

Report outlines plans for corporate plunder of Iraqi oil

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A report published in November by the London-based environmental and social justice network Platform makes clear that the invasion and occupation of Iraq was, and remains, a war for oil. The document, entitled “Crude Designs: the rip-off of Iraq’s oil wealth”, is a concise review of how Iraq’s vast energy resources, worth hundreds of billions of dollars, will be handed to transnational companies over the next several years.

“Crude Designs” found that if just 12 of Iraq’s undeveloped fields are contracted in a similar fashion to comparable oil fields in Libya, Oman and Russia, transnationals will reap profits of between \$74 billion and \$194 billion in 2006 dollars over a 30-year period. The estimate, which the report describes as “conservative”, is based on an oil price of \$40 per barrel. The current price is closer to \$60 per barrel.

The actual bonanza for the oil giants from the invasion of Iraq could run into the trillions. Out of the country’s 80 known fields, just 17 are currently in production. A further 63 undeveloped fields have an estimated 75 billion barrels of oil, while industry experts believe between 100 billion and 200 billion barrels lie in unexplored fields. The country also has enormous untapped reserves of natural gas.

The Platform report establishes that control over these resources was the primary motive for the war. The first chapter draws attention to the discussion in US and British ruling circles on the strategic importance of dominating the oil and gas of the Persian Gulf. It cites the May 2001 report of the Bush administration’s Energy Task Force, which was headed by Vice President Dick Cheney. The findings declared: “The Gulf will be the primary focus of US international energy policy.”

The terror attacks on New York and Washington on September 11, 2001, just four months later, were used to set in motion long-held plans for the military conquest of the region.

In the months before the March 20, 2003 invasion, the looting of Iraq’s oil was the key consideration in Washington. The US State Department established a “Future of Iraq” project as early as April 2002. The project’s Oil and Energy group decided in four meetings between December 2002 and April 2003 that Iraq’s oil industry “should be opened to international oil companies as quickly as possible after the war”.

Among the group’s participants was Ibrahim al-Uloum, an Iraqi exile with a PhD in petroleum engineering from New Mexico University. Al-Uloum was appointed oil minister in the US-controlled Coalition Provisional Authority (CPA) and, with US backing, fills the same post in the current “transitional” government of Prime Minister Ibrahim al-Jaafari. The reason for Washington’s support is not hard to explain. In September 2003, Uloum told the British-based *Financial Times* that American energy companies should have “priority” over

Iraqi oil fields.

The contractual form agreed on by the US experts and Iraqi exiles for the development of Iraq’s oil industry was the Production Sharing Agreement (PSA).

Platform characterises PSAs as an “ingenious arrangement”. They were first introduced in the 1960s as a means for circumventing constitutional obstacles or political opposition to the privatisation of nationalised oil industries. Under a PSA, the oil remains legally the possession of the state where it is extracted. Only the operation of the field is controlled by the foreign operator, generally for a period of 25 to 40 years.

PSAs have proven to be a far more lucrative form of contract for transnational energy conglomerates than royalty arrangements. Under most royalty deals, the state takes a fixed percentage of the value of each barrel of oil extracted, regardless of the company’s costs or profit margin. Under a PSA, because the state still ostensibly “owns” the oil, the revenue from sales is firstly used to pay the company in full for its exploration, production and other capital costs. The remaining profits are split between the state and the company, according to an agreed ratio.

The profit split generally appears to be to the advantage of the state with ratios of 60:40 or even higher. The companies, however, are guaranteed a return, as all their costs are covered before any profit-sharing begins. Moreover, they can increase their share of the total revenue by inflating their costs or by subcontracting work to their own subsidiaries.

A PSA contract can also contain clauses that overtly advantage the company. One such PSA was signed by the Russian government during the 1990s. The agreement, which gave Shell control of the Sakhalin II project near Sakhalin Island in Russia’s Far East, stipulated that the Russian government would receive no share at all until the company had achieved a specified profit margin.

Moreover, the Platform report notes that a PSA can specify that any disputes be resolved in international tribunals such as the US-based International Centre for the Settlement of Investment Disputes or the French-based International Chamber of Commerce. These bodies are controlled by the major powers rather than the nation-state where the oil is being extracted.

Summing up the essential characteristic of a PSA, a British academic cited by Platform wrote: “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.”

The decision by the US occupation to apply this PSA model to Iraq amounts to naked corporate plunder. While common in countries that do not possess large reserves of oil and gas, or where the cost of the

development of fields is substantial—such as offshore oil wells—PSAs are virtually unheard of in large oil-producing states like Iraq. Such nations either exploit their energy resources directly or use their bargaining power to negotiate far more equitable contracts.

Platform points out that of the seven largest oil producers—Saudi Arabia, Iran, Kuwait, Iraq, the United Arab Emirates, Venezuela and Russia, which collectively sit on top of 72 percent of the world's known reserves—only Russia has ever signed PSAs. During the first stage of capitalist restoration in the 1990s, when the Stalinist regime literally liquidated the state-owned assets of the former Soviet Union, Moscow entered three such agreements. All have cost the Russian state billions of dollars in lost revenues and are the subject of bitter recriminations.

The most expansive period in the history of the Iraqi oil industry was between 1970 and 1979. Financed directly by the government, the state-owned Iraqi National Oil Company increased production from 1.5 million barrels per day to 3.7 million barrels per day, and explored eight of the largest new fields that still have not been developed.

Iraq's new constitution, however, was written by US officials and Iraqi collaborators with the occupation to exclude any possibility of this being repeated.

The clauses referring to oil and gas establish the legal mechanisms for PSAs. Article 108 proscribes the direct privatisation of the energy resources by declaring that oil and gas “are the ownership of all the people of Iraq in all the regions and governorates”. Clause two of Article 109, however, stipulates that the different branches of Iraq's government “formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people *using the most advanced techniques of market principles and encourages investment*” (emphasis added).

Under PSAs, the transnational companies will not “own” Iraq's oil and gas. Rather, they will develop the reserves according to “market principles” on the basis of one-sided contracts that “encourage investment”.

Furthermore, the first clause of Article 109 stipulates that the Iraqi federal government only has authority over the “management of oil and gas extracted from current fields”. Article 111 declares that “all powers not stipulated in the exclusive authorities of the federal government shall be the powers of the regions and governorates”. The implication is that the federal government will control the 17 currently producing fields, while the 63 undeveloped fields, as well as any new discoveries, will be under the jurisdiction of the regions and provinces.

In other words, PSAs can be signed for the exploitation of new fields with regional governments such as the Kurdish Regional Government (KRG) in northern Iraq, or the provincial governments in the predominantly Shiite Arab and oil-rich south. The Platform report notes that of the 25 new fields named by the Iraqi Ministry of Oil in 1995 for “priority development”, 11 were in the south, 11 in the north and just 4 were in the central region.

The constitution was ratified by referendum on October 15. Significant portions of Iraq's oil can therefore be hived off to transnational energy giants regardless of who makes up the government in Baghdad after the elections on December 15, or how long the anti-occupation insurgency continues in the predominantly Sunni Arab provinces of central Iraq.

Last week, this process began. The KRG announced that drilling had begun on the Tawke field in northern Iraq on the basis of a PSA signed with the Norwegian company DNO in June 2004. The

agreement gives 60 percent profit to the Kurdish region and 40 percent to the company. The project is the first oil development by a foreign company in Iraq for 20 years.

A veritable rush of PSAs can be expected over the coming period, with the terms likely to be even more favourable to the transnational companies than anything seen elsewhere.

“Crude Designs” states: “The key issue here is bargaining power. The Iraqi state is new and weak, and damaged by ongoing violence and by corruption, and the country is still under military occupation ... 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 that make Iraq an irresistible investment.”

The report points to a blatantly neo-colonial contractual clause that is likely to be inserted into PSAs on the demand of the US and other occupying powers—a stipulation against government interference over oil production rates.

Platform observes: “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 (Organisation of Petroleum Exporting Countries) quotas which would harm Iraq's position within OPEC and potentially the effectiveness of OPEC itself.”

A key objective of the major powers since the oil crisis of the 1970s has been to shatter the ability of the main oil-producing states to ever again ration world oil supplies.

In the lead-up to the March 2003 invasion, the propaganda of the Bush administration and its international allies was that the war was motivated by the need to eliminate the threat posed by Iraq's “weapons of mass destruction”, particularly its alleged efforts to acquire nuclear weapons. The invading powers also claimed to possess evidence of links between the regime of Saddam Hussein and the Al Qaeda terrorist network.

These lies were the justification for a predatory and illegal war. While Platform did not dwell on the report's political implications, “Crude Designs” provides ample data to underscore that the unanimity in the American political establishment that the occupation of Iraq must continue is bound up with vital economic and strategic interests of the most powerful sections of the American corporate and financial elite.

“Crude Designs: The rip-off of Iraq's oil wealth” is available in [html](#) and [PDF](#) format from Platform's Unravelling the Carbon Web.



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