Beyond the Oil Curse

Iraq’s Wealthy State and Poor Society

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Introduction

The current Iraqi economy is almost entirely dependent on oil revenues. According to the official figures presented by the Iraqi Ministry of Finance, oil exports provided 91% of the country’s revenue in 2010. Various taxes and tariffs constituted the other 9%. The figures show an increase of oil dependence in comparison with the 2009 revenue, of which 85% was made by oil exports.¹

However, the country’s oil industry is in a state of general devastation. The lack of security in several parts of the country is very prohibitive to foreign investment and it continues to hinder the patterns of production as the industry’s infrastructure continue to be a target for the various terrorist groups in various parts of the country. Similarly, corruption in the Ministry of Oil and the Government of Iraq in general contributes to significant losses in revenue and provides inefficient management of the industry. As in the rest of governmental entities, loyalty to certain political parties and groups is considered before competence and expertise in the hiring of personnel at all levels of the oil industry. Furthermore, numerous militias and well-connected criminal organizations continue to smuggle Iraqi oil and cost Iraq billions of dollars each year in lost revenue.² That is, of course, in addition to the depletion of infrastructure that was caused by decades of war and sanctions.

This chapter will examine Iraqi’s efforts to restore its capacity to produce and export its petroleum products and the challenges that hinder these efforts and delay the country’s ambitions to become the world’s first, or second, oil producer. The chapter will also shed light on the political and ideological debates among Iraqis concerning the control of oil production and sales, the role of foreign oil corporations and the distribution of revenues. But first, an historical background of the economic and political developments in Iraq’s oil industry is essential.

Iraqi oil industry under the monarchy: 1925–58

Iraq became a nation-state following the collapse of the Ottoman Empire in 1918. Responding to the Ottoman attack on Russian ports on the Black Sea on 29 October 1914, France and Britain joined a Russian declaration of war against the Ottomans. British troops stationed in Bahrain attacked the southern part of Basra to begin the gradual occupation of the three Ottoman
provinces that would form modern Iraq. Having occupied Basra in 1914, British forces faced several military setbacks, mostly because of the unanticipated tribal and religious resistance to their forces; but they were finally able to capture Baghdad in 1917 and Mosul in 1918, merely a few days after concluding a ceasefire treaty with the Ottomans.

As declared by British Prime Minister Asquith on 2 November 1915, protecting the oil fields was one of the main reasons behind sending a force to Iraq (or Mesopotamia, as it was known in British parlance). By oil fields, Mr. Asquith referred to the Persian oil fields and the operations of the Anglo-Persian Oil Company, which was at a very short, and dangerous, distance from the Ottoman-controlled Basra. At stake was an oil operation that cost the British empire £2.5m. that was paid at the advice of Winston Churchill, then the First Lord of the Admiralty, who told the House of Commons that the best policy concerning oil was for the British government to “become the owners or at any rate the controllers at the source, of at least a proportion of the oil which the navy required.”

Following the San Remo Conference, held in April 1920, the British were granted a mandate to shape the political future of the three former Ottoman provinces: Baghdad, Mosul and Basra. Under the pressure of Iraqi resistance, which was ultimately manifested in the 1920 Revolution, the British decided to form the modern Iraqi state and install an Arab king, the choice fell on Faysal, the son of Sharif Husayn of Makka, who was aided by a pro-British council of ministers that consisted of Iraqi urban notables.

In 1925, the British-controlled Iraqi government agreed to award a concession to explore and eventually produce oil, which covered most of Iraq’s territory, to the Iraqi Petroleum Company (IPC), of which Iraq owned nothing except the name; the full ownership was “by five multinational oil companies (British Petroleum, Exxon, Mobil, Shell, and Compagnie Française des Pétroles).” Other areas not covered by the said concession were covered by other concessions to two IPC subsidiaries: Basra Petroleum Company (BPC) and Mosul Petroleum Company (MPC). These concessions were very far-reaching, both economically and politically, as well as in terms of their duration, that was to last for three-quarters of a century, until 2000. Under the concession, the companies were “to determine the output, price and export levels,” effectively placing the political and economic destiny of the country in the hands of a few foreign multinational companies with very strong ties to Western countries. In return, Iraq was to receive 24 cents for every barrel produced from “its” oil fields. The concession was so controversial that the Ministers of Education and Justice, Muhammad Ridha al-Shabibi and Rashid Ali al-Gaylani, respectively, resigned over this decision which, in the words of al-Shabibi, “squandered Iraq’s rights.” Or as George W. Stocking aptly put it: “Never in modern times have governments granted so much, to so few for so long.”

The work of these multinational companies was successful in discovering oil in Kirkuk, northern Iraq, in 1927. However, instead of developing this field and producing oil in commercial quantities, the IPC wasted much valuable time, 18 months to be exact, in searching for other potential areas in order to secure the best areas of concession for itself, before other competitors have the chance to bid for further concessions, according to the agreements. This practice delayed the construction of pipelines and the production of Iraqi oil in commercial quantities until 1932 and regular oil production until 1935.

Iraq’s dependence on oil revenues began immediately after the start of regular oil exports and continued to grow concomitantly with the increase of such revenues one decade after another throughout the monarchy era. The proceeds from oil increased from just above £1m. in 1935 to £6.8m. in 1950. Two events in the surrounding Middle East region brought the profit sharing between Iraq and the IPC into question and started a new round of Iraqi demands: the first was the announcement, in 1950, of an agreement between the government of Saudi Arabia
and Aramco, the company producing Saudi oil, on a 50:50 sharing of profit, and the second event was the nationalization of the oil industry in Iran in 1951 during the premiership of Dr Muhammad Mossadeq. Coupled with the rise of Iraqi nationalism and general anti-British sentiments in Iraq following the failed 1948 Anglo-Iraq Treaty (Portsmouth Treaty), a national debate about the exploitation of Iraqi resources, mainly oil, by multinational companies, began to reach critical levels. Even though the Iraqi government was strongly pro-West, the pressure was very high and the exploitation of Iraqi resources was indeed indefensible. To preempt the possibility of Iraq’s nationalists succeeding in forcing nationalization measures similar to the Iranian model, the IPC settled for a lesser concession, the Saudi model of 50–50 profit sharing. The agreement had a significant positive impact on Iraq’s economy. Iraq’s share of oil proceeds increased from just under £7m. in 1950 to £40.7m. in 1952 and jumped significantly every subsequent year to reach £84.6m. during 1958, the year of Iraq’s transition from a monarchy to a republic.

Oil and the rise of nationalism: 1958–79

The dawn of 14 July 1958 was meant to be a new dawn for Iraq, the beginning on an era without foreign manipulation of Iraqi politics and economy. A group of Iraqi officers took matters into their own hands and toppled one of the most pro-West governments in the region, ending years of political preparations to link Iraq to major regional and international powers through political and defence alliances, including the ill-fated Baghdad Pact, a NATO-like anti-Communist defence alliance that included Iran, Pakistan, Turkey, Britain, in addition to Iraq, whose capital was chosen to host the organization’s headquarters.

What began as a typical military coup soon developed to become a political and social revolution that changed not just the Iraqi regime, but all aspects of Iraqi life as well. The change included land tenure and ownership, the social status of workers and peasants, the laws of personal status and women’s rights, party politics and political associations, and a plethora of other and political and social settings. It was a new beginning of hope and high aspirations that were not seen in Iraq for a very long time.

In the period between 1958 and 1963, Iraqi oil output increased by 60%, but the revenue did not increase at the same rate, mainly because of the decline in prices. This situation resurrected the question of Iraq’s fair share in its oil resources. A new round of negotiations started over several issues, including: oil prices, Iraqi portion of equity in the IPC and the Iraqi control over the “unexplored portions of the concession area.” The negotiations were conducted amidst an era of heightened sense of nationalism and sharp criticism of what the Iraqi government considered unfair distribution of benefits between the IPC and Iraqi government and the hegemony of the IPC over the operation of the Iraqi oil industry. IPC failure to satisfy the Iraqi side was met by two significant acts of retaliation. In July 1960 Iraqi Prime Minister Abd al-Karim Qasim raised the transit rates in Basra to be 1,200% of their prior levels. He followed this measure with the passing of Law 80 in December 1961. According to Law 80, Iraq repossessed all unexplored areas of the IPC concession, leaving the IPC with 0.5% of the original concession.

Although the Iraqi government did not develop the possessed areas (it lacked the capability to do so) Law 80 was praised as the prelude for the nationalization of Iraq’s oil industry in the early 1970s. It seems that the decision of the IPC not to escalate the confrontation with the Iraqi government, which could perhaps be done by manipulating prices or output, was a conscious decision similar to that of 1952, when it agreed to the 50:50 profit sharing. Once again, the IPC preempted a possible government move to nationalize the oil industry by simply complying
with the measure of Law 80, in spite of contending that it was in violation of the various previous concession agreements.

Although Iraq established its own Iraqi National Oil Company (INOC) in 1964, the company remained inactive and the IPC continued as the only oil producing company for the following eight years “providing an average of 80.4% of total government revenue between 1959 and 1970.”17 However, Iraq signed an agreement with the Soviet Union, in the summer of 1969, which included US$140 million as a Soviet assistance to Iraq to develop the unexplored areas of the oil concession which were repossessed from the IPC and to turn the INOC into a real oil-producing company.18 The money was used to develop the North Rumayla oil field, near the southern city of Basra. The INOC began its production in mid-April 1972, preceded by an Iraqi-Soviet oil trade deal and a number of similar trade deals with several countries (Brazil, Italy, the USSR and the GDR).19

On 14 May 1972 the government presented an ultimatum to the IPC to agree to the following demands in order to avoid the nationalization of its assets:

1. 20% Iraqi participation in the IPC’s assets.
2. A payment of I.D.81.4m. for back royalties the IPC owed the government owing to supposed misrepresentation.
3. Effective Iraqi participation on the IPC’s board of directors.
4. IPC recognition of Law 80’s validity.
5. Relocation of the IPC’s headquarters in Baghdad.
6. An IPC-Iraqi production level agreement providing for a minimum production increase per year.
7. Continuous Iraqi audit of IPC accounts.20

The two parties, the IPC and the Iraqi government, failed to reach a mutual agreement and, having secured alternative revenue sources and oil markets, Iraq announced the nationalization of the IPC on 1 June 1972. As the Slugletts noted, in order to insure further financial security, Iraq refrained from nationalizing the two subsidiaries of the IPC, the MPC and the BPC, which produced 25% of Iraq’s oil at the time. The Iraqi government also practised its own divide-and-conquer policy by offering the Compagnie Française des Pétroles, one of the companies that participated in the IPC, “special treatment.”21 Having overcome the consequences of the first act of nationalization, Iraq nationalized the MPC and the BPC in the wake of the October 1973 war between Israel and several Arab countries, including Iraq. The 5% share of Gulbenkian was nationalized shortly thereafter.22

Oil, war and sanctions: the Saddam Hussein era, 1979–2003

On 17 July 1979 Saddam Hussein, then the Vice-President of Iraq and the second man in the Ba’th Party, eliminated President Ahmad Hassan al-Bakr and began his quest for controlling all the levers of power in the country, with the help of a few family members, loyal and opportunistic subordinates and a few dispensable bureaucrats.23 The era of Saddam Hussein was marked by some unique characteristics, unlike any in the history of modern Iraq. Among these were the following: (1) the narrowing of the power base to include only Saddam and his family; those members of his family who constituted a threat to the dictator were swiftly eliminated, as in the case of his cousin and brother-in-law, defence minister Adnan Khairallah and his two sons-in-law; (2) the militarization of Iraqi society and the state, as Iraqis lived in an era of perpetual war; (3) the complete lack of human rights of Iraqis, who saw their freedom of expression, religious
and political rights wither away under the increasing aggression of the police state; and (4) the gradual reversal of the economic progress that was accomplished with the help of increasing oil revenues in the post-nationalization years. The first three points are out of the scope of this paper, but the relevance of the last one warrants some further discussion.

The years from 1973 to 1979 marked an era of significant improvement in the Iraqi infrastructure and great progress in healthcare, education, family income and government services. But this progress was accompanied by a gradual decrease of individual rights and an increase in state oppression whose security forces were among the largest and the most sophisticated in the region. In 1978 the only two ministries that employed more than 10% of the total workers in the public sector were the Ministry of Industry and Minerals (14.2%) and the Ministry of the Interior (22.8%).

When Saddam Hussein became President, economic prosperity and state oppression were no longer going in the same direction, the former sharply plummeted as the latter continued to rise. He also took the country to a destructive war with Iran that lasted for eight years and claimed lives by the hundreds of thousands and cost Iraq approximately $453bn, including the loss of oil revenue. Only six days before marking the second anniversary of the end of the Iran-Iraq War, Saddam Hussein invaded Kuwait on 2 August 1990, dragging Iraq into a shorter, but more lethal and more destructive war with a coalition of thirty countries which was led by the USA. This time, Iraq suffered some 10,000 military and civilian deaths and about 300,000 wounded, and the economic cost was estimated at $170bn. Additionally, Iraq was forced, according to United Nations resolutions, to pay Kuwait some $60bn for the destruction of its infrastructure and the torching of the Kuwaiti oil fields. So far, Iraq paid $27bn to Kuwait and is asked to pay $25bn more. Some 5% of Iraq’s oil revenue is automatically deducted for this compensation until the amount is fully paid.

In addition to the losses caused by Saddam Hussein’s misadventure in Kuwait, Iraq had to endure, between 1990 and 2003, the strongest economic sanctions the United Nations ever imposed on any nation in the organization’s history. Initially imposed for the purpose of forcing Iraq to withdraw its forces from Kuwait, the sanctions outlived their first purpose and continued to be imposed for whatever demands were presented to Iraq by some of the permanent members of the UN Security Council (UNSC), namely: the USA and the United Kingdom. The sanctions were also a convenient vehicle for a worldwide network of corruption, the scope of which is yet to be fully determined. Corruption allegedly involved some UN personnel, businessmen, politicians, journalists, corporations and just about anybody with access to UN decision making in regards to the control of Iraq’s ability to import the necessities of life.

The sanctions were exceptionally devastating to the economy of Iraq, which was almost totally dependent on oil exports. Following the Iraqi invasion of Kuwait, the UN Security Council adopted a series of resolutions for the purpose of forcing Iraq to withdraw from Kuwait. According to UNSC Res. 661, adopted on 6 August 1990, Iraqi assets in foreign countries were frozen and the country was not allowed to export anything and it was only allowed to import foodstuffs and materials strictly intended for medical purposes. In order to ensure the strict enforcement of Res. 661, the UNSC adopted Res. 665, which resolved that Iraq was still in violation of UNSC Res. 660, 661, 662 and 664 and the Iraqi government was “using Iraqi flag vessels to export oil.” The resolution then called “upon those Member States … which are deploying maritime forces to the area to use such measures … as may be necessary under the authority of the Security Council to halt all inward and outward maritime shipping, in order to inspect and verify their cargoes and destinations … ” and called on other states to co-operate in this effort. In order to further tighten the blockade on Iraq, the UNSC adopted Res. 670, on 25 September 1990, which extended the inspection to aircraft carrying
cargo to Iraq and required member states to deny permission to any aircraft carrying cargo to Iraq, except those allowed under previous UNSC resolutions. It also banned any aircraft flying to and from Iraq for other purposes.

Having failed to force, or convince, the Iraqi regime to withdraw from Kuwait, the UNSC adopted two final measures: UNSC Res. 674, on 29 October 1990, and UNSC Res. 678, on 29 November 1990. The former resolution “remind[ed] Iraq that under international law it [was] liable for any loss, damage or injury arising in regard to Kuwait and third States, their nationals and corporations, as a result of the invasion and illegal occupation of Kuwait by Iraq.” It also invited all concerned states to begin gathering information about their loss and the loss of their nationals and corporations and submit them in support of their claims of restitution. The latter resolution set a deadline for Iraq to leave Kuwait and comply with all previous UNSC resolutions by 15 January 1991. In case of Iraq’s failure to meet the deadline, the UNSC authorized “Member States co-operating with the Government of Kuwait … to use all necessary means to uphold and implement resolution 660 (1990).” This was, in essence, an authorization for the US-led coalition, whose forces were already assembled at the borders of Kuwait, to go to war against Iraq any time after the 15 January 1991 deadline. On 16 January 1991, a wave of air bombing began, the like of which Iraq had not seen in its entire history. Other than the religious sites, nothing in Iraq seemed to be off the target list. The oil industry, including refineries, was heavily targeted and damaged.

On 3 April 1991, a month after the end of the war to expel the Iraqi forces from Kuwait, the UNSC adopted UNSC Res. 687, which, according to the UN Secretary-General, “represents one of the most complex and far-reaching sets of decisions ever taken by the Council [and] the longest text ever adopted by the council.” The resolution essentially put the UNSC in charge of the micromanagement of Iraq’s domestic and international relations.

Although the war was over and Iraq was out of Kuwait, the sanctions on the country that were adopted for that purpose were not lifted. Indeed, according to UNSC Res. 677 and subsequent resolutions, they became stronger and more far-reaching; they also were aiming at an ever evolving set of goals and conditions on the Iraqi regime: disarmament, compliance with nuclear non-proliferation protocols, dismantling of existing and “suspected” biological and chemical weapons, reducing the military arsenal and personnel, and the list goes on. In all of these cases, the burden of proof was completely on Iraq to satisfy an increasingly sceptical world community, or those parts of it who were leading the UNSC. Meanwhile, the worsening humanitarian conditions in Iraq were rising to catastrophic levels.

Although Res. 687 lifted the embargo and the blockade on Iraq’s ability to import foodstuffs and other humanitarian necessities, Iraq had no ability to benefit from this decision, because the embargo on Iraqi oil exports continued. It was not until 15 August 1991 that the UNSC authorized Iraq to export $1.6bn of oil over a period of six months to import food and other civilian necessities, which will be merely $934m. after a number of deductions that included 30% to be used for the compensations of the loss and damages caused by the invasion and occupation of Kuwait. Compared with Iraq’s spending of $3bn on food and civilian necessities just prior to the war, this permission, granted in UNSC Res. 706 and Res. 712, would barely allow Iraq to cover one-third of its pre-war needs.

The Iraqi government refused to take advantage of the two UNSC resolutions, arguing that Iraq had complied with the demands of the international community and that there was no rationale for maintaining the sanctions. The government of Iraq was also using several tactics to accomplish its goals. Iraqi diplomacy appealed to many governments in the world that had good relations with Iraq, or had interests in the country, as well as those governments that politically opposed the USA, to press for lifting the sanctions. Given the determination of the USA to
keep the sanctions on, no such efforts were fruitful. At the same time, the Iraqi government invited the international media, humanitarian organizations and activists to see the human catastrophe caused by the sanctions and their toll on the society, especially on Iraqi children. Again, the US official answer to the international outcry was simple, banal and as callous as could ever be. Responding to the following “60 Minutes” question: “We’ve heard that a half a million children have died … that’s more children than died in Hiroshima … is the price worth it?” Madeline Albright, then the US Secretary of State, said: “I think this is a very hard choice, but the price, we think the price is worth it.” This statement was seconded by Bill Richardson, the Governor of New Mexico, who was the US Ambassador to the UN while the sanctions were being enforced. Governor Richardson, when asked about former Secretary Albright’s statement and whether he believed that “the price was worth it,” he answered “I believe our policy was correct; yes.”

The other factor the government of Iraq was counting on was the cost placed on the UN by the mandates from the various UNSC resolutions. As long as Iraq had no revenues, the UN could not ask Iraq to pay for the elaborate system of committees and task forces that were created to ensure Iraq’s compliance with these far-reaching resolutions. The Iraqi government seemed to hope that the UN will end this system to save the costs or allow Iraq to sell oil on terms favourable to the government of Iraq. The hopes of Iraq’s government were at least partially granted. The UN, after its failure to raise the funds from other means, decided to give the Iraqis a slightly better deal. On 14 April 1995, the UNSC adopted Res. 986, authorizing member states “to permit the import of petroleum and petroleum products originating in Iraq, including financial and other transactions directly related thereto, sufficient to produce a sum...”

However, the Independent Inquiry Committee into the UN Oil-for-Food Programme found some of the most disturbing instances of corruption associated with the programme, including corrupt practices by the top-level UN officials and their close relatives; the amounts of money involved in the various corruption schemes were in the billions of US dollars. The Committee reported that “specific illicit payments [were] made in connection with oil and humanitarian contracts under the Programme. Oil surcharges were paid in connection with the contracts of 139 companies and humanitarian kickbacks were paid in connection with the contracts of 2,253 companies.”

The programme was terminated on 21 November 2003. Between 1996 and 2003, Iraq exported $64bn worth of petroleum and petroleum products, but only $37bn of these proceeds returned to Iraq in the form of food and humanitarian necessities.

The dreams and the realities of the post-Saddam era

In the months leading to the US invasion of Iraq, as well as shortly after the invasion, it was assumed that Iraq was going to restore its oil production to levels that would generate enough revenues for sustaining the post-war economy and help reconstruct the country. Testifying
before the US House of Representatives panel on 27 March 2003, then Undersecretary Paul Wolfowitz said, “The oil revenue of that country could bring between $50 and 100bn over the course of the next two or three years. We’re dealing with a country that could really finance its own reconstruction, and relatively soon.” As it turned out, Iraq’s total oil exports for the abovementioned period were much lower than what was estimated. The oil industry’s infrastructure was falling to pieces, because of the sanctions and the past regime’s neglect. The UN officials often denied Iraqi requests to fund the importing of materials and equipments for maintaining the infrastructure out of fear that such imports might be used for banned military activities.

To rectify the situation, the US government appropriated more than $4bn to help repair the oil fields, including $2.5bn as a contract awarded to Kellog, Brown and Root (KBR). These efforts managed to bring the oil production to levels just below their pre-invasion average of 2.5mbpd, of which only 1.5mbpd were available to export. However, the insurgency that spread throughout major parts of the country brought the total oil production to fall below 2mbpd in 2005. This production level continued in the first half of 2006, and reached 2.5mbpd in mid-June, 2006, to fall again to 2.23mbpd two weeks later. This temporary rise notwithstanding, exports always held constant at between 1.6 and 1.67mbpd.

These figures, of course, remain suspect because Iraq continued to lack a reliable metering system at the Basra Oil Terminal accurately to report the true levels of production. The quarterly report submitted by the Special Inspector General for Iraq Reconstruction (SIGIR) in July 2006 stated that “the [Basra Oil Terminal] metering system project, which was reported to be 30% complete last quarter, made little progress this quarter because the sub-contractor was delayed in mobilizing … The lack of progress implementing this metering system undermines the effort to combat corruption and smuggling in this economically crucial sector.” The metering system continues to be a point of dispute and remains persistently behind schedule. Four years later (by the end of 2010), the government of Iraq reported to the UNSC that 51% of the meters were installed. It is yet to finish the work on the remaining 49%, about 1,150 meters, which were planned to be installed by November 2010. Then there will be the goal to accomplish the whole metering mission, which includes a total of 4,898 meters.

Throughout the post-invasion years, insurgents targeted oil pipes, refineries, power supply and workers, hindering any reconstruction efforts to increase production levels beyond the pre-war period. Furthermore, various militias, often backed by certain major Iraqi political players, established their freelance petroleum cartel, smuggling oil in defiance of the Iraqi authorities and the coalition forces, if not taking advantage of their pragmatic apathy. Meanwhile, 20% of Iraqis, who were surveyed in 10 major cities, said they paid bribes to buy gasoline. The SIGIR quarterly report in July 2006 concluded that corruption in the oil sector, “threatens not only Iraq’s capacity to fund new capital investment, but also its ability to sustain and increase production.”

Four years later, the SIGIR Report of January 2011 indicates that oil production in Iraq still lingers at 2.4mbpd, slightly higher than its level in mid-2010, but it decreased by 1% from the end of 2009. However, the Ministry of Oil, according to the report, expected to increase the production to 3.2mbpd by the end of 2011 and it has put together a plan to reach the very “ambitious goal of producing 12mbpd by 2017.” However, the report reminds the reader that Iraq has to overcome many technical, political and logistical challenges, not to mention the need to invest some $150bn in order to achieve this level of production. Contrary to this ambitious, and optimistic, six-year plan of the Iraqi government, the International Energy Agency (IEA) expects that Iraq may achieve the ability to produce 6.1mbpd in 2035 and it will not reach 3mbpd before 2020.
In order to achieve its goal, the government of Iraq took some serious steps to encourage foreign investment, solicit technical help from various international oil companies and passed some important laws to regulate the terms and conditions of allowing foreign oil companies to invest and operate in Iraq. The Iraqi government had to choose between two different models: “production sharing agreements” or “development and service contracts.” Given their injurious past with the multinational corporation that secured exploitive concessions during the era of colonization, Iraqis of various backgrounds, especially Iraq’s oil experts, rejected the first model, which is not different from the infamous concessions of the past, because it places the full control of the fields in the hands of foreign oil corporations for many decades and it allows them access to a great percentage of the revenue. Opponents of this scheme argued, perhaps rightfully so, that Iraq could do better. This kind of agreement also touched on a raw nerve for the Iraqis, most of whom now hate everything from the Ba’th era, but all of whom consider the nationalization of oil a truly patriotic act. The second plan allows the government to enter into service contracts with oil companies for a fixed amount of money for every barrel produced. Interested companies were asked to present their bids in a competitive process and the government would choose the best offer according the lowest fee per barrel, after qualifying the competing companies on the basis of their reputation regarding professionalism and their environmental record. The government signed a number of contracts with remuneration fees ranging from $1.15 to $2 per barrel in most regions, as well as some higher ones in Badra, Qaiyarah and Najma, where the projected quantities are lower and the cost of production is higher; the remuneration fees for these were between $5 and $6 per barrel.43

The different Iraqi factions had failed time and again to reach a consensus on the final national policy regarding oil production and distribution. Although the Iraqi Constitution states that “Oil and Gas are owned by all the people of Iraq in all the regions and governorates,” Iraqi parliamentarians and party leaders had a hard time in reaching agreement on what this statement means, because the Constitution also differentiates between the “present fields,” which were already producing oil during the ratification of the Constitution and those that were not yet developed. The central government shares control of the first category of oil fields with the government of the producing region, whereas the government of the producing region or governorate has exclusive control over non-developed and future oil fields. This constitutional debate led to disputes between the central government and two local governments so far, the Kurdistan Regional Government (KRG) and the government of Basra.

Holding the largest portion of Iraq’s oil reserves, the city of Basra has been funding more than two-thirds of Iraq’s budget for many decades.44 However, Basra has been one of the most neglected Iraqi cities in Iraq’s modern history and one of the worst in services. Basra local politicians and sympathetic experts correctly note that this city can be more prosperous than any of its neighbouring Gulf States if it controls its resources. Instead, the Iraqi government allocated less than $300m. for the city in 2010.45 In response to what Basrans perceive as persistent negligence of their city and the unfair allocation of funds, they called for forming a region (iqleem) for Basra alone and asked that it is treated the same way as the KRG. However, fearing that this could lead to the rise of separatist movements, strong pressures from the other parts of Iraq, especially the religious leadership in Najaf caused the proposal to collapse.46 But, as long as the central government continues to treat Basra in the same way, the calls for forming a region will be resurrected sooner or later.

The KRG and the central government in Baghdad have not made a secret of their disputes about controlling the oil in the northern region. For instance, in August 2010, the KRG entered into a contract with the German company RWE AG, which allows RWE to develop the gas infrastructure to make it possible to link the gas produced in the Kurdish region with...
the Nabucco pipeline, that is intended to enable the transportation of gas produced in the Caspian region, through Turkey and Eastern Europe and ultimately to various consuming markets in Western Europe. The Nabucco consortium announced in early August that “it has shelved plans to source gas from Iran due to the further escalation of the dispute between the international community and Iran over the latter’s alleged nuclear weapons program.”47 This would make the gas from northern Iraq a valuable source to compensate for the Iranian gas. The contract triggered a statement from the Iraqi Ministry of Oil affirming “that Iraq is exporting crude oil and gas through the Iraqi oil marketing company exclusively and there is no other party authorized to sign contracts with international or local companies in this regard … any contracts or agreements that do not match the official marketing company, [the State Oil Marketing Organization (SOMO)], laws are considered invalid and illegal.”48

It is difficult to predict the outcome of the oil dispute between the KRG and the central government, because both sides have used this, and many other issues, in their political negotiations and alliance-building. The Kurds have always skillfully managed to exploit the sectarian division among their Arab counterparts, whose Sunni-Shi’a affiliations prevented them from standing united in opposing the often over-reaching Kurdish economic and political demands. Furthermore, the central government has no effective coercive means to stop the Kurds from acting in defiance of the political regime in Baghdad.

Finally, there is the ideological dispute among Iraqis, concerning the future status of the most important, indeed the only, source of the country’s economy at the present time, and maybe for many years to come. The lack of trust in the integrity, and competence, of their politicians, combined with the past history of the oil corporations has caused many Iraqis to suspect the motives and the utility of the contracts between the government of Iraq and the multinational corporations. To be sure, some of the suspicions are very reasonable because, after all, the contracts are signed by multinational corporations that are treated, in many parts of the world, as guilty until proven innocent, and an Iraqi regime that has been ranked as the fourth most corrupt government in the world. However, sometimes, the suspicions border on true paranoia. No example illustrates this pathological suspicion better than the reactions Iraq’s government received following an agreement with Royal Dutch Shell Group to develop the necessary infrastructure of capturing and marketing a “huge amount of gas from super-giant oil fields in the southern governorate” of Basra. The joint project will involve a $10bn to $20bn investment and it will be owned at 51% by the Iraqi South Gas Company, 44% by Royal Dutch Shell and 5% by Mitsubishi.49

The criticism of the deal, raised by Iraqi nationalists, political activists and oil experts, seems to be out of touch with reality, given the past practice of all previous Iraqi governments. Since the beginning of producing oil, the gas that accompanied the production was flared. The current plan will turn the 700m. cubic feet of gas, which is being flared everyday into cash-generating commodity, improve the environment and “the construction of liquefied natural gas facilities,” reducing Iraq’s imports of natural gas.50 For decades, the various Iraqi governments prior to 2003 used to proudly refer to the flames of this wasteful process and “The Eternal Fire” (al-Nar al-Azaliyya).

Conclusion

Iraq has emerged from a very dark era that depleted the country’s infrastructure, exhausted its human capital and retarded its economic potential through wars, political oppression and deliberate prohibition of modern technology and the flow of information. This has been mostly caused by the regime in order to minimize potential threats to its rule, but it was also due to the
contribution of one of the most comprehensive and far-reaching systems of sanctions. The years following 2003 were supposed to deliver Iraq from the past. This has happened in many ways, but the new challenges that arose from the mismanagement of the post-invasion political and economic programmes kept Iraq far away from achieving its potential and lowered the expectations regarding the road to recovery.

However, many Iraqi politicians and technocrats are struggling to meet the demands of the society, if not for righteous reasons then for their own political and professional survival. Security challenges, financial and administrative corruption, lack of access to modern technology and knowledge, as well as the state of devastation in the country’s infrastructure continue to be insurmountable challenges ahead of any meaningful progress. However, the situation has improved significantly from their state in 2003 to 2007. In a country that is almost entirely dependent on the oil revenues, the pressing needs for survival will supersede all other motives to slow the progress and enable the implementation of recovery plans, as long as they are not made in defiance of reality.

The Iraqi government has expressed its plan to become one of the leading oil producers worldwide in the next five years. Although this is seen as an over-reaching ambition, from an objective scientific perspective, it is possible that Iraq will achieve significant progress by trying to meet this goal, even if the level of production falls below the target quantities. As discussed above, the pessimistic forecast of the IEA, that Iraq’s production will be 6mbpd by 2035 seems to be disappointing as compared with the optimistic Iraqi plan to produce 12mbpd by 2017. However, there are positive aspects to the IEA’s forecast: first, there is an anticipated gradual increase in oil production over the next two decades; second, the slow increase of oil production will motivate the Iraqis to improve their performance on other economic sectors to augment the revenues and achieve greater economic prosperity; and third, the amount of Iraqi resources that will be exploited in this era of lingering financial corruption will be significantly smaller, because the level of economic prosperity and the speed of reconstruction will not only rest on how much money is available for the Iraqi government, but also how wisely and honestly this money is spent.

Therefore, Iraqis must work simultaneously on the improvement of their oil industry infrastructure and the progress in their governance, in order to balance their increased oil production with their ability to use the increased revenues in the best manner to compensate for the missed opportunities of the past. The building of effective political institutions will ensure political and economic accountability, which is almost non-existent in Iraq until this time. This is why Iraq is currently ranked among the top 50 nations in the level of budget expenditures in 2010, yet, Iraqis were among the least served, the least secure and the least prosperous worldwide.

Notes
4 Ibid.
5 Quoted in ibid., p. 129. See also p. 36.
7 Ibid., p. 20.
8 Abd al-Razzaq al-Hasani, Tarikh al-Wazarat al-Iraqiya (The History of Iraqi Cabinets), Sidon, Lebanon, 1935, vol. 1, pp. 204–12. The concession was signed by Muzahim al-Pachachi, a pro-British minister at the time.

10 Mikdashi, p. 105.

11 Ibid., p. 106.

12 On the shift to 50–50 profit sharing, see Mikdashi, pp. 135ff.

13 Mikdashi, p. 196. The only exception was 1957. Iraq’s revenue was £51.523m., more than £18m. down from the previous year, because of the change of payment method, following an Iraqi objection to the cost production figures presented by the IPC, which led to arbitration in order to settle the dispute and a change of payment method while the matter was in arbitration.


16 Ibid., p. 109. See also, Farouk-Sluglett and Sluglett, p. 78.

17 Farouk-Sluglett and Sluglett, p. 145.

18 Farouk-Sluglett and Sluglett, pp. 145–47.

19 Brown, p. 110.

20 Ibid., p. 111.

21 Farouk-Sluglett and Sluglett, p. 154.

22 Calouste Gulbenkian (1869–1955) was an Armenian businessman whose role in facilitating the negotiations over the concessions of oil operations in Iraq earned him 5% of the profits. In fairness to the man, he used a lot of the money he generated from the deal to fund public projects in Iraq and elsewhere. Among the main projects in Iraq by the Gulbenkian Foundation was the construction of the People’s International Stadium, the only accredited soccer stadium in Iraq since 1966. Iraqis often say, jokingly, that Iraqi infrastructure would have been better if Gulbenkian got 50% and the Iraqi government got the 5%.

23 In addition to the few hand-picked associates of Saddam Hussein, like Izzat Ibrahim, Tariq Aziz and Taha Yasin Ramadhan, who served for three decades, most of the high level officials were eliminated physically or politically some time following their initial hiring to prevent any of them from becoming a threat to the regime. For an incomplete list of those eliminated by the regime, see Ali Karim Sa’id, *The Iraq of 8 February 1963: from the dialogue of concepts to the dialogue of blood*, Beirut: Dar al-Konoz al-Adabiah, 1999, pp. 391–402. The author lists 114 names of the major participants in the 1963 coup, who disappeared, died mysteriously or were tortured, and/or killed. Only a few names died in exile. The complete list of such high-level associates of the regime would extend to the thousands; all of them faced similar treatment.

24 Farouk-Sluglett and Sluglett, p. 249. Their 1978 figures do not include the Ministry of Defense, whose professional and conscript personnel exceeded those of the Ministry of Interior by 50,000 in the previous year. Given the record of the regime’s use of its military to keep the people under control, the argument made here is not weakened when the Ministry of Interior takes the second place after the Ministry of Defense.

25 Ibid., p. 271.

26 Ibid., p. 288.

27 The text of all UNSC Resolutions is available at the United Nations (www.un.org).

28 Quoted by Alnasrawi, p. 79.

29 Alnasrawi, pp. 83–84.


31 For the names, positions and type of misconduct by various officials, companies, representatives of companies and relatives of prominent officials see the various Committee reports (www.iic-offp.org/documents.htm). The reports also detail the various schemes of the Iraqi government to defraud the programme.


33 The Independent Inquiry Committee into the United Nations Oil-for-Food Programme; see the Committee’s report on the “Management of the Oil-for-Food Programme,” issued on 27 October 2005, p. 18.

37 Ibid., p. 30.
38 Quarterly and Report from the Office of the Special Inspector General for Iraq Reconstruction (SIGIR), January 2011, p. 86.
40 Ibid., p. 29.
44 For instance, the average of oil exports from Basra fields in 2010 was 44.94m. barrels per month, while the average exports from Kirkuk for the same period was 12.55m. barrels per month, according to official Iraqi Ministry of Oil records (www.oil.gov.iq).
45 Iraqi Ministry of Finance (www.mof.gov.iq). This amount does not include the money which is spent by the federal government in the city. However, all of the money allocated to Basra pales when compared with the $13bn the government gives to the Kurdistan Regional Government, most of which is taken from the Basra oil.
46 During a conversation I had, in December 2010, with Sayyid Muhammad Ridha al-Sistani, son of Ayatullah Ali al-Sistani and the head of his Najaf office, he said that the Sistani-led religious institution in Najaf took a leading role in stopping the formation of a federal region (iqilem) in Basra.
50 Sinan Salaheddin, “Iraq, Royal Dutch Shell to ink gas deal,” *USA Today* (21 September 2008).