How to Loot Iraqi Oil

Najad Abdi

[The Iraqi Government is about to pass a law that privatises the country's oil reserves — a move that benefits multinational oil companies and very few others, writes Najad Abdi.]

Half-a-million deaths later, black gold will soon be flowing quickly. The Iraqi government has recently leaked the latest draft of its Iraqi Oil and Gas (Hydrocarbon) Law, set to be passed by the Iraqi parliament in July. A previous draft was approved by Prime Minister Nuri al Maliki's cabinet in February.

The law, if passed, will take the majority of Iraq's oil reserves out of the hands of the Iraqi government and open them to international oil companies for a generation or more, which is just as big business wants it.

As far back as March 2001, US Vice-President Dick Cheney's National Energy Policy Development Group, which included executives of the US's largest companies, recommended that the US government support initiatives by Middle Eastern countries 'to open up areas of their energy sectors to foreign investment'.

An invasion and a lot of political engineering by the Bush administration later, this is exactly what the proposed hydrocarbon law will achieve. But it can be argued that it does so to the exclusive benefit of the oil companies and to the great detriment of Iraq's economy, democracy and sovereignty.

What sets this law apart from other oil laws in the Gulf Co-operation Council is that international oil companies can now be offered some of the most corporate-friendly contracts in the world, including what are known as 'production sharing agreements' (PSAs). These agreements, developed in the 1960s, allow countries to retain technical ownership over energy reserves but, in actuality, they lock-in multinationals' control and extremely high profit margins. (According to an analysis by the British-based oil watchdog Platform, oil companies usually expect a rate of return on investment of about 12%, but PSAs in Iraq are likely to deliver a rate of return of 42-162%.)

PSAs, not surprisingly, are the oil industry's preferred model, but are roundly rejected by all the top oil-producing countries in the Middle East because they grant long-term contracts (20 to 35 years in the case of Iraq's draft law) and greater control, ownership and profits to the companies than other models. In fact, they are used for only approximately 12% of the world's oil. Iraq's neighbours, Iran, Kuwait and Saudi Arabia, all maintain nationalised oil systems and have outlawed foreign control over oil development.

As Greg Muttit, an analyst with Platform, notes: "[PSAs] are often used in countries with small or difficult oilfields, or where high-risk exploration is required. They are not generally used in countries like Iraq, where there are large fields which are already known and which are cheap to extract."

Of the seven leading oil producing countries, only Russia has entered into these agreements — and those were signed during its own economic 'shock therapy' in the early 1990s. A number of Iraq's oil-rich neighbours have constitutions that specifically prohibit foreign control over their energy reserves.

PSAs often have long terms — up to 40 years—and contain 'stabilisation clauses' that protect them from future legislative changes.

As Muttit points out, future governments "could be constrained in their ability to pass new laws or policies [and if a future elected Iraqi government] wanted to pass a human rights law, or wanted to introduce a minimum wage [and this] effected the [oil] company's profits, either the law would not apply to the company's operations or the government would have to compensate the company for any reduction in profits".

What's worse, according to *Transparency International*, Iraq is among the most corrupt countries in the world. Last month, the US Senate Judiciary Committee held a hearing, 'Combating war profiteering : are we doing enough to investigate and prosecute contracting fraud and abuse in Iraq?' Testimony by Stuart Bowen, special inspector general for Iraq reconstruction, revealed that his office has 2000 ongoing investigations of Iraqi officials, involving around US$8 billion in missing funds. According to Bowen, corruption in Iraq is 'a second insurgency'.

Iraqis may very well choose to avail themselves of the expertise and experience of international oil companies, but they should be allowed to do so at their own pace, freed from the tremendous pressure being exercised by the Bush administration, the oil corporations and the presence of 140,000 US troops.

(Interestingly, given the Bush administration's vehement denials that its invasion of Iraq was a blatant oil grab, the Democrat-controlled US Congress is now nervous that the administration pressure on al Maliki's government to pass the hydrocarbon law will be interpreted as a kind of lessing up to its true motives back in 2003.)

Iraq's trade union federations, which represent hundreds of thousands of workers, released a statement opposing the proposed hydrocarbon law and rejecting 'the handing of control over oil to foreign companies, which would undermine the sovereignty of the State and the dignity of the Iraqi people'.

They ask for more time, less pressure and a chance at the elusive democracy they have been promised. □□□

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