

Post-Saddam Iraq: Linchpin of a New Oil Order

By Michael Renner, Worldwatch Institute

Only in the most direct sense is the Bush administration's Iraq policy directed against Saddam Hussein. In contrast to all the loud talk about terrorism, weapons of mass destruction, and human rights violations, very little is being said about oil. The administration has been tight-lipped about its plans for a post-Saddam Iraq and has repeatedly disavowed any interest in the country's oil resources. But press reports indicate that U.S. officials are considering a prolonged occupation of Iraq after their war to topple Saddam Hussein. It is likely that a U.S.-controlled Iraq will be the linchpin of a new order in the world oil industry. Indeed, a war against Iraq may well herald a major realignment of the Middle East power balance.

OIL FOREVER

The Bush administration's ties to the oil and gas industry are beyond extensive; they are pervasive. They flow, so to speak, from the top, with a chief executive who grew up steeped in the culture of Texas oil exploration and tried his hand at it himself; and a second-in-command who came to office with a multi-million dollar retirement package in hand from his post of CEO of Halliburton Oil. Once in office, the vice president developed an energy policy under the primary guidance of a cast of oil company executives whose identities he has gone to great lengths to withhold from public view. Since taking office, the president and vice president have assembled a government peopled heavily with representatives from the oil culture they came from. These include Secretary of the Army Thomas White, a former vice president of Enron, and Secretary of Commerce Don Evans, former president of the oil exploration company Tom Brown, Inc., whose major stake in the company was worth \$13 million by the time he took office.

The Bush administration's energy policy is predicated on ever-growing consumption of oil, preferably cheap oil. U.S. oil consumption is projected to increase by one-third over the next two decades. The White House is pushing hard for greater domestic drilling and wants to open the Arctic National Wildlife Refuge to the oil industry. Even so, the administration's National Energy Policy Development Group, led by Vice President Cheney, acknowledged in a May 2001 report that U.S. oil production will fall 12% over the next 20 years. As a result, U.S. dependence on imported oil—which has risen from one-third in 1985 to more than half today—is set to climb to two-thirds by 2020.¹

Since the 1970s, the U.S. has put considerable effort into diversifying its sources of supply, going largely outside of OPEC and outside the Middle East. The current administration is advocating greater efforts to expand production in such far-flung places as the Caspian area, Nigeria, Chad, Angola, and deep offshore areas in the Atlantic basin and is looking to leading Western Hemispheric suppliers like Canada, Mexico, and Venezuela.² West Africa is expected to account for as much as a quarter of U.S. oil imports a decade from now.³

But there is no escaping the fact that the Middle East—and specifically the Persian Gulf region—remains the world's prime oil province, for the U.S. and for other importers. Indeed, the Cheney report confirms that “by any estimation, Middle East oil producers will remain central to world oil security.” The Middle East currently accounts for about 30% of global oil production and more than 40% of oil exports. With about 65% of the planet's known reserves, it is the only region able to satisfy the substantial rise in world oil demand predicted by the Bush administration.⁴ The Cheney report projects that Persian Gulf producers alone will supply 54-67% of world oil exports in 2020.⁵

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Saudi Arabia is a pivotal player. With 262 billion barrels, it has a quarter of the world's total proven reserves and is the single largest producer.⁶ More importantly, the Saudis have demonstrated repeatedly—after the Iranian revolution, and following Iraq's invasion of Kuwait—that they are prepared to compensate for losses from other suppliers, calming markets in times of turmoil. Today, Riyadh could raise its production of 8 million barrels per day (b/d) to 10.5 million b/d within three months, making up for any loss of Iraqi oil during a U.S. military assault.⁷

IRAQ: FROM PARIAH TO FABULOUS PRIZE

The pariah state of Iraq, however, is a key prize, with abundant, high-quality oil that can be produced at very low cost (and thus at great profit). At 112 billion barrels, its proven reserves are currently second only to Saudi Arabia's. The Energy Information Administration (EIA) of the U.S. Department of Energy estimates that additional "probable and possible" resources could amount to 220 billion barrels. And because political instability, war, and sanctions have prevented thorough exploration of substantial portions of Iraqi territory, there is a chance that another 100 billion barrels lie undiscovered in Iraq's western desert. All in all, Iraq's oil wealth may well rival that of Saudi Arabia.⁸

At present, of course, this is mere potential—the Iraqi oil industry has seriously deteriorated as a result of the 1980-88 Iran-Iraq War, the 1991 Gulf War, and inadequate postwar investment and maintenance. Since 1990, the sanctions regime has effectively frozen plans for putting additional fields into production. It has also caused a severe shortage of oil field equipment and spare parts (under the sanctions regime, the U.S. has prevented equipment imports worth some \$4 billion). Meanwhile, questionable methods used to raise output from

existing fields may have damaged some of the reservoirs and could actually trigger a decline in output in the short run.⁹

But once the facilities are rehabilitated (a lucrative job for the oil service industry, including Vice President Cheney's former employer, Halliburton) and new fields are brought into operation, the spigots could be opened wide. To pay for the massive task of rebuilding, a post-sanctions Iraq would naturally seek to maximize its oil production. Some analysts, such as Fadhil Chalabi, a former Iraqi oil official, assert that Iraq could produce 8-10 million b/d within a decade and eventually perhaps as much as 12 million.¹⁰

The impact on world markets is hard to overstate. Saudi Arabia would no longer be the sole dominant producer, able to influence oil markets single-handedly. Given that U.S.-Saudi relations cooled substantially in the wake of the September 11, 2001, terrorist attacks—rifts that may widen further—a Saudi competitor would not be unwelcome in Washington. An unnamed U.S. diplomat confided to Scotland's *Sunday Herald* that "a rehabilitated Iraq is the only sound long-term strategic alternative to Saudi Arabia. It's not just a case of swapping horses in mid-stream, the impending U.S. regime change in Baghdad is a strategic necessity."¹¹

Washington would gain enormous leverage over the world oil market. Opening the Iraqi spigot would flood world markets and drive prices down substantially. OPEC, already struggling with overcapacity and a tendency among its members to produce above allotted quotas (an estimated 3 million barrels per day above the agreed total of 24.7 million b/d), might unravel as individual exporters engage in destructive price wars against each other.¹²

A massive flow of Iraqi oil would also limit any influence that other suppliers, such as Russia, Mexico, and Venezuela,

have over the oil market. Lower prices could render Russian oil—more expensive to produce—uncompetitive, which would cloud the prospects for attracting foreign investment to tap Siberian oil deposits.¹³ Russia's weak economy is highly dependent on oil export revenues. Its federal budget is predicated on prices of \$24-25 per barrel.¹⁴ Aleksei Arbatov, deputy chairman of the Russian parliament's defense committee, predicts that if a new Iraqi regime sells oil without limits, "our budget will collapse."¹⁵

OIL COMPANY INTERESTS

To repair and expand its oil industry, Iraq will need substantial foreign investment. Thus, for eager oil companies, Iraq represents a huge bonanza—a "boom waiting to happen," according to an unnamed industry source.¹⁶

Prior to the OPEC revolution in the early 1970s, a small number of companies (referred to as the "majors" or "Seven Sisters") called the shots in the industry, controlling activities from exploration and production to refining and product sales. But they lost much of their reserve base, as nationalization spread through the Middle East and OPEC nations. Today, state oil companies own the vast majority of the world's oil resources. Even though private companies still do much of the exploring, drilling, and pumping, in many countries they have access to the oil only under prices and conditions set by the host government. Although oil companies have managed to adjust to this situation, a directly owned concession would offer them far greater flexibility and profitability.

The dominant private companies (ExxonMobil and Chevron-Texaco of the U.S., Royal Dutch-Shell and BP of Britain and the Netherlands, TotalFinaElf of France), which are largely the result of recent megamergers, sell close to 29 million barrels per day in gasoline and other oil products. But production from fields owned by these "super-majors" came to

10.1 million barrels per day in 2001, or just 35% of their sales volume.¹⁷ Although these corporations have poured many billions of dollars into discovering new fields outside the Middle East, their proven reserves stood at just 44 billion barrels in 2001, 4% of the world's total and sufficient to keep producing oil for only another 12 years at current rates.¹⁸ The situation is similar for other oil companies. Thus, the oil-rich Middle East, and particularly Iraq, remains key to the future of the oil industry.

If a new regime in Baghdad rolls out the red carpet for the oil multinationals to return, it is possible that a broader wave of denationalization could sweep through the oil industry, reversing the historic changes of the early 1970s. Squeezed by a decade of sanctions, the current regime has already signaled that it is prepared to provide more favorable terms to foreign companies.¹⁹ Such an invitation by Baghdad would be in tune with larger changes that are afoot, as a growing number of oil producing countries are opening their industries to foreign direct investment.²⁰

RIVALRIES & QUID PRO QUOS

Several European and Asian oil companies have in recent years signed deals with Iraq that, if consummated, would give them access to reserves of at least 50 billion barrels and a potential output of 4-5 million barrels per day (another estimate says that Russian companies alone have signed deals involving about 70 billion barrels). In addition, a number of contracts have been signed for exploration in the western desert.²¹

Russian, Chinese, and French companies in particular have tried to position themselves to develop new oil fields and to rehabilitate existing ones, once UN sanctions are lifted. Russia's Lukoil, for instance, signed an agreement in 1997 to refurbish and develop the West Qurna field (with 15 billion barrels of oil reserves). China's National Petroleum

Corporation signed a deal for the North Rumailah reservoir. And France's TotalFinaElf has set its eyes on the giant Majnoon deposits (holding 20-30 billion barrels).²²

Iraq has sought to use the lure of oil concessions to build political support among three permanent Security Council nations—France, Russia, and China—for a lifting of sanctions. Although the international consensus in favor of sanctions has badly eroded, this gamble has failed to pay off in the face of determined U.S. and British opposition. (In December 2002, Iraq cancelled a contract with three Russian companies, out of frustration that the firms—in deference to sanctions—had not commenced oil exploration work.) As long as Saddam Hussein stays in power, U.S. and British companies will be kept out of Iraq, but ongoing sanctions will also thwart existing oil development plans.

"Regime change" in Baghdad would reshuffle the cards and give U.S. (and British) companies a good shot at direct access to Iraqi oil for the first time in 30 years—a windfall worth hundreds of billions of dollars. U.S. companies relish the prospect: Chevron's chief executive, for example, said in 1998 that he'd "love Chevron to have access to" Iraq's oil reserves.²³

In preface to the passage of Security Council Resolution 1441 on November 8, there were thinly veiled threats that French, Russian, and Chinese firms would be excluded from any future oil concessions in Iraq unless Paris, Moscow, and Beijing supported the Bush policy of regime change. Ahmed Chalabi, leader of the Iraqi National Congress (INC), an exile opposition group favored by the Bush administration, said that the INC would not feel bound by any contracts signed by Saddam Hussein's government and that "American companies will have a big shot at Iraqi oil" under a new regime. U.S. and British oil company executives have been meeting with INC

officials, maneuvering to secure a future stake in Iraq's oil.²⁴ Meanwhile, the State Department has been coaxing Iraqi opposition members to create an oil and gas working group involving Iraqis and Americans.²⁵

Nikolai Tokarev, general director of Russia's Zarubezhneft, a state-owned oil company, reflected in late 2002: "Do Americans need us in Iraq? Of course not. Russian companies will lose the oil forever if the Americans come."²⁶ Fears of being excluded from Iraq's oil riches and losing influence in the region have fed Russian, French, and Chinese interest in constraining U.S. belligerence. These countries nonetheless are eager to keep their options open in the event that a pro-U.S. regime is installed in Baghdad, avoiding the "risk of ending up on the

wrong side of Washington," as the *New York Times* put it.²⁷

Rival oil interests were a crucial behind-the-scenes factor as the permanent members of the UN Security Council jockeyed over the wording of Resolution 1441, intended to set the conditions for any action against Iraq. It is likely that backroom understandings regarding the future of Iraqi oil were part of the political minuet that finally led to the resolution's unanimous adoption. U.S. promises that the other powers would get a slice of the pie, hinted at in broad terms, were apparently inducement enough to win their nod. It is thus unlikely that French, Russian, and Chinese companies will be completely locked out of a post-Saddam Iraq,

though they could find themselves in a junior position.

FROM SURROGATES TO DIRECT CONTROL

Throughout the history of oil, sorting out who gets access to this highly prized resource and on what terms has often gone hand in hand with violence. At first it was Britain, the imperial power in much of the Middle East, that called the shots. But for half a century, the U.S.—seeking a preponderant share of the earth's resources—has made steady progress in bringing the Persian Gulf region into its geopolitical orbit. In Washington's calculus, securing oil supplies has consistently trumped the pursuit of human rights and democracy.

U.S. policy toward the Middle East has long relied on building up proxy forces in the region and generously supplying them with arms. After the Shah of Iran, the West's regional policeman, was toppled in 1979, Iraq became a surrogate of sorts when it invaded Iran. Washington aided Iraq in a variety of ways, including commodity credits and loan guarantees, indirect arms supplies, critical military intelligence in Baghdad's long battle against Iran, a pro-Iraqi tilt in the "tanker war," and attacks on Iran's navy.

Beginning in the 1970s, but particularly in the wake of the 1991 Gulf War, the U.S. supplied Saudi Arabia and allied

Leading Oil Companies, 2000

The 10 leading companies in each category are highlighted in the respective columns.

	Oil Reserves (billion barrels)	Oil Production (million b/d)	Refining Capacity (million b/d)	Product Sales (million b/d)
<i>Saudi Aramco</i>	261.8	8.6	2.1	3.0
<i>INOC (Iraq)</i>	112.5	2.6	0.4	0.4
<i>KPC (Kuwait)</i>	96.5	1.7	1.0	0.9
<i>NIOC (Iran)</i>	89.7	3.8	1.5	1.3
<i>PDV (Venezuela)</i>	77.7	3.3	3.1	3.2
<i>ADNOC (United Arab Emirates)</i>	53.8	1.4	0.2	0.2
<i>Pemex (Mexico)</i>	28.3	3.5	1.5	2.1
<i>NOC (Libya)</i>	23.6	1.3	0.3	0.3
Lukoil (Russia)	14.3	1.6	0.5	0.9
<i>NNPC (Nigeria)</i>	13.5	1.3	0.4	0.3
ExxonMobil (U.S.)	12.2	2.6	6.2	8.0
<i>PetroChina</i>	11.0	2.1	1.9	1.1
Royal Dutch/Shell (UK/Netherlands)	9.8	2.3	3.2	5.6
British Petroleum	7.6	1.9	3.2	5.5
TotalFinaElf (France)	7.0	1.4	2.6	3.1
ChevronTexaco (U.S.)	8.5	2.0	2.1	4.0
Petrobras (Brazil)	8.4	1.3	1.9	2.2
<i>Sinopec (China)</i>	3.0	0.7	2.6	1.3
Nippon Mitsubishi (Japan)	0.05	0.05	1.3	1.4
WORLD	1,046.2	74.5	81.6	75.3

Source: Adapted from Energy Intelligence Group.

State-owned companies are in italics (state ownership is 100%, except for the following: PetroChina (90%), Sinopec (57%), and the majority privately owned Petrobras (32.5%) and Lukoil (14.1%).

Persian Gulf states with massive amounts of highly sophisticated armaments. After the Gulf War, U.S. forces never left the region completely. By prepositioning military equipment and acquiring access to military bases in Saudi Arabia, Kuwait, Bahrain, and Qatar, Washington prepared the ground for future direct intervention as needed.

In the Persian Gulf and adjacent regions, access to oil is usually secured by a pervasive U.S. military presence. From Pakistan to Central Asia to the Caucasus and from the eastern Mediterranean to the Horn of Africa, a dense network of U.S. military facilities has emerged—with many bases established in the name of the “war on terror.”

Although the U.S. military presence is not solely about oil, oil is a key reason. In 1999, General Anthony C. Zinni, then the head of the U.S. Central Command, testified to the Senate Armed Services Committee that the Persian Gulf region is of “vital interest” to the U.S. and that the country “must have free access to the region’s resources.”²⁸

Bush administration officials have, however, categorically denied oil is one of the reasons why they are pushing for regime change in Iraq. “Nonsense,” Defense Secretary Donald Rumsfeld told *60 Minutes*’ Steve Kroft in mid-December 2002. “It has nothing to do with oil, literally nothing to do with oil.”

But oil industry officials interviewed by *60 Minutes* on December 15 painted a different picture. Asked if oil is part of the equation, Phillip Ellis, head of global oil and gas operations for Boston Consulting replied, “Of course it is. No doubt.”

In fact, oil company executives have been quietly meeting with U.S.-backed Iraqi opposition leaders. According to Ahmed Chalabi, head of the Iraqi National Congress, “The future democratic government in Iraq will be grateful to the United States for helping the Iraqi people liberate themselves and getting rid of Saddam.” And he added that “American companies, we expect, will play an important and leading role in the future oil situation in Iraq.”

ENDNOTES

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The history of global affairs has been marked by major turning points—times when the systems and processes that shape relations among nations shift dramatically. We are alarmed that the domination of U.S. foreign policy by militarists and unilateralists is undermining the constructive, peaceful management of global affairs. By devaluing diplomacy, cooperation, and negotiations, U.S. foreign policy has created new distrust for U.S. global leadership.

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