Iraqi Regime Set To Hand Over Oil Reserves To US Energy Giants

By Jerry White
Global Research, January 11, 2007
World Socialist Web Site 12 January 2006

Region: Middle East & North Africa
Theme: Oil and Energy
In-depth Report: IRAQ REPORT

As the Bush administration prepares to escalate military violence against the Iraqi people the US-installed regime in Baghdad is set to approve a new hydrocarbon law that will hand unprecedented control of the country's vast oil reserves to US and British energy conglomerates. The new law, the terms of which were detailed by the British newspaper the Independent on January 7, makes a mockery of any claims of Iraqi sovereignty and underscores that the real aim of the bloody enterprise by US imperialism has been to colonize the country and seize some of the largest untapped oil resources left on the globe.

The language of the new law—which is expected to be approved by the Iraqi parliament any day and put into place by March—was written by a US consulting firm hired by the Bush administration and presented to the major oil companies and the International Monetary Fund during the summer. As of December, many if not most Iraqi parliamentary members had still not seen the legislation.

The Independent, which obtained a leaked version of the law, reported Sunday, "The Iraqi Council of Ministers is expected to approve, as early as today, a controversial new hydrocarbon law, heavily pushed by the US and UK governments, that will radically redraw the Iraqi oil industry and throw open the doors to the third-largest oil reserves in the world. It would allow the first large-scale operation of foreign oil companies in the country since the industry was nationalised in 1972." The newspaper added that the new law would be "radical departure from the norm for developing countries" and would be the first of its kind for any major oil producer in the Middle East, where Saudi Arabia and Iran, the world's number one and two largest producers, "both tightly control their industries through state-owned companies with no appreciable foreign collaboration," as do most members of the Organization of Petroleum Exporting Countries (OPEC).

The most significant legal aspect of the pending legislation is the introduction of so-called production-sharing agreements (PSAs), in which the state maintains formal ownership of oil reserves but pours out billions in compensation to foreign oil companies for their investment in the infrastructure and operation of drills, pipelines and refineries.

According to the draft of the legislation, the PSAs in Iraq would be fixed for 30 years or more, allowing foreign oil companies to maintain favorable arrangements no matter what a future government might do to regulate their profits, tax rates or production levels. One provision in an earlier draft of the new law—which may or may not be retained in the latest version—insists that any disputes with a foreign company must ultimately be settled by international, rather than Iraqi, arbitration.

The terms granted under the new law guarantee will guarantee massive profits to ExxonMobil, Chevron, BP and other energy conglomerates. While recovering the costs of their initial investment to develop an oil field, foreign companies will be able to retain 60 to 70 percent of oil revenue. After recouping their initial outlay, the companies can take up to 20 percent of the profit.

By contrast, the French oil company Total signed a deal with Saddam Hussein before the second Iraq war to develop a huge field that would have allowed the company to retain only 40 percent of the profits while it was recovering its costs and 10 percent afterwards, according to Dr. Muhammed-Ali Zainy, a senior economist at the Centre for Global Energy Studies.

Energy experts say the terms about to be accepted by the Iraqi government are only comparable to the production-sharing agreements Russia signed with Shell in the 1990s, following the liquidation of the USSR and the economic "shock therapy" that accompanied the dismantling of the nationalized economy.

In the first half of the twentieth century, under the system of concession agreements, foreign oil companies controlled the petroleum underneath the ground in their colonies and paid nominal royalty fees to the so-called national governments. In the face of the anti-colonial upsurge following World War II, the multinational energy companies began to promote the system of production-sharing agreements in opposition to the growing tide of oil industry nationalizations in the Middle East and elsewhere. First introduced in Indonesia following the US-backed overthrow of the nationalist Sukarno regime in 1965, such arrangements allowed foreign companies to extract oil and vast profits while maintaining the fiction of national sovereignty.

According to International Energy Agency figures, PSAs are used in connection to only 12 percent of world oil reserves, in countries were exploration prospects are uncertain and production costs are high. None of this applies to Iraq, where the cost-per-barrel of extracting oil is among the lowest in the world because the reserves are relatively close to the surface, and many fields have already been discovered but not developed due to years of war and economic sanctions. Most of Iraq's giant oil fields have already been mapped and therefore there are no exploration costs and risks, unlike the North Sea, the Amazon or from tar sands in Canada, where huge outlays are required.

The agreement signed by the US-backed regime in Baghdad harkens back to the concessions system in British-controlled Iraq. The Independent notes, "Under the chapter entitled, 'Fiscal Regime,' the draft spells out that foreign companies have no restrictions on taking their profits out of the country, and are not subject to any tax when doing this." The draft law states, "A Foreign Person may repatriate its exports proceeds [in accordance with the foreign exchange regulations in force at the time]." Shares in oil projects can also be sold to other foreign companies: "It may freely transfer shares pertaining to any non-Iraqi partners."

A War for Oil

Iraq has 115 billion barrels of known oil reserves—10 percent of the world's total—and it is estimated that a fully functioning industry could generate $100 billion in annual revenue. The most important resources are in the Majnoon and West Qurna fields, close to Basra in the south of the country, which contain nearly a quarter of Iraq's proven reserves. On top of this, Iraq is estimated to have between 100 and 200 billion barrels of possible reserves, including in the western desert.

These vast untapped reserves of easily reachable and low-cost oil, not to mention natural gas, have long been a crucial target of the US and British energy conglomerates, particularly as the discovery of new oil deposits elsewhere in the world have drastically slowed and existing reserves have declined. With demand increasing, particularly from rapidly developing countries such as China and India, control of Middle East oil, and control of the Iraq's vast reserves in particular, became a vital geo-strategic goal for American imperialism.

As early as the mid-1990s, there was growing concern that the unraveling of the United Nations sanctions imposed after the first Gulf War would enable Saddam Hussein to establish lucrative agreements with French, Russian, Chinese and other oil companies that would leave the US and Britain out and realign the global energy industry. Political writer Kevin Phillips noted in his book American Theocracy: The Peril and Politics of Radical Religion, Oil and Borrow Money in the 21st Century, "So long as the United States and Britain could keep these sanctions in place, using allegations concerning weapons of mass destruction, Saddam could not implement his own plan to extend large-scale oil concessions (estimated to be worth $1.1 trillion)" to their economic rivals in Europe and Asia.

Months after the US invasion of Iraq—and after a long legal battle with the White House—it was revealed that control of Iraq's oil fields was one of the chief issues discussed in Vice President Dick Cheney's Energy Task Force meeting with oil executives in 2001. Among the items released under court order were maps of Iraq's oil fields, pipelines and refineries, with a supporting list of "Foreign Suitors for Iraqi Oilfield Contracts," naming more than 60 firms from 30 countries, most prominently France, Russia and China, that had projects either agreed upon or under discussion with Baghdad. The French giant, Total, for example, was to get the 25-billion barrel Majnoon oil field, while Russia's Lukoil had deals to develop the West Qurna fields.

The Independent article on the new hydrocarbon law noted that it was doubtful that these contracts would be considered valid by the Iraqi government, and that "ExxonMobil is now seen by insiders as the frontrunner to nab the rights to the Majnoon field."

The actions of the puppet regime in Baghdad have confirmed the fact—suspected by millions of people throughout the world—that that an entire country has been shattered and hundreds of thousands killed in a war for oil and profit.
