

The Other Looting

Michael Renner, Senior Researcher, Worldwatch Institute | July 2003

Chaos and lawlessness have gripped large parts of Iraq following the U.S.-British invasion. The country's civilian population finds itself bereft of jobs and even basic services. Museums, hospitals, universities, power stations, water plants, and telecomm facilities have been stripped bare by looters, leaving the country in dire straits. Several weeks after the end of major fighting, ordinary Iraqis have seen little in the way of benefits from whatever reconstruction is going on. Indeed, the focus of the occupation regime is more on emergency repairs than on a major rehabilitation of Iraq's dilapidated and war-destroyed public infrastructure.¹

Less visible than the pedestrian plundering afflicting Iraq's cities and archeological treasures, another looting operation from on high is in the works: the Bush administration has been moving with great alacrity to take control of the major prize to be won in Iraq—strategic control over the country's considerable oil wealth.

While the invaders tolerated the widespread ransacking, they moved swiftly to secure the country's oil facilities. In Baghdad, the oil ministry was heavily guarded and was thus spared the fate of other Iraqi ministries, which went up in flames. But the occupiers' inconsistent attitude toward looting has backfired: in the two months since the official end of the war, general looting and sabotage have impeded even the oil industry, frustrating efforts to quickly return oil production to prewar levels.²

It has become clear that there is a yawning gap between the Bush administration's sharply focused war plans and the absence of workable postwar plans. Post-Saddam Iraq is caught in the twilight of an occupation veering between high imperial purpose and profit-making impulses. Symptoms of crony capitalism—championing privatization schemes and rewarding corporations closely connected to the Bush team with reconstruction contracts—collide with

strategic visions of remaking Iraq in the U.S. image. And the sobering reality of unrelenting chaos that has engulfed much of the country may well unravel Washington's ambitions to present a remade Iraq as an irresistible political and economic model for the rest of the Middle East and to use this new asset to reinforce U.S. leverage over the world oil market.

Legitimizing Conquest

The Bush administration was eager to have its occupation of Iraq legitimized by the United Nations. However, it first had to ensure that the international body—legally in charge of Iraqi oil sales under the sanctions regime—was effectively sidelined and tasked primarily with humanitarian issues.

The desired UN imprimatur came in late May, when the Security Council approved a resolution drafted by the U.S. government with British and Spanish support. Although leading war opponents—France, Germany, and Russia—made much of several concessions that altered an initial draft, Washington and London essentially got what they wanted.³ Reluctant to continue confronting the Bush administration and afraid that they would be depicted as obstructionists harming ordinary Iraqis' interests, the



war opponents caved in. But hidden “carrots” were also used to marshal their consent: under the Security Council resolution, the UN-administered “oil for food” program will run for another six months, permitting several billion dollars worth of contracts—initialed but not operational at the time of the invasion—to be consummated. A large share of this business involves Russian, French, and Chinese firms.

The Security Council resolution lifts the sanctions imposed on Iraq in 1990 (with the exception of arms-related provisions) and gives the occupiers (dubbed “the Authority” in the resolution) sweeping powers. The Authority will have broad control over the Iraqi oil industry, principally by means of a Development Fund for Iraq, into which all of Iraq’s oil export revenues, all funds left over from the UN’s “oil for food” program, and all assets of the former Iraqi government located anywhere in the world are to be transferred.⁴

The Authority is vested with the sole decisionmaking power over the use of these revenues (leaving a yet-to-be-created Iraqi interim administration with no more than “consultation” rights). The resolution bars any legal challenges by rival claimants to Iraq’s oil revenues until December 2007. But since the initial draft of the resolution mentioned no time limit at all, the 2007 date was characterized as a “critical concession” by the United States.⁵

The initial draft empowered the Authority for one year, but specified an automatic extension “to continue thereafter as necessary, unless the UN Security Council decides otherwise”⁶—meaning that the U.S. and Britain could have vetoed any effort to terminate their self-awarded mandate. The final resolution

provides for a review by the Security Council after one year but still does not require an explicit reauthorization of the occupation regime.⁷ Without a timetable for establishing a legitimate government, the occupation—and control over Iraqi oil—is essentially open-ended.

Open for Business

Most of the individuals assembled under L. Paul Bremer III to run the occupation regime lack the kind of expertise in reconstruction, nationbuilding, and humanitarian assistance that Iraq so badly needs. Closely linked to U.S. corporate interests, they are instead primed to streamline the privatization of the Iraqi economy.⁸ For example, Gary Vogler, a former ExxonMobil executive, is the newly minted senior adviser to the oil ministry.⁹ And Dan Amstutz, a former executive of Cargill and well-equipped to represent the commercial interests of U.S. grain companies, has been pegged as the point man for agricultural reconstruction.¹⁰

The *Wall Street Journal* reported on May 1 that beginning in February 2003—well before the start of the war—the Bush administration had drafted “sweeping plans to remake Iraq’s economy in the U.S. image.” Detailed planning for such a makeover will apparently be left to a range of U.S. financial consulting firms (including BearingPoint, Booz Allen Hamilton, Deloitte Touche Tohmatsu, and PricewaterhouseCoopers).¹¹

The plan envisions asset sales, private concessions, leases, and management contracts across the Iraqi economy, including the oil industry. It foresees that the first year would be spent building consensus for

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privatization, to be followed by asset transfers over a three-year period.¹² The *Wall Street Journal* article compares the program to what was done in Russia but does not mention the corruption, massive job loss, and gaping inequality that ensued during the Russian makeover.

Calling the shots in the oil industry is Philip Carroll, who was named on May 4 to head an advisory board to the Iraqi oil ministry.¹³ Carroll was chief executive officer (CEO) of Shell Oil, the U.S. arm of Royal Dutch/Shell in the 1990s, and subsequently became head of the construction giant Fluor, a company he ran until 2002.¹⁴ Carroll still owns substantial stock in both of these corporations.¹⁵ He is not known as an Iraq oil specialist and apparently had never been to the country prior to his appointment.

An innocent observer may well wonder why Carroll was chosen when Iraqi nationals presumably have much better insights about the requirements of getting Iraq's oil industry back on its feet. The answer lies in the difference between a disinterested rebuilding program and an effort to establish foreign control, as suggested by Raad Alkadiri, a director at PFC Energy in Washington, DC, when he said: "But the bottom line is [that] bringing in people from the outside gives you a better chance of controlling the oil sector, even directly."¹⁶

The Halliburton Empire

A bounty of postwar reconstruction contracts is being awarded to a closely drawn circle of politically well-connected U.S. corporations. Halliburton, Bechtel, and Fluor are companies that have generously supported Republican politicians and whose executives are no strangers to the revolving door connecting government and corporate jobs.¹⁷

Perhaps no company is better connected than Halliburton—the oil services and construction firm that Dick Cheney headed from 1995 to 2000 before running for vice president. Halliburton's government

contracting business surged under CEO Cheney in the 1990s, and it surged again in the wake of the September 11 attacks.¹⁸ Prior to the invasion, the company had completed a classified study for the Pentagon, assessing the state of the Iraqi oil industry and how to revive it after the war.¹⁹ In early March, the Army Corps of Engineers secretly awarded Kellogg, Brown & Root (KBR, a Halliburton subsidiary) a no-bid contract to fight oil well fires and make emergency repairs.²⁰ Persistent probing by Congressman Henry Waxman brought to light that the company was also given a far more lucrative, and somewhat open-ended, role in running Iraq's oil facilities and in distribution of petroleum products. (The contract has an overall ceiling of \$7 billion but is expected to yield a maximum of \$800 million for KBR, given that it is to be opened to bidding later in 2003.²¹) The secret deal was apparently struck as early as November 2002—at a time when the administration insisted that no decision had yet been made to go to war.²²

KBR is also making money in other ways, including a \$36 million contract to rebuild and operate Camp Arifjan (a U.S. Army base in Kuwait), a \$28 million program to build and maintain prisoner-of-war camps, and a \$62 million undertaking to feed and house troops in Iraq. These projects are carried out in the context of an exclusive U.S. Army contract awarded in December 2001, under which the company provides a broad range of logistical services to Army troops deployed outside the United States. With the mushrooming of U.S. military bases in the last two years, Halliburton has set up shop in Afghanistan, Uzbekistan, Djibouti, Cuba (Guantanamo Bay), and now Iraq. The 2001 contract—the Logistics Civil Augmentation Program or Logcap in Pentagon-lingo—spans a decade and has no cost cap. Because the company receives a set percentage of its contract-related expenses, it has an incentive to bill more in order to maximize profits.²³

What merits such generosity? Perhaps it has nothing to do with the fact that Dick Cheney used to be the Halliburton CEO. (Although Cheney sold his

Halliburton stock when he left the company to run for vice president, he still receives annual deferred compensation payments until 2005.²⁴) Perhaps it's irrelevant that Joe Lopez, a military aide to Cheney when he was defense secretary in the early 1990s and who was subsequently hired by Halliburton at Cheney's suggestion, is in charge of KBR's Pentagon contracts.²⁵ After all, the vice president's office and Halliburton spokespeople strenuously deny that any favoritism is involved in the awarding of these contracts.

Halliburton may be qualified for the job, but its performance has not exactly been free of blemish. The December 2001 contract was awarded even though KBR had been sued for overbilling the Army between 1995 and 1997, allegedly to the tune of \$6 million. The company paid \$2 million to settle but did not admit any wrongdoing.²⁶ There have been other irregularities as well. Among them are allegations that the company overcharged the Army for support operations for troops deployed in Bosnia, a deal worth \$3 billion so far.²⁷ And in 2002, Halliburton was investigated by the Securities and Exchange Commission for alleged accounting improprieties during Cheney's tenure.²⁸

The political and commercial fates of Dick Cheney, Halliburton, and Iraq have repeatedly intersected. As defense secretary in the first Bush administration, Cheney directed the 1991 Gulf War. He also initiated the policy to make much greater use of private contractors in running military bases. This practice is now a major profit center for Halliburton. After the war—Cheney took the CEO job after Bush Senior lost his reelection bid—Halliburton made money by selling oilfield supplies to Iraq and helping it to repair some of the war damage incurred due to U.S. bombing.²⁹ As George W. Bush's vice president,

Cheney was a major player in drumming up support for the recently concluded war, and now his former company again stands to benefit handsomely from the carnage in Iraq.

The Future of Iraq's Oil

Following a quarter century of wars and international sanctions, Iraq's oil industry is dilapidated and in need of extensive rehabilitation. Halliburton and others are set to make a killing on related work. But beyond reconstruction, a big outstanding question concerns Iraq's longer-term oil development. How much will Iraqi production capacity expand in coming years? Who will decide? Will there be a big role for foreign multinationals, bringing 30 years of state control to an end?

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Iraqi oil—plentiful, of high quality, cheap to produce—is indeed a major prize for any oil company. Although many companies continue to explore for oil in far-flung places, often under forbidding physical conditions, the Middle East harbors most of the world's remaining oil. In the 1960s, the world oil industry discovered an average of 47 billion barrels per year.

But as companies concentrated their search outside the Middle East (in response to nationalization in most Organization of Petroleum Exporting Countries (OPEC) countries), the annual rate of discovery plummeted to 35 billion barrels in the 1970s, 24 billion in the 1980s, and a mere 14 billion in the 1990s.³⁰ Against the background of ever-rising demand, there is simply no avoiding the Middle East.

Assuming a significant role for foreign companies—which is what Philip Carroll and others have indicated³¹—who will get preferential access to Iraq's riches? To what extent will existing contracts concluded by Russian, French, and Chinese companies with

Saddam Hussein's regime be upheld? Before the war, there were thinly veiled threats that companies whose home governments refused to support an invasion would be shown the door. By implication, the big winners in such a reshuffling were to be the U.S. and British companies—ExxonMobil, Chevron-Texaco, BP, Shell—which were left out in the cold by the nationalization of 1972.

It's possible that the Russians, French, and others will not be entirely excluded, if only to induce them to accept and legitimate the new masters of Iraq. But the manner in which the reconstruction contracts have been handled to date suggests a winner-take-all attitude in Washington. In a recent interview, Philip Carroll hinted again that contracts signed with Saddam Hussein's regime may be voided or subject to renegotiation.³²

As of early July, the future of Iraq's oil is still a matter of speculation. In the first place, rehabilitating oil facilities and preparing the ground for an expansion of output will take time. Current projections are that because of widespread looting, it will take 18 months just to return to prewar production levels of 3 million barrels per day.³³ So it's not surprising that no concessions have been awarded and no contracts have been negotiated so far.

A Two-Pillar Strategy?

Both Iraq's desperate need for revenue and the Bush administration's energy policy preferences point to a future in which Iraq's immense petroleum deposits will be far more fully exploited than at any time in the past. But there is the sticky question of Iraq's future status within OPEC.

Unrestrained Iraqi oil production would undermine OPEC's ability to set oil prices and might even trigger a price war among member countries. Though some have argued for pulling Iraq out of OPEC, several rounds of talks between the State Department and exiled Iraqi oil experts reportedly generated broad consensus that Iraq should remain an OPEC

member but be exempt from the organization's quota restrictions. This option is also favored by Philip Carroll.³⁴

A weakened OPEC and lower oil prices would not be unwelcomed by the Bush White House. After all, cheap oil is an essential ingredient of the administration's energy policy, which foresees virtually unrestrained growth of U.S. oil consumption, as spelled out in Dick Cheney's 2001 task force report.³⁵

But there are other considerations that may yet win the day. If oil prices dip too low, large segments of U.S. oil production will be rendered uncompetitive. This outcome may be less of a concern for the large multinationals, but it is of critical interest to domestic oil producers, which form an important part of George Bush's power base. Very low prices could also trigger greater political instability among oil producing nations in the Middle East, potentially undermining U.S. allies in the region.

In the end, U.S. economic interests require oil prices that are low but not too low and an avoidance of wild price swings. Saudi Arabia has long played a key role in this regard—ensuring stability by making up for any shortfalls in output elsewhere in the world and by paring back its own production when supply gluts threaten to drive prices into the ground.

But in the aftermath of September 11, 2001, there are indications that Saudi Arabia may no longer be as politically reliable as was once the case. It is in this context that a boost in Iraqi oil production is critical. Then, instead of exclusively relying on Riyadh, Washington could erect Iraq as an alternate pillar helping to shore up U.S. dominance of the oil-rich Middle East and ensuring U.S. access to oil on favorable terms.

For such visions to become reality, however, Iraq needs to be pacified. The upheaval following the overthrow of Saddam Hussein suggests that it's far from a foregone conclusion that the occupation regime will be able to govern Iraq and bend the

country to Washington's designs. The privatization of Iraq's oil may yet derail, if the occupation regime finds itself unable to provide a sufficiently secure and stable investment environment. It would be an ironic outcome if the very triumph of Donald Rumsfeld's war doctrine—reliance on “smart” weapons and fewer soldiers to achieve victory—also meant that there simply weren't enough occupation forces to pacify Iraq.

Although the Bush administration was exceedingly well prepared in its drive toward war, it apparently has given far less thought to maintaining order in the conflict's aftermath.

Michael Renner <mrenner@i-2000.com> is a Senior Researcher at Worldwatch Institute and a policy analyst for Foreign Policy In Focus (online at www.fpiif.org).

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