are other contractual arrangements that would allow private



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



companies to invest in the sector without giving them the same degree of control or such usurious profits -- the war-torn country stands to lose up to 194 billion vitally important dollars in revenue on just the first 12 fields developed, according to a conservative estimate by Platform (the estimate assumes oil at \$40 per barrel; at this writing it stands at more than \$59). That's more than six times the country's annual budget.

To complete the rip-off, the occupying coalition would have to crush Iraqi resistance, make sure it had friendly people in the right places in Iraq's emerging elite and lock the new Iraqi government onto a path that would lead to the Big Four's desired outcome.

*See part two tomorrow.*

*Joshua Holland is an AlterNet staff writer.*

© 2006 Independent Media Institute. All rights reserved.  
View this story online at: <http://www.alternet.org/story/43045/>

---



## **Bush's Petro-Cartel Almost Has Iraq's Oil (Part Two)**

*By Joshua Holland, AlterNet*

*Posted on October 17, 2006, Printed on December 29, 2006*

<http://www.alternet.org/story/43077/>

*Editor's note: This is the second part of a series on the struggle for control of Iraq's oil resources and self-determination. [Go here](#) to read the first installment.*

With 140,000 U.S. troops on the ground, the largest U.S. embassy in the world sequestered in Baghdad's fortified "Green Zone" and an economy designed by a consulting firm in McLean, Va., post-invasion Iraq was well on its way to becoming a bonanza for foreign investors.

But Big Oil had its sights set on a specific arrangement -- the lucrative production sharing agreements that lock in multinationals' control for long terms and are virtually unheard of in countries as rich in easily accessible oil as Iraq.

The occupation authorities would have to steer an ostensibly sovereign government to the outcome they desired, and they'd have to overcome any resistance that they encountered from the fiercely independent and understandably wary Iraqis along the way. Finally, they'd have to make sure that the Anglo-American firms were well-positioned to win the lion's share of the choicest contracts.

Dealing with the most likely points of opposition began almost immediately. While the Oil Ministry, famously, was one of the few structures the invading forces [protected from looters](#) in the first days of the war, the bureaucracy's human assets weren't so lucky. With a stroke of the pen, Coalition Provisional Authority boss L. Paul Bremer fired hundreds of ministry personnel, ostensibly as part of the program of "de-Baathification." But, as Antonia Juhasz, author of "[The Bush Agenda](#)," told me, "it wasn't an indication that they were a party to Saddam Hussein's crimes ... they were fired because they could have stood in the way of the economic transformation." Some fraction were certainly hard-core Baathists, but they were all veterans of the country's oil sector; they knew the industry, they knew what the norms in neighboring countries were and they had no loyalty to the occupation forces. Some had to go.



That was true at the top as well. Serving as oil minister in the Iraqi Interim Government was Thamir Ghadhbhan, a British-trained technocrat who at one time had been chief of planning under Saddam Hussein and was widely respected for his political independence and his opposition to the previous regime (Saddam had ended up imprisoning him at Abu Ghraib). But despite working closely with American advisors, Ghadhbhan was replaced with Ibrahim Bahr al-Uloum, a close associate of Ahmed Chalabi, the exile favored by some war planners to run the country as a kindler and gentler -- but no doubt just as corrupt -- version of Saddam Hussein.

According to Greg Muttitt, an analyst with the British oil watchdog Platform, Uloum at first seemed to be a malleable figure. He told the *Financial Times* that he personally favored PSAs and giving priority to U.S. oil companies "and European companies, probably."

But Uloum would later publicly protest the elimination of fuel subsidies, a key provision of the country's economic restructuring, saying, "This decision will not serve the benefit of the government and the people. This decision brings an extra burden on the shoulders of citizens." He was, as the [Associated Press](#) reported, given "a forced vacation." It was, in the end, a permanent vacation; Chalabi, who was deputy prime minister at the time, took over the job himself (as "acting" minister for 30 days, but his term would last a year). Chalabi had no previous experience in the oil biz, but was a reliable, pro-Western figure with little in the way of nationalist zeal to get in the way of being a good lap dog. As leader of the Iraqi National Congress, he had said he favored the creation of a U.S.-led consortium to develop Iraq's oil fields. "American companies will have a big shot at Iraqi oil," Chalabi told the [Washington Post](#) in 2002.

According to Alexander Cockburn, Chalabi also orchestrated the ouster of Mohammed Jibouri, executive director of the state's oil marketing agency, who had offended the Swiss giant Glencore by telling its executives that they couldn't trade Iraqi oil after their extensive dealings with Saddam Hussein.

An emerging, although still fragile, civil society was another source of potential trouble. Iraqi trade unions were a thorn in the side of the CPA -- shutting down the port of [Khor az-Zubayr](#) in protest of a rip-off deal with the Danish shipping giant Maersk, halting [oil production](#) in the south to demand the rehire of laid-off Iraqi workers and [kicking Halliburton subsidiary Kellogg, Brown and Root](#) out of their refineries. Perhaps it's not a coincidence, then, that the only significant law that Paul Bremer left on the books from the Hussein era was a prohibition against organizing public-sector workers. Raed Jarrar, an Iraqi analyst with the NGO Global Exchange, told me, "They're having *a lot* of legal problems."

Of course, none of that guaranteed that the Iraqis would stay on the preferred path, especially after the election of an ostensibly sovereign government.

And that's where the most common -- almost ubiquitous -- tool of neocolonialism, debt, came into play. In this case, massive, crushing debt run up by a dictator who treated himself and his cronies to palaces and other luxuries, spent lavishly on weapons for Iraq's war with Iran -- fought in part on behalf of the United States -- and owed Kuwait billions of dollars in reparations for the 1990 invasion.

To put Iraq's foreign debt in perspective, if the country's economy were the size of the United States', then its obligations in 2004, proportionally, would have equaled around \$55 *trillion*, according to IMF figures (and that doesn't include reparations from the first Gulf War).

Clearly, that amount of debt was unsustainable, and the Bush administration launched a full-court press to get creditor nations to forgive at least part of the new government's debt burden. Former Secretary of State James Baker, long the Bush family's "fixer," was dispatched on a tour of the world's capitals to cut deals on behalf of the Iraqis.



The administration raised eyebrows in the NGO community when it adopted the language of debt-relief activists to frame their pitch. Bush, and Baker, called it "odious" debt, debt that financed the whims of a brutal dictator and used against the interests of the Iraqi population. Under international law, "odious" debt, in theory at least, doesn't need to be forgiven; it's written off as a dictator's illicit gains. As one might expect, wealthy creditor nations have long resisted the concept.

Debt-relief activists Basav Sen and Hope Chu [wrote](#) that the move "seemed inexplicable at first." But it soon became clear that Iraq's debt-relief program was, in fact, a way of locking in Iraq's economic transformation.

The largest chunk of debt, \$120 billion, was owed to the Paris Club, a group of 19 industrialized nations. Baker negotiated a deal whereby the Paris Club would forgive 80 percent of Iraq's debt, but the catch -- and it was a big one -- was that Iraq had to agree to an economic "reform" package administered by the International Monetary Fund, an institution dominated by the wealthiest countries and infamous across the developing world for its painful and unpopular Structural Adjustment Protocols.

The debt would be written off in stages; 30 percent would be cancelled outright, another 30 percent when an elected Iraqi government accepted an IMF structural reform agreement and a final 20 percent after the IMF had monitored its implementation for three years. This gave the IMF the role of watchdog over the country's new economy, despite the fact that its share of the country's debt burden was less than 1 percent of the total.

Among a number of provisions in the IMF agreement, along with privatizing state-run companies (which resulted in the layoffs of an estimated 145,000 Iraqis), slashing government pensions and phasing out the subsidies on food and fuel that many Iraqis depended on, was a commitment to develop Iraq's oil in partnership with the private sector. Then-Finance Minister Adel Abdul Mehdi said, none too happily, that the deal would be "very promising to the American investors and to American enterprise, certainly to oil companies." The Iraqi National Assembly released a statement saying, "the Paris Club has no right to make decisions and impose IMF conditions on Iraq," and called it "a new crime committed by the creditors who financed Saddam's oppression." And Zaid Al-Ali, an international lawyer who works with the NGO Jubilee Iraq, [said](#) it was "a perfect illustration of how the industrialized world has used debt as a tool to force developing nations to surrender sovereignty over their economies."

The IMF agreement was announced in December of 2005, along with a new \$685 million IMF loan that was to be used, in part, to increase Iraq's oil output. The announcement came a month after Iraqis went to the polls to vote for their first government under the new Constitution in order, according to the *Washington Post*, to spare Iraqi "politicians from voters' wrath." That was a wise idea; immediately following the agreement, [gas prices skyrocketed and Iraqis rioted](#).

The icing on the cake is that the deal James Baker negotiated with the Paris Club refers to Iraq as an "exceptional situation"; no precedent was set that would allow other highly indebted countries saddled with odious debt from their own past dictators to claim similar relief.

The deadline the Iraqi government must meet for the completion of its final oil law in December is a "benchmark" in the IMF agreement.

In an [investigation](#) for the *Nation*, Naomi Klein discovered that Baker had pursued his mission with an eye-popping conflict of interest. Klein discovered that a consortium that included the Carlyle Group, of which Baker is believed to have a \$180 million stake, had contracted with Kuwait to make sure that the money it was owed by Iraq would be excluded from any debt-relief package. When Baker met with the Kuwaiti emir to beg forgiveness for Iraq's odious debt, he had a direct interest in making sure he didn't get it.



Another major creditor was Saudi Arabia. The Carlyle Group has extensive business dealings with the kingdom and Baker's law firm, Baker Botts, was representing the monarchy in a suit brought by the families of the victims of 9/11.

The most recent IMF report ([PDF](#)) shows how successfully he failed: "While most Paris Club official creditors have now signed bilateral agreements, progress has been slow in resolving non-Paris Club official claims, especially those of Gulf countries," it says. It's likely that Iraq, a country occupied for three years, devastated by 12 years of sanctions and with a per capita GDP of \$3,400, will end up paying reparations to Kuwait, a country with a per capita GDP of over \$19,000, for the five months Saddam occupied his neighbor in late 1990 and early 1991.

Iraq will still face a mountain of debt even if it meets all of the "benchmarks" required of it -- the IMF expects the country's debt service to equal five percent of its economic output in 2011 and warns that even a minor price shock in the oil market "would require significant borrowing from the international markets to close the financing gaps."

"Sovereign" debt is transferable between governments; if a new strongman arises or Iraq becomes a loose federation, the debt will remain on the books and defaulting on it, while a possibility, has serious long-term consequences.

All of this is about bringing different forms of pressure onto Iraq's nascent government, not controlling it, and it's an important distinction. Before and since the "handover" to Iraq's government, the Green Zone has been overrun with "advisers" from Big Oil. Aram Roston wrote, "It's clear that there is not just the one Iraqi Oil Ministry, but a parallel 'shadow' ministry run by American advisers." In business, that's known as "positioning."

Phillip Carroll, a former chief executive with Royal Dutch/Shell and a 15-member "board of advisors" were appointed to oversee Iraq's oil industry during the transition period. According to the [Guardian](#), the group "would represent Iraq at meetings of OPEC." Carroll had been working with the Pentagon for months before the invasion -- even while the administration was still insisting that it sought a peaceful resolution to the Iraq crisis -- "developing contingency plans for Iraq's oil sector in the event of war." According to the *Houston Chronicle*, "He assumed his work was completed, he said, until Defense Secretary Donald Rumsfeld called him shortly after the U.S.-led invasion began and offered him the oil adviser's job." Carroll, in addition to running Shell Oil in the United States, was a former CEO of the Fluor Corp., a well-connected oil services firm with extensive projects in Saudi Arabia and Kuwait, and at least \$1.6 billion in contracts for Iraq's reconstruction. He was joined by Gary Vogler, a former executive with ExxonMobile, in Iraq's Office of Reconstruction and Humanitarian Assistance.

After spending six months in the post, Carroll was replaced by Robert E. McKee III, a former ConocoPhillips executive. According to the *Houston Chronicle*, "His selection as the Bush administration's energy czar in Iraq" drew fire from congressional Democrats "because of his ties to the prime contractor in the Iraqi oil fields, Houston-based Halliburton Co. He's the chairman of a venture partitioned by the ... firm."

The administration selected Chevron Vice President Norm Szydlowski to serve as a liaison between the Coalition Provisional Authority and the Iraqi Oil Ministry. Now the CEO of the appropriately named Colonial Pipeline Co., he continues to work with the Iraq Energy Roundtable, a project of the U.S. Trade and Development Agency, which recently sponsored a meeting to "bring together oil and gas sector leaders in the U.S. with key decision makers from the Iraq Ministry of Oil."

Terry Adams and Bob Morgan of BP, and Mike Stinson of ConocoPhillips would also serve as advisors during the transition.

After the CPA handed over the reigns to Iraq's interim government, the embassy's "shadow" oil ministry continued to work closely with the Iraqis to shape future oil policy. Platform's Greg Muttitt



[Platform](#), just weeks after the invasion, in a meeting with oil company execs and Australian Foreign Minister Alexander Downer in London, former British Foreign Secretary Sir Malcolm Rifkind promised to personally lobby Dick Cheney for contracts on behalf of several firms, including Shell.

Meanwhile, major oil firms were positioning themselves so that they'd have the best contacts in the new government. According to the [Associated Press](#), "The world's three biggest integrated oil companies" -- BP, ExxonMobil and Royal Dutch/Shell -- "struck cooperation or training deals with Iraq" in 2005. "It's a way to maintain contact and get the oil officials to know about them," former Iraqi Oil Minister Issam Chalabi told the AP. And it seems to have worked; in May, Iraq's current oil minister, Husayn al-Shahristani, said that one of his top priorities would be to finalize an oil law and sign contracts with "the largest companies."

Washington has its hands all over the drafting of that law. Early on, in 2003, USAID commissioned BearingPoint, Inc. to submit recommendations for the development of Iraq's oil sector. BearingPoint was the firm that designed the country's economic transformation under a previous USAID contract, so it was no surprise that its report reinforced the preference for PSAs that "everybody [kept] kept coming back to" during meetings of the State Department's "Future of Iraq Project."

In February, just months after the Iraqis elected their first constitutional government, USAID sent a BearingPoint adviser to provide the Iraqi Oil Ministry "legal and regulatory advice in drafting the framework of petroleum and other energy-related legislation, including foreign investment." According to Muttit, the Iraqi Parliament had not yet seen a draft of the oil law as of July, but by that time it had already been reviewed and commented on by U.S. Energy Secretary Sam Bodman, who also "arranged for Dr. Al-Shahristani to meet with nine major oil companies -- including Shell, BP, ExxonMobil, ChevronTexaco and ConocoPhillips -- for them to comment on the draft."

All of these points of pressure are only what we can see in the light of day. There is certainly much more occurring under the table. Raed Jarrar told me that he "was personally familiar with the kind of intimidation that can be brought by both the U.S. military and civilian" personnel, and that he would be shocked if "multiple millions of dollars in bribes" were not changing hands. The IMF noted in its latest report ([PDF](#)) that "corruption related to the production and distribution of refined fuel products was rampant." Last March, [450 Oil Ministry employees](#) were fired for suspected corruption, and Mohammed al-Abudi, the Oil Ministry's director general for rilling, said that "administrative corruption" was pervasive. "The robberies and thefts are taking place on a daily basis on all levels," he said, "committed by low-level government employees and by high officials in leadership positions of the Iraqi state." The same day that the U.N. legitimized the occupation, George Bush signed Executive Order 13303 providing full legal immunity to all oil companies doing business in Iraq in order to facilitate the country's "orderly reconstruction."

Yet, despite a five-year effort, Big Oil still sits on the sidelines, wary of the disorder and violence that's plagued the country. Ironically, it appears that China may well receive [the first deal](#) in post-Saddam Iraq (although it's one negotiated with Hussein's government before the war). The Kurdish autonomous zone has signed three PSAs -- none with the majors -- although there is [some dispute](#) about their validity (and, at this writing, there are reports that the Kurds are [in negotiations](#) with Royal Dutch/Shell and BP, among others).

At this point, the situation is very fluid. Last week, Iraqis were shocked when [a controversial measure](#) that might lead to the country's effective breakup was passed by Parliament by one vote. The major Sunni parties and Muqtada al Sadr's ministers boycotted the vote in outrage. Muddying the waters further is a heated debate about whether a somewhat ambiguous provision in the Iraqi Constitution already gives provincial governments the right to hold on to oil revenues rather than send them to the central government. The results of all of these debates will have an enormous impact on Iraq's chances to build an autonomous and potentially prosperous country down the road.

It's possible that the administration and its partners badly overplayed their hand. Iraq's new government stands on the verge of a complete meltdown, faced with a crisis of legitimacy based largely



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



on the fact that it is seen as collaborating with American forces. Overwhelming majorities of Iraqis of every sect believe the United States is an occupier, not a liberator, and is convinced that it intends to stay in Iraq permanently. "If you go in front of Parliament, Raed Jarrar told me, "and ask: 'who is opposed to demanding a timetable for the Americans to withdrawal?' nobody would dare raise their hand." The passage of a sweetheart oil law could prove to be a tipping point. It's also possible Iraq's government won't make it to December; at this writing, rumors of a "palace coup" are swirling around Baghdad, according to Iraqi lawmakers.

What is clear is that the future of Iraq ultimately hinges to a great degree on the outcome of a complex game of chess -- only part of which is out in the open -- that is playing out right now, and oil is at the center of it. It's equally clear that there's a yawning disconnect between Iraqis' and Americans' views of the situation. Erik Leaver, a senior analyst at the Institute for Policy Studies in Washington, told me that the disposition of Iraq's oil wealth is "definitely causing problems on the ground," but the entire topic is taboo in polite D.C. circles. "Nobody in Washington wants to talk about it," he said. "They don't want to sound like freaks talking about blood for oil." At the same time, a recent poll asked Iraqis what they believed was the main reason for the invasion and 76 percent gave "to control Iraqi oil" as their first choice.

*Correction: an earlier version of this article identified BearingPoint, Inc. as a company spun off from Arthur Anderson Consulting. It is a spin-off from KPMG, LLC.*

*Joshua Holland is an AlterNet staff writer.*

© 2006 Independent Media Institute. All rights reserved.

View this story online at: <http://www.alternet.org/story/43077/>



**TOM HAYDEN**

[Bio](#)

12.07.2006

### **Troops Out, Oil Companies In: The Baker Agenda?**

Recommendations 62 and 63 confirm that control of Iraqi oil is a fundamental premise of Administration policy. This was denied in the first years of the war, but this week the President confirmed his belief that Islamic extremists will "gain access to vast oil reserves and use Iraq as a base to overthrow moderate governments all across the broader Middle East." [LAT, 12-6-06].

Then James Baker revealed the interest of his longtime oil industry allies, as well as key financial and corporate interests, in an Iraq resolution favorable to their narrow interests.

Recommendation 62 says the US government should help draft an oil law that "creates a fiscal and legal framework for investment." It further recommends that the US, in conjunction with the International Monetary Fund [IMF], should "pres Iraq to continue reducing subsidies in the energy sector...until Iraqis pay market prices for oil products..." That is, in a country besieged by civil war, bombings of infrastructure, unemployment at 50 percent levels, and the lack of necessities, the Baker Report proposes to make everyday life harder for average Iraqis so that the oil industry profits.

Recommendation 63 says the US should "assist" Iraqi leaders in privatizing the national oil industry into a "commercial enterprise" to encourage investment by the multi-national oil companies.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**

---



Who said it was not about blood for oil?

There's more to uncover. But at this point we know that the Baker commission is sprinkled with heavyweights from oil, construction, and financial entities with interests in Iraq. Baker is a Texas oilman whose law firm has interests in debt repayment to Kuwait and other Gulf States. Lawrence Eagleberger has ties to Halliburton and Philips Petroleum, and is a former head of Kissinger Associates, a corporate consulting firm whose clients remain secret [Paul Bremer was managing partner of the Associates]. Vernon Jordan is a power lawyer at Akin Gump who is closely associated with the secretive Bilderberg Group [as well as the Clinton circle and civil rights firms]. Leon Panetta served on the board of the New York Stock Exchange. The expert working groups for the ISG include leaders of Bechtel, PFC Energy, and two representatives of Citygroup, Inc., the firm of Robert Rubin, leading neo-liberal advocate and member of Clinton's cabinet.

Not a single person from the peace movement, women's, environmental, civil rights or labor organizations were among the "expert" consultants listed in the ISG Report, although the Heritage Foundation and the American Enterprise Institute were there.

The Report acknowledges that "senior members of Iraq's oil industry" argue for a nationalized oil company to centralize and allocate revenues fairly by region and group. But the Baker team dismisses any such idea on grounds that simply favor private multinationals. They approve of "aggressive" Kurdish investment deals with oil companies in northern Iraq, and note that Shi'a leaders are reported to be negotiating for foreign oil companies as well.

All this suggests that the ideological goal of the US invasion was not simply to displace Saddam Hussein but to dismantle the Arab nationalist state as a whole, opening the oil fields to private penetration. It is even possible that the grand alliance behind the Baker report includes support for US military disengagement in exchange for permanent guarantees that privatize the second largest oil fields on the planet.

As for the peace movement, it has been hobbled by the lack of a powerful alliance, both organizational and organic, with the "anti-globalization" movement which has fought the global IMF and WTO privatization plans, and the environmental groups battling global warming and greenhouse emissions. Without those unifying linkages, the peace movement has been limited mainly to demands for US troop withdrawals, an effort that has had an enormous impact.

What if the endgame is US combat troops out, US multinational corporations in? What if James Baker is remembered as the peacemaker, if not the leader of the peace movement?

While pushing hard for the removal of troops, it might not be too late to broaden and connect the peace movement more closely with other social movements as the historic debate accelerates about the lessons of the war for our country's future memory.

[http://www.huffingtonpost.com/tom-hayden/troops-out-oil-companies\\_b\\_35816.html?view=print](http://www.huffingtonpost.com/tom-hayden/troops-out-oil-companies_b_35816.html?view=print)



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **Oil for Sale: Iraq Study Group Recommends Privatization**

**By Antonia Juhasz**

**12/07/06 "Alternet"** -- -- In its heavily anticipated report released on Wednesday, the Iraq Study Group made at least four truly radical proposals.

The report calls for the United States to assist in privatizing Iraq's national oil industry, opening Iraq to private foreign oil and energy companies, providing direct technical assistance for the "drafting" of a new national oil law for Iraq, and assuring that all of Iraq's oil revenues accrue to the central government.

President Bush hired an employee from the U.S. consultancy firm Bearing Point Inc. over a year ago to advise the Iraq Oil Ministry on the drafting and passage of a new national oil law. As previously drafted, the law opens Iraq's nationalized oil sector to private foreign corporate investment, but stops short of full privatization. The ISG report, however, goes further, stating that "the United States should assist Iraqi leaders to reorganize the national oil industry as a commercial enterprise." In addition, the current Constitution of Iraq is ambiguous as to whether control over Iraq's oil should be shared among its regional provinces or held under the central government. The report specifically recommends the latter: "Oil revenues should accrue to the central government and be shared on the basis of population." If these proposals are followed, Iraq's national oil industry will be privatized and opened to foreign firms, and in control of all of Iraq's oil wealth.

The proposals should come as little surprise given that two authors of the report, James A. Baker III and Lawrence Eagleburger, have each spent much of their political and corporate careers in pursuit of greater access to Iraq's oil and wealth.

"Pragmatist" is the word most often used to describe Iraq Study Group co-chair James A. Baker III. It is equally appropriate for Lawrence Eagleburger. The term applies particularly well to each man's efforts to expand U.S. economic engagement with Saddam Hussein throughout the 1980s and early 1990s. Not only did their efforts enrich Hussein and U.S. corporations, particularly oil companies, it also served the interests of their own private firms.

On April 21, 1990, a U.S. delegation was sent to Iraq to placate Saddam Hussein as his anti-American rhetoric and threats of a Kuwaiti invasion intensified. James A. Baker III, then President George H.W. Bush's secretary of state, personally sent a cable to the U.S. embassy in Baghdad instructing the U.S. ambassador to meet with Hussein and to make clear that, "as concerned as we are about Iraq's chemical, nuclear, and missile programs, we are not in any sense preparing the way for preemptive military unilateral effort to eliminate these programs."\*

Instead, Baker's interest was focused on trade, which he described as the "central factor in the U.S.-Iraq relationship." From 1982, when Reagan removed Iraq from the list of countries supporting terrorism, until August 1990, when Iraq invaded Kuwait, Baker and Eagleburger worked with others in the Reagan and Bush administrations to aggressively and successfully expand this trade.

The efficacy of such a move may best be described in a memo written in 1988 by the Bush transition team arguing that the United States would have "to decide whether to treat Iraq as a distasteful dictatorship to be shunned where possible, or to recognize Iraq's present and potential power in the region and accord it relatively high priority. We strongly urge the latter view." Two reasons offered were Iraq's "vast oil reserves," which promised "a lucrative market for U.S. goods," and the fact that



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



U.S. oil imports from Iraq were skyrocketing. Bush and Baker took the transition team's advice and ran with it.

In fact, from 1983 to 1989, annual trade between the United States and Iraq grew nearly sevenfold and was expected to double in 1990, before Iraq invaded Kuwait. In 1989, Iraq became the United States' second-largest trading partner in the Middle East: Iraq purchased \$5.2 billion in U.S. exports, while the U.S. bought \$5.5 billion in Iraqi petroleum. From 1987 to July 1990, U.S. imports of Iraqi oil increased from 80,000 to 1.1 million barrels per day.

Eagleburger and Baker had much to do with that skyrocketing trade. In December 1983, then undersecretary of state Eagleburger wrote the U.S. Export-Import Bank to personally urge it to begin extending loans to Iraq to "signal our belief in the future viability of the Iraqi economy and secure a U.S. foothold in a potentially large export market." He noted that Iraq "has plans well advanced for an additional 50 percent increase in its oil exports by the end of 1984." Ultimately, billions of loans would be made or backed by the U.S. government to the Iraqi dictator, money used by Hussein to purchase U.S. goods.

In 1984, Baker became treasury secretary, Reagan opened full diplomatic relations with Iraq, and Eagleburger became president of Henry Kissinger's corporate consultancy firm, Kissinger Associates.

Kissinger Associates participated in the U.S.-Iraq Business Forum through managing director Alan Stoga. The Forum was a trade association representing some 60 American companies, including Bechtel, Lockheed, Texaco, Exxon, Mobil, and Hunt Oil. The Iraqi ambassador to the United States told a Washington, D.C., audience in 1985, "Our people in Baghdad will give priority -- when there is a competition between two companies -- to the one that is a member of the Forum." Stoga appeared regularly at Forum events and traveled to Iraq on a Forum-sponsored trip in 1989 during which he met directly with Hussein. Many Kissinger clients were also members of the Forum and became recipients of contracts with Hussein.

In 1989, Eagleburger returned to the state department now under Secretary Baker. That same year, President Bush signed National Security Directive 26 stating, "We should pursue, and seek to facilitate, opportunities for U.S. firms to participate in the reconstruction of the Iraqi economy, particularly in the energy area."

The president then began discussions of a \$1 billion loan guarantee for Iraq one week before Secretary Baker met with Tariq Aziz at the state department to seal the deal.

But once Hussein invaded Kuwait, all bets were off. Baker made a public plea for support of military action against Hussein, arguing, "The economic lifeline of the industrial world runs from the Gulf and we cannot permit a dictator such as this to sit astride that economic lifeline."

Baker had much to gain from increased access to Iraq's oil. According to author Robert Bryce, Baker and his immediate family's personal investments in the oil industry at the time of the first Gulf War included investments in Amoco, Exxon and Texaco. The family law firm, Baker Botts, has represented Texaco, Exxon, Halliburton and Conoco Phillips, among other companies, in some cases since 1914 and in many cases for decades. (Eagleburger is also connected to Halliburton, having only recently departed the company's board of directors). Baker is a longtime associate and now senior partner of Baker Botts, which this year, for the second year running, was recipient of "The International Who's Who of Business Lawyers Oil & Gas Law Firm of the Year Award," while the Middle East remains a central focus of the firm.



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



This past July, U.S. Energy Secretary Bodman announced in Baghdad that senior U.S. oil company executives would not enter Iraq without passage of the new law. Petroleum Economist magazine later reported that U.S. oil companies put passage of the oil law before security concerns as the deciding factor over their entry into Iraq. Put simply, the oil companies are trying to get what they were denied before the war or at anytime in modern Iraqi history: access to Iraq's oil under the ground. They are also trying to get the best deal possible out of a war-ravaged and occupied nation. However, waiting for the law's passage and the need to guarantee security of U.S. firms once they get to work, may well be a key factor driving the one proposal by the Iraq Study Group that has received great media attention: extending the presence of U.S. troops in Iraq at least until 2008.

As the recommendations of the Iraq Study Group are more thoroughly considered, we should remain ever vigilant and wary of corporate war profiteers in pragmatist's clothing.

\*All quotes are referenced in my book, "[The Bush Agenda](#)."

*Antonia Juhasz is a visiting scholar at the Institute for Policy Studies, author of "The Bush Agenda: Invading the World, One Economy at a Time," and a contributing author, with John Perkins and others, of "A Game as Old as Empire: The Secret World of Economic Hit Men and the Web of Global Corruption." [www.TheBushAgenda.net](http://www.TheBushAgenda.net).*

<http://www.informationclearinghouse.info/article15838.htm>

---

## **It's still about oil in Iraq**

A centerpiece of the Iraq Study Group's report is its advocacy for securing foreign companies' long-term access to Iraqi oil fields.

**By Antonia Juhasz,**

**12/10/06 "Los Angeles Times"** -- -- December 8, 2006 -- WHILE THE Bush administration, the media and nearly all the Democrats still refuse to explain the war in Iraq in terms of oil, the ever-pragmatic members of the Iraq Study Group share no such reticence.

Page 1, Chapter 1 of the Iraq Study Group report lays out Iraq's importance to its region, the U.S. and the world with this reminder: "It has the world's second-largest known oil reserves." The group then proceeds to give very specific and radical recommendations as to what the United States should do to secure those reserves. If the proposals are followed, Iraq's national oil industry will be commercialized and opened to foreign firms.

The report makes visible to everyone the elephant in the room: that we are fighting, killing and dying in a war for oil. It states in plain language that the U.S. government should use every tool at its disposal to ensure that American oil interests and those of its corporations are met.

It's spelled out in Recommendation No. 63, which calls on the U.S. to "assist Iraqi leaders to reorganize the national oil industry as a commercial enterprise" and to "encourage investment in Iraq's oil sector by the international community and by international energy companies." This recommendation would turn Iraq's nationalized oil industry into a commercial entity that could be partly or fully privatized by foreign firms.

This is an echo of calls made before and immediately after the invasion of Iraq.

The U.S. State Department's Oil and Energy Working Group, meeting between December 2002 and April 2003, also said that Iraq "should be opened to international oil companies as quickly as possible



after the war." Its preferred method of privatization was a form of oil contract called a production-sharing agreement. These agreements are preferred by the oil industry but rejected by all the top oil producers in the Middle East because they grant greater control and more profits to the companies than the governments. The Heritage Foundation also released a report in March 2003 calling for the full privatization of Iraq's oil sector. One representative of the foundation, Edwin Meese III, is a member of the Iraq Study Group. Another, James J. Carafano, assisted in the study group's work.

For any degree of oil privatization to take place, and for it to apply to all the country's oil fields, Iraq has to amend its constitution and pass a new national oil law. The constitution is ambiguous as to whether control over future revenues from as-yet-undeveloped oil fields should be shared among its provinces or held and distributed by the central government.

This is a crucial issue, with trillions of dollars at stake, because only 17 of Iraq's 80 known oil fields have been developed. Recommendation No. 26 of the Iraq Study Group calls for a review of the constitution to be "pursued on an urgent basis." Recommendation No. 28 calls for putting control of Iraq's oil revenues in the hands of the central government. Recommendation No. 63 also calls on the U.S. government to "provide technical assistance to the Iraqi government to prepare a draft oil law."

This last step is already underway. The Bush administration hired the consultancy firm BearingPoint more than a year ago to advise the Iraqi Oil Ministry on drafting and passing a new national oil law.

Plans for this new law were first made public at a news conference in late 2004 in Washington. Flanked by State Department officials, Iraqi Finance Minister Adel Abdul Mahdi (who is now vice president) explained how this law would open Iraq's oil industry to private foreign investment. This, in turn, would be "very promising to the American investors and to American enterprise, certainly to oil companies." The law would implement production-sharing agreements.

Much to the deep frustration of the U.S. government and American oil companies, that law has still not been passed.

In July, U.S. Energy Secretary Samuel Bodman announced in Baghdad that oil executives told him that their companies would not enter Iraq without passage of the new oil law. Petroleum Economist magazine later reported that U.S. oil companies considered passage of the new oil law more important than increased security when deciding whether to go into business in Iraq.

The Iraq Study Group report states that continuing military, political and economic support is contingent upon Iraq's government meeting certain undefined "milestones." It's apparent that these milestones are embedded in the report itself.

Further, the Iraq Study Group would commit U.S. troops to Iraq for several more years to, among other duties, provide security for Iraq's oil infrastructure. Finally, the report unequivocally declares that the 79 total recommendations "are comprehensive and need to be implemented in a coordinated fashion. They should not be separated or carried out in isolation."

All told, the Iraq Study Group has simply made the case for extending the war until foreign oil companies — presumably American ones — have guaranteed legal access to all of Iraq's oil fields and until they are assured the best legal and financial terms possible.

We can thank the Iraq Study Group for making its case publicly. It is now our turn to decide if we wish to spill more blood for oil.

ANTONIA JUHASZ is a visiting scholar at the Institute for Policy Studies and author of "The Bush Agenda: Invading the World, One Economy at a Time."

Copyright 2006 Los Angeles Times

<http://www.informationclearinghouse.info/article15860.htm>



# **BRussells Tribunal Dossier**

## **Big Oil's occupation of Iraq**



### **US staying the course for Big Oil in Iraq**

**By Pepe Escobar**

**12/13/06 "Asia Times"** -- --- Washington at large and President George W Bush and Vice President Dick Cheney in particular may apply every contortionist trick in the geopolitical book to save their skins in Iraq - and the reasons are not entirely political.

In addition to the recently released report by the Iraq Study Group, any other Washington establishment report - Pentagon, State Department, think-tanks - considered by the White House

cannot deviate from much of the ISG. There can be no firm timeline for a complete US withdrawal because it all depends on Iraq's new oil law being passed and US troops being able to defend Big Oil's investment.

Once again, it's the oil. The Bush-Cheney system by all accounts went to Iraq to grab those fabulous reserves. The only way for an overall solution to the Iraqi tragedy would be for the Bush administration to give up the oil - with no preconditions, turning the US into an honest broker. Realpolitik practitioners know this is not going to happen.

Instead, the ISG is explicitly in favor of privatizing Iraq's oil industry - to the benefit of Anglo-American Big Oil - after the impending passage of a new oil law that was initially scheduled to be passed this month by the Iraqi Parliament.

For Big Oil, the new oil law is the holiest of holies: once the exploitation of Iraq's fabulous resources is in the bag, "security" is just a minor detail. Enter the ISG's much-hyped provision of US troops remaining in Iraq until an unclear date to protect not the Iraqi population, but Big Oil's supreme interests. This is really what ISG co-head James Baker means by "responsible transition".

According to reports, the draft law, Iraq's first postwar draft hydrocarbon law, proposes allowing - for the first time - local and international companies to carry out oil exploration in Iraq.

Dow Jones Newswires reports that the draft law stipulates that the Iraqi Oil Ministry "should set up a committee consisting of highly qualified experts to speed up the process of issuing tenders and signing contracts with international oil companies to develop Iraq's untapped oilfields".

The law as drafted by a government committee also says that all matters concerning oil and gas exploration, production and transportation should be handled by the federal government - something Kurdish officials in northern Iraq resist.

Nechirvan Barzani, the Kurdish region's prime minister, has been quoted as saying that talks he held with the Baghdad government had failed to produce an agreement on his demands for control of oil resources in the region. "We demand that the signing of contracts to develop oilfields in Kurdistan should be handled by the Kurdistan region," he said.

Iraq needs international companies to investment as much as US\$20 billion to increase crude-oil production to 3 million barrels a day from below the 2 million at present.

Meanwhile, back in the zone

When the ISG stressed that "the ability of the United States to influence events within Iraq is diminishing", it was a sterling understatement at best. The US does not control much in Iraq apart from the Green Zone. The gruesome, daily accumulation of death proves the US Army provides no security and is distrusted by all parties. The troops don't even know whom they are supposed to be fighting (apart from Muqtada al-Sadr's Mehdi Army). At the same time, the Pentagon's aerial bombings - with scores of "collateral damage" victims - remain as relentless as counter-insurgency run



amok.

The Proactive, Preemptive Operations Group implemented by the Pentagon is regarded by Sunnis and quite a few Shi'ites as being the mastermind of some of the car bombings, assassinations, sabotage, kidnappings and attacks on mosques fueling the civil war. The "Salvador option" has developed into the "Iraqification option". US-trained death squads in Iraq are not much different from the death squads in El Salvador during the 1980s - subordinated to the same "divide and rule" tactics. This is the "civil war" dirty secret: let the Arabs kill one another with the US posing as "victims".

Although the House of Saud's Interior Ministry will deny it, the ISG had to admit that Sunni Arab guerrillas are being financed - to the tune of tens of millions of dollars - by wealthy, private Saudi and, to a lesser extent, Gulf state donors, following instructions of powerful Wahhabi clerics. Thirty-eight of these have just released a statement on Saudi websites calling on Sunnis worldwide to "mobilize" against Iraqi Shi'ites. This has stopped short of being a formal declaration of jihad not only against Shi'ites in Iraq but also Shi'ites in Iran, as well as US troops. The guerrillas' Russian Strela anti-aircraft missiles in Iraq have been paid for by Saudi money (according to Khudair al-Murshidi, a Ba'athist spokesman based in Damascus, "We have stockpiles of Strelas.") There's no US pressure capable of reverting the situation: this is a matter of Arab tribal solidarity - not a state affair.

There can be no direct negotiation with the Sunni Arab muqawama (resistance) because in essence what they want is the breakup of the Washington/Shi'ite majority government collaboration and their return to power. The Nuri al-Maliki government - in fact, any Shi'ite majority government - cannot possibly quash militia hell and the non-stop carnage because the Saudi-financed Sunni Arab guerrilla identifies any government as an occupier's tool.

And there's not much Iran can do to crush either the jihadis (not more than 1,300 operatives) or the 40,000-strong Sunni Arab resistance at large: one cannot possibly imagine the Republican Guards crossing the border from Iran to fight pitched battles in Ramadi alongside the US Army.

What could be accomplished - even though it's an extremely long shot - is a Shi'ite-majority government sharing some measure of power and guaranteeing a substantial share of oil-related profits to Sunni parties. But certainly not under the terms of the new oil law favoring Anglo-American Big Oil.

The axis of despair

Washington's impotence and bewilderment are astonishing - considering the flurry of extrication-from-Iraq wishful-thinking schemes. It starts with being caught in the middle of a "Sunni axis" - US ally/client regimes Egypt, Saudi Arabia, Jordan and Kuwait - supporting Sunni Arab politicians and most of all the anti-US Iraqi guerrillas; and on the other side Shi'ite Iran and pro-Hezbollah, pro-Palestine Syria (predominantly Sunni) supporting sections of the Shi'ite-dominated, US-backed Iraqi government.

The US may be squeezed between the Sunni axis and Iran and Syria, but it's Iraq that's the supreme battleground. Morbidly, Iraq is now also configured as a remix of Taliban Afghanistan in the 1990s: Wahhabi Saudi Arabia against "apostate" Shi'ite Iran. Meanwhile, in Lebanon - another battlefield - the Sunni axis supports the corrupt, Saudi-related Hariri clan and the virtually meaningless Fouad Siniora government, against Iran and Syria supporting Hezbollah.

Many Persian Gulf strategists tend to abhor the ISG recommendation of reduced US troops in Iraq. They either go for total US withdrawal (it won't happen anyway) or at least doubling the current number of 145,000 troops. There are insistent rumors in Dubai that Saudi Arabia, the United Arab Emirates and Kuwait - all Organization of Petroleum Exporting Countries (OPEC) members and Gulf Cooperation Council members as well - could engineer, alongside the US, a substantial increase in oil production to force prices below \$40 a barrel, thus really hurting Iran. But in this case, Hugo Chavez' Venezuela would certainly use all his influence inside OPEC to undermine the move.

Inside Iraq, Sunnis - politicians, not the resistance - want the US to take out the Shi'ite militias, which



means, in practice, the Badr Organization (the paramilitary wing of the Supreme Council for the Islamic Revolution in Iraq, or SCIRI, thus part of the government) and Muqtada's Mehdi Army. The Pentagon may be itching to engage in a battle of Sadr City, the massive Shi'ite slum in Baghdad, but that, like the flattening of Fallujah, would accomplish nothing, apart from horrific "collateral damage" and the opening of another, deadlier anti-American guerrilla front.

Suppose Bush finally decides to bet on the return of the Ba'athists - now represented by al-Awdah (The Return) party. An overall amnesty for the Sunni Arab resistance might be offered (unlikely: Maliki would be eaten alive by Shi'ites everywhere). Anyway, the guerrillas have never been interested in talking to the Americans in the first place. Take the heavily tribal, pro-Saddam Hussein al-Anbar province. Even the US Marine Corps has admitted that al-Qaeda in Iraq is the "dominant organization of influence in al-Anbar", ahead of the Sunni resistance, the government in Baghdad and the US "in its ability to control the day-to-day life of the average Sunni". At the same time al-Awdah is also very powerful; so al-Qaeda has to fight not only the Americans and the Baghdad government but the neo-Ba'athists as well.

The resistance would never dissolve by simply believing a US pitch on the Badr Organization and the Mehdi Army also being dissolved (by a Bush/Maliki joint decree?). On the other side of the spectrum, Abdul Aziz al-Hakim, leader of the SCIRI, as well as Muqtada would never fall into this trap in the first place.

Iraqi Shi'ites fear that the White House now wants a new Saddam. They should not worry (or should they?): the only man with certified street power in Baghdad to become a new Saddam is Muqtada, which for the US is anathema. What Shi'ite politicians - SCIRI and Da'wa - want most of all is for the US to help them take out the Sunni Arab guerrillas as well as al-Qaeda in Iraq. In his recent visit to Washington, Hakim was explicit: no US withdrawal. Instead, full speed ahead against the Sunni Arab guerrillas, but not against the Shi'ite militias (especially his own).

Muqtada, an Iraqi nationalist (and not an Iranian puppet), in this case would disagree, because he views the Sunni Arabs as a legitimate resistance force (with preconditions: in a recent sermon in Kufa, Muqtada stressed that Sunnis must not kill Shi'ites, must not join al-Qaeda, and must rebuild the Askariyah Shrine in Samarra).

### **Muqtada strikes back**

The crucial development in the next few weeks is Muqtada's fine-tuning of a stunning Shi'ite counterpunch to demolish once and for all the US-created pro-sectarian strategy: a nationalist, pan-Islamist, anti-occupation coalition of the Sadrists and the neo-Ba'athists, plus any other religious or secular anti-occupation group.

Transcending the Sunni/Shi'ite divide, this would preempt any threat of all-out civil war - not to mention decide the fierce Shi'ite family feud between Hakim and Muqtada in the Sadrists' favor. No wonder US Senator John McCain wants to "take out" Muqtada as much as the Pentagon does.

Already virtually ruled out by Bush, US dialogue with Iran on Iraq - were it to happen - would also imply some hard truths. Tehran might have some sway in forcing the SCIRI to dissolve the Badr Organization. But it would ask in return for a complete US withdrawal - sprawling military bases included. There's no guarantee Iran would deliver: the SCIRI is not a puppet party. On top of it, Iran would be helpless against the Sadrists. Once again: Muqtada is above all an Iraqi nationalist.

So the conclusion is grim: militia hell will continue - no matter what the US tries in desperation - because the Sunni Arab guerrillas will only disarm when the occupation is over, and when the Shi'ite militias also disarm; and the Shi'ite militias will only disarm when the Sunni Arab guerrilla war is finished. Not likely, on both counts.

No wonder Saudi King Abdullah is concerned, warning that Iraq is a "tinderbox". The new Greater Middle East hot war is already on. Baghdad is its horrific microcosm - public executions, non-stop



ethnic cleansing, the Tigris as the Sunni/Shi'ite border with Shi'ite district Kadhimiya and Sunni district Adhamiya as ghettos under siege on the "wrong" sides of the river. Maliki is as irrelevant as Bush - who at least has his own militia, the US Army, just one more militia in militia hell or, as Hunter Thompson would put it, "just another freak in a freak kingdom".

The neo-conservative hallucination of a puppet Iraqi regime as the centerpiece of a US-driven Greater Middle East - loads of cheap oil, Israel-friendly, anti-Iran - may have been derailed by a Mesopotamian sandstorm. But even with the defeat of the occupation, the US - or "the snake", as Muqtada defines it - still is not going anywhere. The "snake" will redeploy. Sunni Arab US ally/client regimes fear that a US withdrawal would lead to a whole new regional ball game tilting toward pro-Iran or pro-al-Qaeda regimes.

Not even a long-drawn civil war - Arabs killing one another - may save Bush and Cheney. And Iraq won't succumb to "divide and rule" and break up - because its identity as the eastern flank of the Arab nation is a geopolitical fact. So the real tragedy is how much longer millions of Iraqis caught in the crossfire will be paying with their own blood for the United States' cataclysmic folly.

Copyright 2006 Asia Times Online Ltd

<http://www.informationclearinghouse.info/article15892.htm>

## **ISG: Defeat With Honor**

**By Christian Parenti**

**12/19/06 "The Nation"** -- -- Having read the national bestselling paperback The Iraq Study Group Report, I am not so convinced by much of what I am reading about it from writers on the left. Many progressives have interpreted the document's real message as a call for "Stay the Course Lite" or as a not-so-cloaked argument for privatizing Iraq's massive petroleum reserves. (Of course the centrality of oil in all of this should never be in doubt, but the situation in Iraq has spun out of control in ways that go far beyond privatization schemes. And of course the ISGR is predicated on salvaging US imperial power, redeploying it and rebuilding. Pointing out such things is like "discovering" that the sun again came up in the east.)

Nor are the pundits of the gray center getting it: They seem bogged down in the report's seventy-nine suggestions. Shift US troops to advisory roles? Will Iran come to the table in good faith?

In a strange inverted fashion, I am most compelled by the readings that have emerged from the far right. They understand the document for what it is: an abject admission of total failure. Rush Limbaugh summed it up best when he mocked the document as "The Iraq Surrender Group Report."

Limbaugh is totally correct. That's what it is: a plan for defeat with honor. To put the report in very simple terms, its message is: The United States got its ass kicked, time to go. Or, if you prefer a direct quote: "The ability of the United States to shape outcomes is diminishing. Time is running out." And later they ponder how to "avert catastrophe."

All of the report's suggestions flow from that basic understanding. And though it is written in polite, obfuscating Beltway vernacular, the report offers up a devastating critique of the Bush Administration's Middle East foreign policy. Most provocative, it correctly links Iraq's meltdown to a solution in the Israeli-Palestinian conflict; these days that sort of suggestion is downright subversive. The right-wingers hate this report so passionately because they actually understand what it is saying.

The report criticizes Bush on a number of key topics. It notes the lack of Arabic speakers in the Green Zone and the lack of any contextual understanding of the insurgency: For more than two years, the Pentagon has had very few analysts who have been working on knowing the enemy. It mentions that the civilian leadership has badly alienated the military leadership.



The report does the basic service of laying out a who's who of key Iraqi leaders. It discusses the vexing problem of federalism, sectarianism and partition--and rightly bucks the Galbraithian proposal that if you just cut the mess up into three parts, it'll quiet down. (In the end Ambassador Peter Galbraith may see the future correctly, but the process of partitioning Iraq would be apocalyptically violent and is not something to wish for.)

On the issue of reconstruction, the report notes that "serious questions remain about the capacity of the U.S. and Iraqi governments." Think about the first part of that for a moment. It goes on to add: "The coordination of assistance programs by the Defense Department, State Department, United States Agency for International Development, and other agencies has been ineffective. There are no clear lines establishing who is in charge of reconstruction." The \$21 billion already spent is presented as a total waste; the report describes the still appalling lack of basic services.

And why would that be? The report hints politely: "Substantial reconstruction funds have also been provided to contractors, and the Special Inspector General for Iraq Reconstruction has documented numerous instances of waste and abuse. They have not all been put right." The authors seem pleased that there is now a bit more oversight and "fewer cost-plus contracts have been granted." In addition, they note that the increased "use of Iraqi contractors has enabled the employment of more Iraqis in reconstruction projects." It is all too little too late, and anyone reading this should know that.

The report notes with concern that the overall costs of the war are wildly out of control: "To date, the United States has spent roughly \$400 billion on the Iraq War, and costs are running about \$8 billion per month." It notes that all long-term cost together could run as high as \$2 trillion. It further notes that: "The public interest is not well served by the government's preparation, presentation, and review of the budget for the war in Iraq."

Not only is the cost out of control but, according to James Baker and company, so is the President--abusing his power to mask the cost and bully Congress into writing blank checks. "Most of the costs of the war," they write, "show up not in the normal budget request but in requests for emergency supplemental appropriations. This means that funding requests are drawn up outside the normal budget process, are not offset by budgetary reductions elsewhere, and move quickly to the White House with minimal scrutiny."

Then, even more stunning, this: "The executive branch presents budget requests in a confusing manner, making it difficult for both the general public and members of Congress to understand the request or to differentiate it from counterterrorism operations around the world or operations in Afghanistan. Detailed analyses by budget experts are needed to answer what should be a simple question: 'How much money is the President requesting for the war in Iraq?'"

But that's not all: "circumvention of the budget process by the executive branch erodes oversight and review by Congress.... When the President submits an emergency supplemental request, the authorizing committees are bypassed. The request goes directly to the appropriations committees, and they are pressured by the need to act quickly so that troops in the field do not run out of funds. The result is a spending bill that passes Congress with perfunctory review. Even worse, the must-pass appropriations bill becomes loaded with special spending projects that would not survive the normal review process."

That's pretty harsh and pretty realistic.

So why do they do this? Perhaps some of the old guard fear what Marxists used call to a "legitimation crisis." Listen to this: "Continued problems in Iraq could lead to greater polarization within the United States. Sixty-six percent of Americans disapprove of the government's handling of the war, and more than 60 percent feel that there is no clear plan for moving forward. The November elections were largely viewed as a referendum on the progress in Iraq.... U.S. foreign policy cannot be successfully sustained without the broad support of the American people."





Finally, the report suggests the unsuggestable: It may be time to rein in Israel. It's a measure of how degraded political discourse has become that to even suggest this draws vicious attack. But facts are facts, and the Baker-Hamilton commission is correct in assessing that "Iraq cannot be addressed effectively in isolation from other major regional issues, interests, and unresolved conflicts. To put it simply, all key issues in the Middle East... are inextricably linked."

If that is true, then: "There must be a renewed and sustained commitment by the United States to a comprehensive Arab-Israeli peace on all fronts: Lebanon, Syria, and President Bush's June 2002 commitment to a two-state solution for Israel and Palestine. This commitment must include direct talks with, by, and between Israel, Lebanon, Palestinians (those who accept Israel's right to exist), and Syria."

Outrageous! How could they suggest that Israel has anything to do with this? For readers with such reactions they answer: "Iraqi opposition to the United States--and support for [radical Shiite cleric Muqtada al-] Sadr--spiked in the aftermath of Israel's bombing campaign in Lebanon."

And what about oil? Yes, the report's authors want to privatize it. Recommendation 63 reads: "The United States should encourage investment in Iraq's oil sector by the international community and by international energy companies." But the Iraqi oil industry is becoming a black hole, written off by world markets and no longer a factor in pricing. The national oil company and the oil ministry are, by all reports, in total crisis. During most of the US occupation, the northern oil fields around Mosul and Kirkuk have been totally offline due to insurgent sabotage on the Kirkuk-Yumurtalik pipeline that exports to the Turkish port of Ceyhan. As much as one-quarter of all oil pumped in Iraq is likely stolen and smuggled out in trucks. Go to the Turkish-Iraqi border and you'll see lines of oil-smuggling trucks parked three abreast, running for up to a dozen miles waiting to cross at night.

Iraq is currently producing at roughly one-third of its peak levels. Iraq's pre-1991 production peak was 3.9 million barrels per day. The Gulf War and sanctions cut capacity by about 1 million barrels a day. But under occupation the country's production was set to soar to 6 million barrels a day by the end of the decade. That won't happen. The chaos of war is keeping production at 2 million barrels a day or less. Today Iraq exports average only 1.5 million barrels a day.

Experts close to the industry say the country needs \$20 billion to \$60 billion in capital investment if it is to recover its former glory. That deficit alone practically insures future privatization--or at least liberalization of participation by foreign firms and oil majors.

The Baker-Hamilton commission was not trying to pull a fast one, sneak in some legal changes that will allow privatization. Rather, the group was up-front about its goals: The authors offer a plan for defeat with honor (that is, some salvaged political credibility) and, if possible, the possibility of stability sooner rather than later. And their proposed method is also a departure from the current zeitgeist: diplomacy rather than blind force. Given the very limited parameters of the political moment--what's so wrong with all that?

Copyright © 2006 The Nation

---

## **Mother Lode**

These are the spoils for which George W. Bush has killed more than 100,000 human beings.

**By Chris Floyd**

**02/11/05 "Moscow Times"** -- The hoary adage that "there are none so blind as those who will not see" should be carved in stone at the National Press Club in Washington. Surely there can be no better motto for the cozy clubhouse of America's media mavens, who seem preternaturally incapable of recognizing the truth -- even when it stands before them, monstrous and unavoidable, like a giant Cyclops smeared with blood.



For just as they botched the most important story of our time -- the Bush Administration's transparently deceptive campaign to launch a war of aggression against Iraq -- the clubby mavens are now missing the crowning achievement of this vast crime: the mother of all backroom deals, a cynical pact sealed by murder, unfolding before our eyes.

The Administration's true objective in Iraq is brutally simple: U.S. domination of Middle East oil. This is no secret. Dick Cheney and Paul Wolfowitz began writing about this "strategic necessity" in 1992, as Alternet reminds us; and in September 2000, a group led by Cheney and Donald Rumsfeld openly called for a U.S. military takeover of Iraq -- even if the regime of Saddam Hussein was no longer in power. At every point in their savaging of Iraq, the Bushists have pressed relentlessly toward this oily goal.

The objective was revealed -- yet again -- in a recent Washington appearance by Iraqi Finance Minister Adil Abdel-Mahdi. Standing alongside a top State Department official, Abdel-Mahdi announced that Iraq's government wants to open the nation's oil fields to foreign investment -- not only the pumped product flowing through the pipes, but the very oil in the ground, the common patrimony of the Iraqi people. The minister said plainly that this sweet deal -- placing the world's second-largest oil reserves in a few private hands -- would be "very promising to the American investors and to American enterprise, certainly to oil companies," InterPress reports. These are the spoils for which George W. Bush has killed more than 100,000 human beings.

The American media completely ignored Abdel-Mahdi's declaration, but this is not surprising. After all, it occurred in the most obscure venue imaginable: an appearance before oil barons and journalists at the, er, National Press Club. Where better to hide open confessions of war crimes than in the very midst of the Washington hack pack? Yet here was a story of immense importance. For Abdel-Mahdi is not only a functionary in the discredited collaborationist government now in its last days. He is also one of the leading figures in the United Iraqi Alliance (UIA), the Shiite faction that has been swept to somewhat more legitimate power by the national election that was forced on George W. Bush by Islamic fundamentalist Grand Ayatollah Ali al-Sistani. In fact, Abdel-Mahdi is frequently mentioned as a leading choice for prime minister in the new government; whatever happens, he will certainly play a primary role.

So we have a top official -- perhaps the top official -- in the incoming government offering American oilmen ownership rights in Iraqi oil. We have top American officials -- such as Cheney and Rumsfeld this week -- taking a benign view of the UIA's demand that the new Iraqi state be based solely on Islamic law, with crippling restrictions on women's rights, free expression, free association, plus, if Sistani has his way, Talibanic bans on music, dancing and even playing chess, Newsweek reports.

What we have, in other words, is the making of a monstrous, Cyclopean deal: not just "Blood for Oil," as the anti-war critics have said all along, but also "God for Oil." The Shiite clerics -- who eschew direct control but whose precepts can be translated into state power by secular representatives like Abdel-Mahdi -- seem willing to trade a goodly portion of Iraq's oil wealth in exchange for establishing a de facto "Islamic Republic" in the conquered land, with tacit American approval.

Sistani's word could move millions into the street to hamstring U.S. forces; but despite his notional disapproval of the occupation, he has stayed his hand, waiting for power to fall like a ripe fruit into the Shiite basket. Like Bush, he is apparently willing to countenance mass slaughter by the U.S.-led "Coalition" to achieve his objectives; but then, like Bush, Sistani is not an Iraqi either: He's an Iranian. Now these two foreigners are rolling dice to settle the nation's fate.

But there's yet another glaring truth that's escaped the media mavens, and most of the war's opponents as well. Even if the grand objective of oil control slips away somehow -- through a falling-out with Sistani, say, or civil war -- Bush has already won the game. The war has transferred billions of dollars from the public treasuries of the United States and Iraq into the coffers of an elite clique of oilmen, arms dealers, investment firms, construction giants and political operatives associated with the Bush family. And this goes beyond the official, guaranteed-profit contracts to favored firms; Bush's own





inspector general reported this month that \$8.8 billion in unaccounted "reconstruction" funds have simply vanished -- much of it in bribes for Bush officials and corporate kickbacks, the BBC reported.

This blood money will further entrench the Bushist clique in unassailable power and privilege for decades to come, regardless of the bloody chaos they cause, or even the occasional loss of political office. The American power structure has been permanently altered by the war -- just as American society has been immeasurably corrupted by Bush's proud embrace of aggression, torture, lawlessness and militarism as national values.

Bush lied. He stole. He murdered. In broad daylight. And he got away with it. That's the story. But you'll never hear it at the Press Club.

Annotations

Copyright © 2005 The Moscow Times. All rights reserved

---

### **CONTENT:**

- **THE AMERICAN PLANS TO EXHAUST IRAQ AND TO STEAL ITS RESOURCES: FACTS AND FIGURES** By MOHAMMED AL-KAYSSI Jul 22, 2005 (p 1)
- **Crude Designs: The Rip-Off of Iraq's Oil Wealth** By Greg Muttitt (05 Nov 2005) (p 19)
- **Oil, Power and Empire: Iraq and the U.S. Global Agenda** by Scott D. O'Reilly  
Global Research, October 5, 2004 ( p 69)
- **Secret US plans for Iraq's oil** By Greg Palast - Reporting for Newsnight (p 72)
- **The Failed War for Oil** By Michael T. Klare, Tomdispatch.com, Posted on September 23, 2005,  
Printed on December 29, 2006 ( p 74)
- **So Iraq Was About the Oil** By Robert Parry November 8, 2005 (p 79)
- **Document Says Oil Chiefs Met With Cheney Task Force** By Dana Milbank and Justin Blum  
Washington Post Staff Writers Wednesday, November 16, 2005 (p 82)
- **Iraq's oil: The spoils of war** [Philip Thornton, Economics Correspondent, The Independent](#)  
Published: 22 November 2005 (p 84)
- **Did Big Oil participate in planning the invasion of Iraq?** By Thomas Eley  
[Global Research](#), December 11, 2005 [World Socialist Web Site](#) (p 86)
- **Mission Accomplished Big Oil's occupation of Iraq** By Heather Wokusch  
Published: Tuesday December 13th, 2005 (p 88)
- **The corporate plunder of Iraq** (p 90)
- Production sharing agreements: oil privatisation by another name? (p 95)
- **Bush's Petro-Cartel Almost Has Iraq's Oil**  
By Joshua Holland, AlterNet  
Posted on October 16, 2006, Printed on December 29, 2006 (p 108)
- **Bush's Petro-Cartel Almost Has Iraq's Oil (Part Two)** By Joshua Holland, AlterNet  
Posted on October 17, 2006, Printed on December 29, 2006 (p 112)
- **Troops Out, Oil Companies In: The Baker Agenda?** (p 117)
- **Oil for Sale: Iraq Study Group Recommends Privatization** By Antonia Juhasz  
12/07/06 (p 119)
- **It's still about oil in Iraq** By Antonia Juhasz, 12/10/06 (p 121)
- **US staying the course for Big Oil in Iraq** By Pepe Escobar 12/13/06 ( p123)
- **ISG: Defeat With Honor** By Christian Parenti 12/19/06 (p 126)
- **Mother Lode** By Chris Floyd 02/11/05 (p 128)