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The SpOILs of War

Introduction

THE U.S. AND U.K. HAVE OFFICIALLY SAID THAT the elimination of weapons of mass destruction is its main objective for going to war against Iraq. "Regime change," the democratization of Iraq, and fighting global terrorism are stated as corresponding aims. When petroleum is mentioned some commentators argue it plays no role whatsoever and is a propaganda ploy by those reflexively opposed to war. Others assert that control of Iraq oil is at the very core of U.S. foreign policy interests there. For its part, the Bush administration officially and strenuously denies any oil-related motivation.

It would be simplistic to think that U.S. interests in Iraq are driven solely by petroleum. It would be supremely naive, however, to assign no significant role whatsoever to Iraqi oil. The history of U.S. efforts to control Middle East oil, the growth of U.S. energy needs and the link between energy supplies and U.S. national security, the enormous profits that U.S. multinational oil companies stand to make with greater access to Iraqi oil, and the additional global power that control of Iraqi oil would give to an aggressive administration in Washington are compelling factors in the debate and should not be ignored. Many commentators and oil analysts — too many to ignore — believe that not merely access to, but also control of, Iraqi oil is a central tenet of the Bush Administration's Iraq policy.

Past business connections of President Bush and key officials in his Administration to U.S. oil and oil industry-related companies have also raised questions about U.S. policy on Iraqi oil. Both President Bush and Vice-President Cheney have worked in the oil business and have long-standing ties to the industry. Before going to work at the White House, influential National Security Adviser Condoleeza Rice was a board member of Chevron, the world's fourth largest multinational oil company. During the 2000 election, U.S. oil and gas companies donated US$26.7 million to Bush and members of the Republican Party and another US$18 million in 2002. [1]

Cheney's involvement is particularly suggestive. In 1998 the oil equipment company Halliburton, of which Cheney was chief executive, sold parts to Iraq so Saddam Hussein could repair an infrastructure that had been badly damaged during the 1991 Gulf war. Cheney's firm became Iraq's biggest such supplier and did US$73 million of business with Iraq, whose leader Cheney now calls a "murderous dictator."[2] Thus, Cheney oversaw the destruction of Iraq's oil industry during the Gulf War, when he was Secretary of Defense in the government of George Bush Sr., and then profited from its rebuilding.

Halliburton is one of the firms in line to reap a windfall in the post-war clean-up operation. Says one commentator, "This burn-and-build approach to business guarantees that there will be a market for Halliburton's services as long as it has a friend in high places...."[3]

A Physical and Economic Profile of Iraq's Oil Resources

Substantial portions of the world's oil resource are found in the Arabian Peninsula-Persian Gulf region. Iraq is particularly well endowed with large deposits of high quality crude, second only to Saudi Arabia.

In 2002, Iraq's proven reserves were listed at 112.5 billion barrels (about 11 percent of the world's total), of which 35 billion barrels can be immediately developed. Iraq's true resource potential may be far greater than this since the country is relatively unexplored due to years of war and economic sanctions. Deep oil-bearing formations located mainly in the vast western desert region could yield large additional deposits. Potential additional reserves have been pegged at 60-200 billion barrels. The Energy Information Administration of the U.S. Department of Energy has estimated that Iraqi reserves, once fully explored, could total over 400 billion barrels.

The costs of recovering Iraq's oil are among the lowest in the world, making it a highly attractive oil prospect. More than a third of Iraq's current reserves lie just 600 meters (1800 feet) below the earth's surface. The fields can be tapped inexpensively and efficiently by relatively shallow wells. According to the Oil and Gas Journal, Western oil companies estimate they can produce a barrel of Iraqi oil for less than US$1.50, including all exploration, oil field development and production costs. By comparison, it costs US$5 a barrel for other low-cost areas such as Malaysia and Oman; costs can run to US$20 a barrel in U.S. and Canadian oil fields where the oil lies deep and the reservoirs are small.[4]

As world demand for oil increases and as oil reserves in other areas decline at a rapid rate, oil in Iraq will increasingly represent a larger proportion of the world's total. If the U.S. Department of Industry estimates are correct, Iraq's reserves could reach more than 40 percent of total global reserves by mid-century, or earlier.

Oil companies' future profits (and share prices) depend on their control of reserves. In recent years, as older fields have become depleted, companies have faced rising "replacement" costs. Discovery costs for new reserves rose 60 percent in 2001, pushing replacement costs to US$5.31 a barrel.[5] Considering that petroleum giants ExxonMobil, BP and Shell are facing this difficulty, Iraq's vast oil fields, with virtually no prospecting required, are highly alluring.

The financial yield would be astronomical. Based on reserves of 250 billion barrels (a conservative estimate), and recovery rates at 50 percent (also a conservative figure), all recoverable Iraqi oil would be worth US$3.125 trillion, based on recent prices. Assuming production costs of US$1 a barrel, total costs would be $188 billion, leaving a balance of $2.937 trillion as the difference between costs and sales revenues.[6]

Assuming a 50/50 split with the Iraqi government as well as a production period of 50 years, the companies' profits per year would run to $29 billion. This sum is two-thirds of the $44 billion total profits earned by the world's five major oil companies combined in 2001.[7] If diminishing oil supplies drive future prices steadily higher, or if Iraq's oil reserves prove to be much larger that 250 billion barrels, the profit yield might be considerably greater. Large and potentially highly profitable gas reserves have also been discovered in northern Iraq. The same multinational companies that dominate the oil industry are also in the natural gas business.

Brief History of U.S. Oil Company Interests in the Middle East and Iraq

The world's biggest oil companies have coveted the Middle East's huge oil reserves throughout the 20th century. A 1947 U.S. oil company planning document entitled "United States Petroleum Policy" recommended that the U.S. should seek the "removal or modification of existent barriers to the expansion of American foreign oil operations" and "promote the entry of additional American firms into all phases of foreign oil operations."[8]

Until the mid-1950s, the main 'barrier' was Britain, for whom oil was a prime reward for its colonization of much of the region. But with the post-WWII decline of the British Empire and the ascendance of U.S. military and economic power, the U.S. gained control of the lion's share of Middle East oil. Once fierce competitors for the region's oil, American and British oil companies began to function as a cartel. With explicit agreements not to compete against each other, they shared concessions in Iraq, Kuwait and elsewhere. The arrangement gave them control of most of the world's oil supply enabling them to keep prices and profits high (a history documented by a U.S. Senate investigation in the 1950s). Fledgling Arab states, created out of the old Ottoman Empire, had little choice but to accept the small royalties the companies offered.

Iraqi Resistance to Western Dominance of Middle East Oil Production

Iraq, however, was more demanding than other Arab states. In the early 1960s the popular Iraqi leader, Abdul Qarim Qasim, invited several independent oil companies into Iraq as competition for the cartel. With its controlled access to world oil markets, however, the cartel managed to keep the independents away from Iraq. It then punished Iraq by pumping less Iraqi oil, reducing the nation's already meager revenues.

Instead of acquiescing to the cartel, Iraq tried something bolder and nationalized its oil sector in 1972. While the U.S. and Britain had quashed a similar attempt by Iran to nationalize its petroleum reserves in the 1950s, they were unable to do the same with Iraq. In a deft strategic move that played to the cold war politics of the day, Iraq drew in the Soviets to develop its oil fields and buy its oil. The deal — regarded by Washington, London and the oil companies as the ultimate treachery — was negotiated by Saddam Hussein, then the number two man in the Ba'athist regime that seized power in Iraq in 1966.

The U.S. and its Oil Companies Begin to Re-assert their Influence

By the mid-1990s, the multinationals began to revise their strategy towards a return to upstream, crude-oil production. They pressed producing governments to offer production-related arrangements that could give them a direct share in crude reserves. Corruption, wars and civil unrest mired several of these countries in political crises by the end of the 1990s. In Iraq, Algeria, Iran and other producer countries, the U.S. even appeared to be involved in destabilization measures, deepening existing social instability.[9] Facing domestic unrest and oil production problems, the nationalized companies found themselves in need of large new investments to preserve production in older fields and to prospect for new reserves. But corrupt and unstable governments wanted to take all the oil revenue stream, leaving little left over for investment.

The investment conundrum has played nicely to the aims of the large foreign multinationals. They argued that their enormous finances, greater technical competence and lower production costs could benefit producer governments. Behind these technocratic wiles, however, lies the threat of further foreign destabilization and even direct military intervention. As one analyst puts it, "the companies hope to roll the clock back to the 'good old days' when they ruled the oil business and gave producer governments only a very small share of the profits."

At present, in the post-Soviet, post-Cold War era, Iraq's oil fields remain huge, undeveloped, ripe for exploration, and essentially unprotected. According to one analyst, assuming a U.S.-friendly government, "...Iraq is a goldmine that is literally 'worth fighting for' in the view of the big [oil] companies."[10]

The Far-Reaching Benefits of Gaining Control of Iraqi Oil

Some who argue that Iraqi oil is not a factor in the Iraq crisis claim that the U.S. has, in most respects, moved beyond the commodity economy exemplified by oil, and indeed the industrial economy, to a post-industrial economy. This assertion is not reflected in current U.S. national energy policy, however.

The shift into a post-industrial economy notwithstanding, a report published by the Bush Administration in May 2001 states that the U.S. will be increasingly dependent on foreign oil to meet its energy consumption needs:

> "We produce 39 percent less oil today than we did in 1970, leaving us even more reliant on foreign suppliers. On our present course, America 20 years from now will import nearly two of every three barrels of oil — a condition of increased dependency on foreign powers that do not always have America's interests at heart." [11]

The report describes as a "dilemma" for the U.S. Administration the fact that "the American people continue to demand plentiful and cheap energy without sacrifice or inconvenience." With the "energy sector in critical condition," it continues, "a crisis could erupt at any time [which] could have potentially enormous impact on the U.S. and would affect U.S. national security policy in dramatic ways."[12]

Corroborating this view is a consensus among geologists that the world may be heading for a serious oil crisis.[13] In spite of new technology and deep-sea drilling, they say, the rate of discovery of oil has been declining from about the 1960s. At the same time, the rate of use of oil is accelerating. Almost half the total use of oil in history has been in the last 20 years, that is, after the oil price rise. The U.S. needs secure alternative sources of oil given the instability of current oil sources in some Middle East countries, the Caspian region and Algeria.[14] Iraq offers a golden opportunity.

From the point of view of U.S. energy needs then, access to foreign oil will continue to be a priority. In addition to other sources (from the Western Hemisphere, Africa, central Asia and the Caspian region) identified in Bush's National Security Strategy of September 2002, in which he first declared that he would take preemptive action against rogue states, Iraq is an attractive prospect given the favourable economics of Iraqi oil. Control over Iraqi oil could also weaken OPEC's control over global oil prices.

The U.S. Desire to Control the World's Oil Industry

U.S. and U.K. oil companies, some analysts argue, are keen to regain their former dominance in Iraq. "No mineral has better economics than oil and no country has better oil economics than Iraq," said John Teeling, chairman and founder of Petrel Resources, a Dublin-based company with extensive oil interests in Iraq. According to Teeling, most big U.S. companies employ a "watching brief," using their European offices to maintain their Iraqi contacts. Some 20 to 40 oil companies have approached the Iraqi government since 1998 to develop the country's huge resources. The majority (six companies) are Russian, followed by companies from Indonesia, Malaysia, Algeria, Turkey, China, Vietnam, Australia, Italy, Spain, the U.K. and France. Whoever gains control of Iraqi oil, it stands to reason, could exercise enormous influence over the global energy markets of the 21st century.

Knowing this, and fiercely opposed to U.S. and British involvement, Saddam Hussein began to parcel out concessions to oil firms in Europe, Russia and China. According to the International Energy Agency's World Energy Outlook for 2001, he awarded contracts for fields with an estimated potential of 44 billion barrels of oil — an amount equal to the combined reserves of the U.S., Canada and Norway (the number one European producer). These contracts are worth an estimated US$1.1 trillion at current rates of about US$25 a barrel. Hussein's negotiations with these companies made the U.S. and U.K. fearful of losing their leading role in the world oil industry.[15]

Installing a Puppet Regime in Baghdad to Control Iraqi Oil and Shut Out European and Russian Competitors

The best chance for U.S. firms to make billions would come if Bush installed a pro-U.S. Iraqi opposition member as the head of a new government. Representatives of foreign oil firms have already met with leaders of the Iraqi opposition. Said Ahmed Chalabi, the London-based leader of the Iraqi National Congress, "American companies [in the post-Saddam era] will have a big shot at Iraqi oil."[16]

The ouster of Hussein will almost certainly lead to a bonanza for American oil companies banished from Iraq by post Gulf-War sanctions. It could scuttle the oil deals that Baghdad has made with competing companies from Russia, France and other countries, and lead to the reshuffling of world petroleum markets. Clearly, for French and Russian companies the contracts they have signed with the government of Saddam Hussein are at risk.

Sanctions against Iraq failed to topple Saddam Hussein even as they have inflicted severe punishment on the Iraqi people, killing as many as two million children. But they worked effectively to prevent non-U.S. and non-U.K. companies from securing lucrative oil contracts. Should the U.S. install a government in Baghdad with the interests of American and British domestic oil needs and oil companies in mind, the lifting of sanctions against a post-Saddam Iraq would be of little benefit to competing nations with their own interest in accessing Iraqi oil. The U.S.-U.K. oil companies, on the other hand, while nervous of Washington's war option, are eager for sanctions to be lifted so they can gain access to Iraq's oil wealth.

Linda McQuaig asks Canadians to consider the role of oil in the Iraq crisis in the context of this history of competition between countries and their corporations, and to ask themselves: Can we reasonably believe that the White House is using its immense military superiority, spending hundreds of billions of dollars, to eliminate a perceived and not sufficiently substantiated threat and to spread democracy? Or is it merely trying to advance the interests of U.S. corporations and in the process settle an old score with Saddam Hussein?[17]

A nationalist government in Baghdad would not be conducive to the U.S. gaining control of Iraqi oil. It would likely demand a higher percentage of revenue, reducing profit potential. A U.S. client government in Baghdad or a U.S. military occupation government could hand out upstream production concessions to U.S.-U.K. companies that would set an important precedent in the world oil industry. It would tip the balance in favour of the companies and away from the producer states. In this way, a war against Iraq could have an effect on the industry that would go far beyond the borders of Iraq.

Statements by Iraqi opposition leaders in exile support the view that Washington and London are angling to gain controlling interests in Iraq's oil fields. Ahmed Chalabi has said he favours the creation of a U.S.-led consortium to develop Iraq's oil fields.

Washington has been facilitating meetings among these groups to discuss governance in a post-Saddam Iraq in a way some analysts liken to U.S. efforts to install a coalition government in post-Taliban Afghanistan. A Reuters correspondent states the concern more bluntly: "Iraq's crude reserves, the world's second largest after Saudi Arabia, are at the center of a tug-of-war between countries hoping to grab a share of Baghdad's oil wealth once the United Nations sanctions are lifted."[18]

Oil analysts have speculated that a U.S.-controlled Iraqi government will quickly make deals with the companies for privatized production. The deals, possibly already agreed to, can be justified by the new government on the basis that only these companies will be able quickly to resume post-war production, in order to resume exports and buy critical food, medicines, and other humanitarian goods. Iraq's huge need to rebuild its post-war infrastructure will also be an incentive for high production rates.

According to one oil analyst, "Even before Iraq had reached its full production potential of eight million or more barrels of oil per day, the companies would gain huge leverage of the international oil system. OPEC would be weakened by the withdrawal of one of its key producers from the OPEC quota system. Indeed, OPEC might face the paradox that a U.S. military government of occupation in Iraq would be an OPEC member. Alternatively, such a government might pull out of the producers' cartel."[19]

The U.S. Push to Privatize the World's Oil Production

Such a development might put pressure on all major oil producers like Kuwait, Iran, Saudi Arabia and Venezuela to de-nationalize their oil companies and offer U.S.-U.K. companies new concessions or production-sharing agreements that could lead to far higher company profits in these areas. A U.S. military presence in the Gulf and clandestine U.S. operations to overthrow nationalist governments such as that of Hugo Chavez in Venezuela (which have been alleged) would increase the pressure. The U.S. could argue that privatized production would meet urgent post-war humanitarian and reconstruction needs. The companies would be able to quickly resume production and, in turn, restart exports to buy critical food, medicines, and other humanitarian goods and rebuild damaged infrastructure.

Privatization, even if incomplete, could yield additional tens of billions of dollars in profits to the oil companies and would weaken and even destabilize the major oil-producing states. Oil prices might be lowered temporarily to achieve privatization, then raised later on when a new company-friendly order had been established.[20]

The outlook would be bright for American and British companies in any bid to gain greater control of the global oil market. Five companies dominate the international oil industry, four of them based in the U.S. and the U.K. The largest, U.S.-based Exxon Mobil, was the world's most profitable company in 2001 ($15 billion in profits) and the largest industrial company in terms of revenue. The three other companies in order of size are: BP Amoco (U.K.), Royal Dutch Shell (U.K.), and Chevron Texaco (U.S.). France's TotalElfFina ranks in fifth place.

Conclusion

A report entitled, "Strategic Energy Policy Challenges for the 21st Century", submitted to Vice-President Cheney in May 2001, provides convincing evidence that oil is a critical factor in U.S. military policy towards Iraq. The document points out that the U.S. remains "a prisoner of its energy dilemma." It advocates using military force against an enemy such as Iraq to secure U.S. access to, and control of, Middle Eastern oil fields.

Interestingly, the Iraqi dissidents apparently chosen by Washington to lead a post-Saddam regime in Baghdad have threatened to cancel all contracts awarded to firms in countries that failed to assist in the overthrow of Saddam. Were this scenario to unfold, U.S. and British oil companies would be next in line to be awarded contracts by a successor regime. It would be the biggest oil grab in modern history, providing hundreds of millions of dollars to U.S. oil firms, many linked to senior officials in the Bush Administration. And it would help to avert the future energy crunch that is forewarned in current U.S. national energy policy.

ENDNOTES

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