

Struggle against ISIS shields US oil grab

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Seven years ago, US Senator Chuck Hagel, now Obama's defence secretary, said of the occupation of Iraq, "People say we're not fighting for oil. Of course we are. They talk about America's national interest. What the hell do you think they're talking about? We're not there for figs."

President Barack Obama and Hagel's talk of going after the Islamic State of Iraq and Syria (ISIS), which its regional allies have financed as a proxy force to topple the Syrian regime of President Bashar al-Assad, is a cover for their plans to overthrow Assad. But an additional issue at stake is the control of Iraq's vast energy resources and the supply routes through its territory.

Iraq has the fifth largest proven oil reserves in the world and Washington and its allies have no intention of surrendering the oil contracts now controlled by Western companies. The US is seeking to preserve its unimpeded access to oil and gas, while determining how much of these vital energy resources are available to other countries—especially to its rivals China and Russia.

ISIS has taken control of vast swathes of eastern Syria and north-western Iraq, including Iraq's second city Mosul, and their oil infrastructure. It now threatens Erbil, the capital of the autonomous Kurdistan Regional Government (KRG), whose reserves, were it a separate country, would position it tenth in the world, and the Iraqi capital Baghdad.

The ISIS advance into western Iraq and the Sunni Triangle means that it controls parts of two main pipelines. The first, the 500-mile Kirkuk-to-Banyas (a port in Syria), was largely destroyed by US airstrikes during the 2003 war, although the stretch between Ain Zalah and Suweidiva is operational. The second pipeline runs from Kirkuk to Ceyhan, Turkey. While ISIS has stopped the flow through to Syria, it has allowed the flow to Turkey to continue.

US air strikes on ISIS and its Sunni tribal allies, alongside the KRG's Peshmerga forces and Kurdish fighters from Syria and Turkey on the ground, prevented ISIS from taking control of one of Iraq's largest oil fields in Kirkuk, which the KRG had earlier seized from the Iraqi forces. The Iraqi Army drove ISIS out of Baiji, home to Iraq's largest oil refinery and power plant. The US also provided air cover to enable Iraqi security forces to regain control of the K3 Refinery in Haditha, northwest of Ramadi in Anbar province, and the site of a key dam downstream of the recently recaptured Mosul dam.

Energy companies such as Genel, the British-Turkish company run by former BP CEO Tony Hayward, and Oryx Petroleum, a Canadian firm, said that their Taq Taq, Tawke and Hawler oilfields were now secure, and it was safe for staff to return.

As yet, the giant oilfields in southern Iraq, a largely Shiite area, controlled by BP, Exxon-Mobil, Shell, the Russian Lukoil, Angola's Sonangol, Italy's ENI and the Norwegian Statoil, as well as other smaller companies, have not been affected by fighting, although there have been attacks on pipelines. This has led a number of the firms and their contractors to sell at least part of their stakes, while others have turned their attention to the KRG's oilfields.

Following the defeat of the regime of Saddam Hussein in the 2003 war, US oil bosses moved in to run Iraq's oil industry. While they were unable to ensure the passage of the hydrocarbon law that would have given them complete control of Iraq's oil, they were able to open up Iraq's oil to Western companies, after an absence of three decades, on very favourable terms.

These have included long-term concessions and large ownership stakes. There are no restrictions on the export of oil or the remittance of profits overseas and no requirements that the companies hire a majority of Iraqi workers or invest in the local economy.

The industry is now run by international corporations such as BP, Exxon-Mobil, Shell, Chevron, the French company Total as well as Russian, Chinese and Malaysian and a raft of smaller companies.

Earlier this year, Russian oil giant Lukoil started production at the giant oil field of West Qurna-2, south of Basra, which is possibly the world's largest untapped field, with oil reserves believed to be about 20 billion barrels. While initial production is 120,000 bpd, this is set to rise to 400,000 bpd next year and possibly 1.2 million bpd in a few years' time.

Exploitation of the oil field, discovered by the Russians in the 1980s, was blocked first by US sanctions in the 1990s and later by the occupying forces, despite a 2004 agreement in exchange for Russia's forgiving Iraq's \$13 billion debt. After the Iraqi government, under pressure from Washington, was forced to cancel the original deal, Lukoil beat BP for development rights in 2007. Lukoil's CEO Vagit Alekperov, who is close to President Vladimir Putin, has so far escaped US sanctions over Ukraine.

In the Kurdish autonomous region, the oil fields that were largely neglected before 2003 have come into play. The corrupt regional government--dominated by the rival Barzani and Talabani families who in turn control the two main Kurdish parties--has awarded contracts that permit it to sell up to 25 percent of its stake in the oil projects to private companies in defiance of the federal government. As well as Genel and Oryx Petroleum, four big oil companies--Chevron, Exxon-Mobil, Hess and Total--and 30 smaller companies have signed deals with the KRG. Production in KRG, which is set to rise further, accounts for 10 percent of Iraqi oil.

The KRG has sought to use a newly opened pipeline within KRG territory to link to the pre-existing pipeline to Ceyhan and export oil directly. This is deemed illegal by Baghdad. As a result, Kurdish oil is used in Turkey and not sold on the world markets for fear of lawsuits brought by the Iraqi government. The KRG has also allowed Genel to send 700 tanker trucks a day to Turkey, thereby avoiding the pipeline whose throughput is monitored at Mosul. The US is opposed to the KRG's sale of oil independently of Baghdad, but it is using the KRG as a pawn to bully the federal government into acceding to its dictates.

The oil industry has now largely recovered from the

2003 war and the deliberate destruction carried out during the US occupation. Oil production has reached about 3.3 million bpd, just below the 3.5 million bpd under the state-owned enterprises in 1979, making Iraq the world's seventh largest producer.

About half of all Iraqi oil is exported to China, which recently became the world's largest oil importer. Last year, PetroChina, one of China's four state-owned energy corporations, bought a stake from Exxon in the southern Iraqi oil field West Qurna and bought into three other large fields. Sinopec and CNOOC also have concessions in Iraq. The Chinese typically partner with the major Western oil companies or take low-margin contracts. China has built its own airport in the south near the border with Iran to transport 10,000 workers to the oil fields.

The Iraqi people have seen little benefit from the oil boom. The oil and gas industry employs less than 2 percent of the employed workforce, because the international companies bring in their own staff. Eighty percent of the oil (2.7 million bpd) is exported, leaving little for the domestic market. Fuel shortages and power shutoffs are rife. According to the World Bank, poverty is on the rise, with 28 percent of families--more than 9.5 million Iraqis--living below the poverty line. Thousands of families look for food in the garbage and live in landfills and slums.

The government has failed to pass social security legislation to provide unemployment benefits, despite revenues rising from \$50 billion in 2010 to more than \$100 billion in 2013. The \$50 billion increase, if used for the benefit of the Iraqi people, could have provided benefits and services worth \$10,000 for each of the 5 million families. Such infrastructure and service improvements that did take place were in Shiite not Sunni areas. This was one of the factors driving Sunni militants who have, since December 2012, targeted the local Shiite and oil facilities in the Sunni areas, in order to gain control of some of Iraq's oil proceeds.



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