WILL IRAQ'S OIL EVER FLOW?

ENERGY AND POWER IN THE MIDDLE EAST

MICHAEL SCHWARTZ

Introduction by Tom Engelhardt

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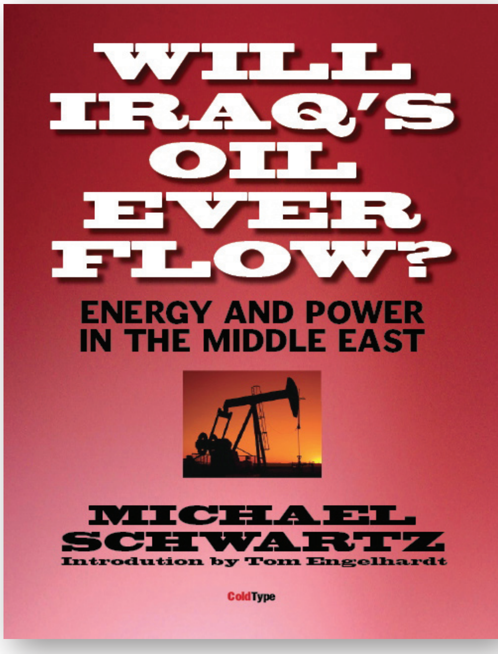

THE AUTHOR

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INTRODUCTION
TOM ENGELHARDT

Americans have largely stopped thinking about Iraq, even though we still have approximately 110,000 troops there, as well as the largest "embassy" on the planet (and still growing). We've generally chalked up our war in Iraq to the failed past, and some Americans, after the surge of 2007, even think of it as, if not a success, at least no longer a debacle. Few care to spend much time considering the catastrophe we actually brought down on the Iraqis in "liberating" them.

Remember when we used to talk about Saddam Hussein's "killing fields"? The world of mayhem and horror that followed the U.S. invasion and occupation delivered new, even larger "killing fields" that we don't care to discuss, or that we prefer to consider the responsibility of the Iraqis themselves. Even with violence far lower today, Baghdad certainly remains one of the more dangerous cities on the planet. The bombs continue to go off there regularly and devastatingly, while the killing, even if not of American troops who rarely patrol any longer and are largely confined to their mega-bases, has not ended, not by a long shot; nor has the anger, suspicion, and depression that go with all of this.

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A striking recent article in the Lonson *Guardian* by reporter Martin Chulov seemed to catch something of what the U.S. actually accomplished in Iraq in a nutshell. It describes a country in "environmental ruin" (and, let's not forget, taxed with an ongoing drought of monumental proportions). The headline tells the story: "Iraq littered with high levels of nuclear and dioxin contamination, study finds." The contamination from depleted uranium weapons, bombed pipelines, and other disasters of the years of war, civil war, and chaos seems centered around Iraq's population centers and, perhaps not surprisingly, coincides with a massive rise in birth defects.

Worse yet, in all those years of occupation, the U.S., despite billions of dollars spent (or rather squandered) on "reconstruction," never managed to deliver electricity, jobs, potable water, health care, or much else. And despite many attempts, as Michael Schwartz, returning TomDispatch regular and the author of War Without End, makes clear, Washington never even got the oil out of the ground in a country that is little short of a giant oil field waiting to be developed. A remarkable record when you think about it.

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How the mighty have fallen. Just a few years ago, an overconfident Bush administration expected to oust Iraqi dictator Saddam Hussein, pacify the country, install a compliant client government, privatize the economy, and establish Iraq as the political and military headquarters for a dominating U.S. presence in the Middle East. These successes were, in turn, expected to pave the way for ambitious goals, enshrined in the 2001 report of Vice President Dick Cheney's secretive task force on energy. That report focused on exploiting Iraq's monstrous, largely untapped energy reserves – more than any country other than Saudi Arabia and Iran – including the quadrupling of Iraq's capacity to pump oil and the privatization of the production process.

The dream in those distant days was to strip OPEC – the cartel consisting of the planet's main petroleum exporters – of the power to control the oil supply and its price on the world market. As a reward for vastly expanding Iraqi production and freeing its distribution from OPEC's control, key figures in the Bush administration imagined that the U.S. could skim off a small proportion of that increased oil production to offset the projected $40 billion cost of the invasion and occupation of the country.

> "Instead of quickly pacifying a grateful nation and then withdrawing all but 30,000-40,000 American troops (which were to be garrisoned on giant bases far from Iraq's urban areas), the occupation triggered both Sunni and Shia insurgencies

All in a year or two.

Unremitting Ambition Tempered by Political and Military Failure

Almost seven years later, it will come as little surprise that things turned out to cost a bit more than expected in Iraq and didn't work out exactly as imagined. Though the March 2003 invasion quickly ousted Saddam Hussein, the rest of the Bush administration's ambitious agenda remains largely unfulfilled.

Instead of quickly pacifying a grateful nation and then withdrawing all but 30,000-40,000 American troops (which were to be garrisoned on giant bases far from Iraq's urban areas), the occupation triggered both Sunni and Shia insurgencies, while U.S. counterinsurgency operations led to massive carnage, a sectarian civil war, the ethnic cleansing of Baghdad, and a humanitarian crisis that featured hundreds of thousands of deaths, four million internal and external refugees, and an unemployment rate that stayed consistently above 50% with all the attendant hunger, disease, and misery one would expect.

In the meantime, the government of Shiite Prime Minister Nouri al-Maliki, fervently supported by the Bush administration and judged by Transparency International to be the fifth most corrupt in the world, has morphed into an ever less reliable client regime. Despite American diktats and desires, it has managed to establish cordial political and economic relationships with Iran, slow the economic privatization process launched by the neocon administrators sent to Baghdad in 2003, and restored itself as the country's primary employer. It even seems periodically resistant to its designated role as a possible long-term host for an American military strike force in the Middle East.

This resistance was expressed most forcefully when Maliki leveraged the Bush administration into signing a status of forces agreement (SOFA) in 2008 that included a full U.S. military withdrawal by the end of 2011. Maliki even demanded – and received – a promise to vacate the five massive "enduring" military bases the Pentagon had constructed – with their elaborate facilities, populations that reach into the tens of thousands, and virtually no Iraqi presence, even among the thousands of unskilled workers who do the necessary dirty work to keep these "American towns" running.

Despite such setbacks, the Bush administration did not abandon the idea that Iraq might remain the future headquarters for a U.S. presence in the region, nor in the 2008 presidential election did candidate Barack Obama. He, in fact, repeatedly insisted that the Iraqi government should be a strong ally of the U.S. and the most likely host for a 50,000-strong military force that would "allow our troops to strike directly at al-Qaeda wherever it may exist, and demonstrate to international terrorist organizations that they have not driven us from the region."

> **Since entering the Oval Office, Obama has not visibly wavered in the commitment to establish Iraq as a key Middle East ally**

Since entering the Oval Office, Obama has not visibly wavered in the commitment to establish Iraq as a key Middle East ally, promising in his State of the Union Address that the U.S. would "continue to partner with the Iraqi people" into the indefinite future. In the same address, however, the president promised that "all of our troops are coming home," apparently signaling the abandonment of the Bush administration's military plans. Secretary of Defense Robert Gates, on the other hand, has recently voiced a contrary vision, hinting at the possibility that the Iraqis might be interested in negotiating a way around the SOFA agreement to allow U.S. forces to remain in the country after 2011.

Dynamic Paralysis Keeps Iraqi Oil Underground

Iraqi oil, too, has been a focus of Washington's unremitting ambition tempered by failure. Long before the cost of the war began to lurch toward the current Congressional estimate of $700 billion, the idea of using oil revenues to pay for the invasion had vanished, as had the idea of quadrupling production capacity within a few years. The hope of doing so someday, however, remains alive. Speculation that Iraq's production could – in the not too distant future – exceed that of Saudi Arabia may still represent Washington's main strategy for postponing future severe global energy shortages.

Even before the attacks of September 11, 2001, the secretive energy task force Vice President Cheney headed was tentatively allocating various oil fields in a future pacified Iraq to key international oil companies. Before the March 2003 invasion, the State Department actually drafted prospective legislation for a post-Hussein government, which would have transferred the control of key oil fields to foreign oil giants. Those companies were then expected to invest the necessary billions in Iraq's rickety oil industry to boost production to maximum rates.

Not so long after U.S. troops entered Baghdad, the administration's proconsul, L. Paul Bremer III, enacted the State Department legislation by fiat (and in clear violation of international law, which prohibits occupying powers from changing fundamental legislation in the conquered country). Under the banner of de-Baathification – the dismantling of Saddam Hussein's Sunni ruling party – he also fired oil technicians, engineers, and administrators, leaving behind a skeleton crew of Iraqis to manage existing production (and await the arrival of the oil giants with all their expertise).

Within a short time, many of these pariah professionals had fled to other countries where their skills were valued, creating a brain drain that, for a time, nearly incapacitated the Iraqi oil industry. Bremer then appointed a group of international oil consultants and business executives to a newly created (and UN-sanctioned) Development Fund of Iraq (DFI), which was to oversee all of the country's oil revenues.

The remaining Iraqi administrators, technicians, and workers soon mounted a remarkably determined and effective multi-front resistance to Bremer's effort.

“In the first two years of the occupation, there were more than 200 attacks on oil and gas pipelines. By 2007, 600 acts of sabotage against pipelines and facilities had been recorded

They were aided in this by a growing insurgency.

In one dramatic episode, Bremer announced the pending transfer of the control of the southern port of Basra (which then handled 80% of the country's oil exports) from a state-run enterprise to KBR, then a subsidiary of Halliburton, the company Vice President Cheney had once headed. Anticipating that their own jobs would soon disappear in a sea of imported labor, the oil workers immediately struck. KBR quickly withdrew and Bremer abandoned the effort.

In other Bremer initiatives, foreign energy and construction firms did take charge of development, repair, and operations in Iraq's main oil fields. The results were rarely adequate and often destructive. Contracts for infrastructure repair or renewal were often botched or left incomplete, as international companies ripped out usable or repairable facilities that involved technology alien to them, only to install ultimately incompatible equipment. In one instance, a $5 million pipeline repair became an $80 million "modernization" project that foundered on intractable engineering issues and, three years later, was left incomplete. In more than a few instances, local communities sabotaged such projects, either because they employed foreign workers and technicians instead of Iraqis, or because they were designed to deprive the locals of what they considered their "fair share" of oil revenues.

In the first two years of the occupation, there were more than 200 attacks on oil and gas pipelines. By 2007, 600 acts of sabotage against pipelines and facilities had been recorded.

After an initial flurry of interest, international oil companies sized up the dangers and politely refused Bremer's invitation to risk billions of dollars on Iraqi energy investments.

After this initial failure, the Bush administration looked for a new strategy to forward its oil ambitions. In late 2004, with Bremer out of the picture, Washington brokered a deal between U.S.-sponsored Iraqi Prime Minister Iyad Allawi and the International Monetary Fund. European countries promised to forgive a quarter of the debts accumulated by Saddam Hussein, and the Iraqis promised to implement the U.S. oil plan. But this worked no better than Bremer's effort. Continued sabotage by insurgents, resistance by Iraqi technicians and workers, and the corrupt ineptitude of the contracting companies made progress impossible. The international oil companies continued to stay away.

In 2007, under direct U.S. pressure, virtually the same law was reluctantly endorsed by Prime Minister Maliki and forwarded to the Iraqi parliament for legislative consideration. Instead of passing it, the parliament established itself as a new center of resistance to the U.S. plan, raising myriad familiar complaints and repeatedly refusing to bring it to a vote. It lies dormant to this day.

This stalemate continued unabated through the Obama administration's first year in office, as illustrated by a continuing conflict around the pipeline that carries oil from Iraq to Turkey, a source of about 20% of the country's oil revenues. During the Bremer administration, the U.S. had ended the Saddam-era tradition of allowing local tribes to siphon off a proportion of the oil passing through their territory. The insurgents, viewing this as an act of American theft, undertook systematic sabotage of the pipeline, and – despite ferocious U.S. military offensives – it remained closed for all but a few days throughout the next five years.

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The pipeline was re-opened in the fall of 2009, when the Iraqi government restored the Saddam-era custom in exchange for an end to sabotage. This has been only partially successful. Shipments have been interrupted by further pipeline attacks, evidently mounted by insurgents who believe oil revenues are illegitimately funding the continuing U.S. occupation. The fragility of the pipeline's service, even today, is one small sign of ongoing resistance that could be an obstacle to any significant increase in oil production until the U.S. military presence is ended.

The entire six-year saga of American energy dreams, policies, and pressures in Iraq has so far yielded little – no significant increase in Iraq's oil production, no increase in its future capacity to produce, and no increase in its energy exports. The grand ambition of transferring actual control of the oil industry into the hands of the international oil companies has proven no less stillborn.

Over the years since the U.S. began its energy campaign, production has actually languished, sometimes falling as much as 40% below the pre-invasion levels of an industry already held together by duct tape and ingenuity. In the Brookings Institution's latest figures for December 2009, production stood at 2.4 million barrels per day, a full 100,000 barrels lower than the pre-war daily average.

To make matters worse, the price of oil, which had hit historic peaks in early 2008, began to decline. By 2009, with the global economy in tatters, oil prices sank radically and the Iraqi government lacked the revenues to sustain its existing expenditures, let alone find money to repair its devastated infrastructure.

As a result, in early 2009, Maliki's government began actively, even desperately, seeking ways to hike oil production, even without an oil law in place. That, after all, was the only possible path for an otherwise indigent country with failing agriculture in the midst of a drought of extreme severity to increase the money available for public projects – or, of course, even more private corruption.

The Oil Companies Make Their Move

In January 2009, the government opened a new chapter in the history of oil production in Iraq when it announced its intention to allow a roster of several dozen international oil firms to bid on development contracts for eight existing oil fields.

The proposed contracts did not, in fact, offer them the kind of control over development and production that the Cheney task force had envisioned back in 2001. Instead, they would be hired to finance, plan, and implement a vast expansion of the country's production capacity. After repaying their initial investment, the government would reward them at a rate of no more than two dollars for every additional barrel of oil extracted from the fields they worked on. With oil prices expected to remain above $70 a barrel, this meant, once initial costs were repaid, the Iraqi government could expect to take in more than $60 per barrel, which promised a resolution to the country's ongoing financial crisis.

The major international oil companies initially rejected these terms out of hand, demanding instead complete control over production and payments of approximately $25 per barrel. This initial resistance began to erode, however, when the Chinese National Petroleum Corporation (CNPC), a government-owned operation, induced its partner, BP, the huge British oil company, to accept government terms for expanding the Rumaila field near Basra in southern Iraq to one million barrels a day.

> **"The Malaysian national company, Petronas, set a record by participating with six different partners in four of the seven new contracts the Maliki government gave out**

The Chinese company, experts believed, could afford to accept such meager returns because of Beijing's desire to establish a long-term energy relationship with Iraq. This foot-in-the-door contract, China's leaders evidently hoped, would lead to yet more contracts to explore Iraq's vast, undeveloped (and possibly as yet undiscovered) oil reserves.

Perhaps threatened by the possibility that Chinese companies might accumulate the bulk of the contracts for Iraq's richest oil fields, leaving other international firms in the dust, by December a veritable stampede had begun to bid for contracts. In the end, the major winners were state-owned firms from Russia, Japan, Norway, Turkey, South Korea, Angola, and – of course – China. The Malaysian national company, Petronas, set a record by participating with six different partners in four of the seven new contracts the Maliki government gave out. Shell and Exxon were the only major oil companies to participate in winning bids; the others were outbid by consortia led by state-owned firms. These results suggest that national oil companies, unlike their profit-maximizing private competitors, were more willing to forego immediate windfalls in exchange for long-term access to Iraqi oil.

On paper, these contracts hold the potential to satisfy one aspect of Washington's oil hunger, while frustrating another. If fully implemented, they could collectively boost Iraqi production from 2.5 million to 8 million barrels per day in just a few years. They would not, however, deliver control over production (or the bulk of the revenues) to foreign companies, so that Iraq and OPEC could continue, if they wished, to limit production, keep prices high, and wield power on the world stage.

Nevertheless, the centers of resistance to the original U.S. oil policies have voiced opposition to these new contracts. Members of parliament immediately demanded that all contracts be submitted for their approval, which they declared would be withheld unless ironclad protections of Iraqi workers, technicians, and management were included. Iraq's own state-owned oil companies demanded guarantees that their technicians, engineers, and administrators be trained in the new technologies the foreign companies brought with them, and given escalating operational control over the fields as their skills developed.

The powerful Iraqi oil union opposed the contracts unless they included guarantees that all workers be recruited from Iraq. Local tribal leaders voiced opposition unless they guaranteed a full complement of local workers, and subcontracts for locally based businesses during the development phase. Then there were the insurgents, who continued to oppose oil exports until the U.S. fully withdraws from the country, and expressed their opposition by the 26 bombing attacks they've launched on pipelines and oil facilities since September 2009.

"With our drones, there is little price to be paid if, as has regularly enough been the case, those enemies turn out not to be in the right place at the right time and others die in their stead

Some of these same groups have successfully blocked previous oil initiatives. Unless they are satisfied, they may frustrate the government's latest bid to make oil gush in Iraq. One warning sign can be seen in the fate of a contract signed with the CNPC in early 2009 that called for the development of the relatively small (one billion barrel) Ahdab oil field near the Iranian border. The language of the original contract met conditions demanded by local leaders and workers, but the work, once begun, generated few local jobs and even fewer local business opportunities. The Chinese instead brought in foreign workers, following the pattern established by U.S. companies involved in Iraqi reconstruction. Eventually, equipment was sabotaged, work undermined, and the project's viability remains threatened.

The end is not in sight and the outcome still unclear. Will the vast Iraqi oil reserves be developed and sent into the hungry world market any time soon? If they are, who will determine the rate of flow, and so wield the power this decision-making confers? And once this ocean of oil is sold, who will receive the potentially incredible revenues? As with so much else, when it comes to Iraqi oil, the American war has generated so many problems and catastrophes – and so few answers.