Who Will Control Iraq's Oil?

"Who Knows, We Might Have to Start Importing Crude Oil..."

By Patrick Cockburn
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Furious protests are threatening to undermine the Iraqi government's plan to give international oil companies a stake in its giant oilfields in a desperate effort to increase its declining oil production and oil revenues.

In less than two weeks time, on June 29 and 30, the Iraqi Oil minister Hussain Shahristani will award service contracts to the world's largest oil companies to develop six of Iraq's largest oil producing fields over 20-25 years.

Senior figures within the Iraqi oil industry have denounced the deal. Fayad al-Nema, the director of the South Oil Company, which comes under the Oil Ministry and produces most of Iraq's crude, said last weekend: "The service contracts will put the Iraqi economy in chains and shackle its independence for the next 20 years. They squander Iraq's revenues." Mr Nema is reported to have since been fired because of his opposition to the contracts, which he says is shared by many other officials in Iraq's state-owned oil industry.

The government maintains that it is not compromising the ownership of Iraq's huge oil reserves – the third in the world at 115 billion barrels – on which the country is wholly dependent to fund its recovery from 30 years of war, sanctions and occupation. But the fall in the price of oil over the last year has left the government facing a devastating financial crisis in which 80 per cent of its revenues goes to pay for salaries, food rations and recurrent costs. Almost nothing is left for reconstruction and it is finding it hard to pay even for vitally-needed items such as electrical plant from GE and Siemens.

The development of Iraq's oil reserves is of great importance to the world's energy supply in the 21st century. They may be even larger than Saudi Arabia's, as there was little exploration while Iraq was ruled by Saddam Hussein. International oil companies are desperate to get their foot in the door. "Everyone wants to be in Iraq," says Ruba Husari, an expert on Iraqi oil. "Togethor with Iran this is the only oil province in the world that has great potential. It is a great opportunity for oil companies because nobody knows the size of Iraq's reserves. Iraq itself needs to know what is under its soil."

But Iraqis are wary of the involvement of big foreign oil companies in raising production in super giant fields like Kirkuk and Bai Hassan in the north and Rumaila, Zubair and West Qurna in the south. They suspect that the US invasion of 2003 was ultimately aimed at securing western control of their oil wealth. The nationalization of the Iraqi oil industry by Saddam Hussein in 1972 remains popular.

The rebellion against the service contracts has been gathering pace all this week.

Parliament is demanding that bidding should be delayed. MPs summoned Mr Shahristani, a nuclear scientist imprisoned and tortured under Saddam Hussein, to answer questions about the service contracts and the fall in Iraq's oil production and exports. Jabir Khalifa Kabir, the secretary of parliament's oil and gas committee, claims the new contracts will "chain the government with complex contractual terms" and will abort South Oil Company's own plans to raise production. The government says the bidding must go ahead.

The new contracts are not in fact particularly favorable to the international oil companies. They are rather the outcome of the companies' extreme eagerness to get into Iraq and the government's attempt to obtain expertise and investment without ceding control. The companies will be paid a fee linked to first restoring and then increasing oil output. They will, however, have greater control when there is a second round of bidding for oilfields which have been discovered but not developed. Separate again is the question of exploring for new oil reserves.

Critics of the deal in parliament say that Iraq has already invested $8 billion in developing its super giant fields. But Mr Shahristani needs an investment of $50 billion over the next five or six years to raise current production from 2.5 million barrels a day of crude and he knows the money and expertise can only come from outside Iraq.

The government in Baghdad may be near broke, but Iraqis ask whose fault this is. The Oil Ministry, like much of the government, is dysfunctional when it comes to carrying out long-term projects. Mr Shahristani is blamed for poor management skills, though he eloquently defends himself by saying that when he took over the ministry in 2006 he had to cope with attacks by guerrillas who once were blowing up a pipeline every day.

This explains Mr Shahristani's problems in northern Iraq, where the Sunni Arab insurgency of 2003-8 was strong, but not in the far south where the Shia community is dominant and there was no uprising. Jabbar al-Luaibi, the former head of the South Oil Company, who battled to maintain oil production in these years, gave a devastating interview detailing the failings of the Oil Ministry to provide the most basic equipment needed to monitor the oil reservoirs. "It's like driving your car without any indicators on the instrument panel," he said, adding that if mismanagement continues in the same way as in the past "who knows, we might have to start importing crude oil."

The Iraqi government made two other mistakes for which it is now paying. It optimistically believed the price of oil would stay high at $140 a barrel. Instead of investing extra revenues by paying for outside expertise and equipment to raise production in the oilfields it spent the money on raising the pay of government employees and increasing their number. This increased Prime Minister Nouri al-Maliki's popularity in the provincial elections in January, but left the government very short of cash when oil prices collapsed. They have risen since then, but not nearly enough to solve the government's problems.

In June 2008 the Iraqi oil industry seemed about to get foreign help by signing two year technical support contracts with major oil companies. Control would have remained with Iraq. At the last minute these were cancelled despite being supported by Mr Shahristani and the council of ministers. The reason why this happened explains much about why the Iraqi state machine is unable to carry out long term policies. Jobs are allocated to members of political parties regardless of their experience or abilities. After 2003 the Oil Ministry had been the fief of the Fadhila, a Shia Islamic party strong in Basra, and, though it left the government, it never wholly accepted Mr Shahristani as minister. Showing a certain cheek

Fadhila members, having sabotaged the plan to acquire foreign expertise when money was available to buy it last year, now criticize the government for being forced to accept worse terms this year because it cannot invest itself.

It is probably too late for the Iraqi government to delay or modify the contracts to be awarded at the end of June. It needs the money too badly and it failed to invest itself when oil prices were high. Even when the big oil companies start work, it will be three years before new oil appears. Many Iraqis will be angered to see their historic oilfields, on which their country is wholly dependant, being partially run by foreign companies, but, facing an election next January, at this stage the government believes it has no choice.

Patrick Cockburn is the author of 'The Occupation: War, resistance and daily life in Iraq' and 'Muqtada! Muqtada al-Sadr, the Shia revival and the struggle for Iraq'.

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