New England Journal of Public Policy

Volume 21
Issue 2 *Special Issue: Climate, Water and Oil*

Article 13

7-1-2007

Oil. The Geopolitics of Oil and Iraq

Issam al-Chalabi

The Geopolitics of Oil and Iraq

Issam al-Chalabi

The author deals only with the recent developments that will shape the destiny of Iraq and determine whether it will remain a unified country or disintegrate. He is not optimistic.

Since the discovery of oil in Persia in the late nineteenth century and in Iraq at the beginning of the twentieth century, oil has been a focal point in all major events in the Middle East. The distribution of oil in various parts of the region was a major factor in defining the boundaries of the newly established Arab states in order to safeguard the interests of the major world powers after the fall of the Ottoman empire. There are numerous events, conflicts, and even wars in which oil was a central issue, if not the sole issue. Moreover, its importance has grown over the years as the world's dependence on Middle East oil has increased. With two-thirds of the world's oil reserves and a third of its gas reserves, the Middle East, and particularly the region surrounding the Arabian Gulf, has become vital for the world and will remain so for many years to come.

My presentation today will only relate to Iraq, a country that has remained at the center of attention for many years due to the 1980–88 Iraq-Iran war; the invasion of Kuwait in August 1990, followed by the second Gulf War; and the March 2003 downfall of Saddam Husain and his regime at the hands of invading forces led by the United States. Whether or not oil was the real target of that invasion will surely remain a subject of controversy for researchers and politicians for decades to come. One of the architects of the war, U.S. Defense Undersecretary Paul Wolfowitz, when asked why the United States did not attack North Korea after it admitted to possessing weapons of mass destruction, replied without hesitation: "Iraq floats on oil."

The Iraq war has become more controversial as virtually everything has turned sour: the political process is deadlocked, security deteriorates year after year and month after month, and the economy is in shambles, with

Issam al-Chalabi is former Iraqi Minister of Oil and the former president of the Iraq National Oil Company. *This paper was presented at the twenty-seventh Oil and Money Conference held in London on September 18 and 19, 2006.*

unemployment reaching 51 percent and severe shortages of fuel, electricity, water, and every other indicator. On top of that, the performance of the oil industry has fallen short of the minimum expectations both upstream and downstream.

The current status and future prospects of the Iraqi oil industry have been discussed on many occasions, so today I would like to deal only with the latest developments that will shape the destiny of Iraq and determine whether it will remain a unified country or disintegrate. The interference, interests, and influence of outside forces, particularly the United States as the main player, and regional players such as Iran, will no doubt continue to play a major role, but I would like to concentrate on internal geopolitics and the conflicting agendas of the main factions and groups.

When Iraq's draft constitution was promulgated in August 2006, I said from this podium that "the relevant articles on the oil and gas industries seem to contain the seeds for conflict and possible fragmentation." That was one of the main reasons for threats to boycott the October 15, 2005, referendum, threats that were only averted after strong lobbying by the U.S. administration and the insertion of Article 142, which cleared the way to amend the constitution through the establishment of a parliamentary committee within four months of inauguration of the new parliament. It has been [many] months since that date, and the deputies are still arguing about the definition of the starting date.

This led to two major developments in the form of attempts to establish controversial laws prior to any possible amendments to the constitution. The first relates to the insistence of the Kurdistan Regional Government (KRG) on the full ownership, control, development, and operation of the oil industry, both upstream and downstream, in accordance with its own interpretation of the disputed articles on oil and gas. As an example, Article 111 of the constitution states that "oil and gas is the property of all the Iraqi people in all the regions and provinces." But the KRG says that such resources within Kurdish areas are owned only by the people of Kurdistan. It also says that the regional parliament of Kurdistan is the sole legislative authority over all petroleum operations in that region.

The KRG on August 7 published the draft of a proposed petroleum act and followed it . . . with a final draft to be submitted for enactment. This move came as a surprise to the central government, which was itself preparing a draft hydrocarbon law for the whole country in a ministerial committee headed by the deputy PM, Barham Salih who happens to be a leading Kurdish figure and representing the Kurdish parties in the central government. Among other controversial articles in the Kurdish legislation, it is stated that it will apply to all "disputed territories," meaning the currently producing Kirkuk, Mosul, and other oil fields as well as all other undeveloped fields. It clearly states that no law, contract, or license issued by the central government can be applied without the explicit agreement of the KRG.

The Iraqi Oil Minister Husain al-Shahristani said [recently] that there will be only one authority in control of oil resources. Yet there has so far been no official reaction to the latest Kurdish move, and it remains unclear what will be the fate of the draft hydrocarbon law that is supposed to be finalized and submitted to the Iraqi parliament for legislation by the end of the year. The KRG is continuing to sign production-sharing agreements for blocks and structures under its control, as with DNO of Norway, Genel Energi of Turkey, PetOil of Turkey, and Canada's Western Oil Sands and Heritage. In one of these agreements profit oil will be shared on a 51–49 percent basis and cost recovery oil could reach as high as 80–90 percent.

The second major development is politically motivated but is also focused on the oil wealth in the southern part of Iraq. The Supreme Council for the Islamic Revolution in Iraq (SCIRI), one of the main groups in the present government, submitted to parliament [in September 2006] a controversial draft law detailing the mechanism for establishing regional governments similar to that in the Kurdish region. But this was strongly opposed by other parties within the same coalition as well as other groups outside it. This is being looked upon by some observers as a possible sign of national aspiration against the latest tide of sectarian motivations.

A federal region in the southern part of Iraq could encompass up to nine provinces, including three oil-rich provinces — Basrah, Misan, and Thi-Qar — which contain oil fields with proven reserves of nearly 80 billion barrels, or over 70 percent of Iraq's current proven reserves. These include undeveloped super giant oil fields such as West Qurna, Majnoon, Bin 'Umar, Halfaya, Nasiriya, and Ratawi, and nearly 30 other fields.

Currently, Iraq's oil exports are limited to those from the Basrah oil fields and some from Misan. These generate all the oil revenue on which the central government depends. The mishandling of oil and oil products has been known for some time but only came to light after the formation of the new government in May of 2006. Reports of missing oil barrels, smuggling, and mishandling of funds have been made public through various channels, including *inter alia* official reports from the Inspector General of the Ministry of Oil and the Audit Board formed by representatives of the UN, IMF, World Bank, and the Arab Fund. The report of the Inspector General of the Ministry of Oil listed seven illegal berthing facilities used for smuggling oil products that had cost Iraq nearly $1.5 billion. The Audit Board talks about hundreds of millions of dollars misplaced or missing.

The current Iraqi National Security Advisor, Muaffaq al-Ruba'i, said on June 14 [2006] that oil is at the heart of much of the heavy fighting around Basrah. "These oil fields are the richest in Iraq and constitute all the current Iraqi exports," he said. "If you don't understand what's happening there, follow the dollar sign. There is a 6,000 barrels per day difference between the level of production for exports and the level of actual exports. It goes into the pockets of warlords, organized crime, and political parties." This figure for missing barrels is, in fact, much lower than estimates by other sources, but even at this level it adds up to nearly $130 million over and above the $1.5 billion for smuggling and mishandling of imported oil products in the official ministry report.

In conclusion, I would like to make a reference to my presentation a year ago at this conference, which some participants thought was rather pessimistic. The figures for production and exports were as I predicted. For the first eight months of 2006, production was 2.090 million barrels per day compared to the 2 million barrels per day I predicted, with exports averaging 1.506 million barrels per day compared to 1.5 million barrels per day. As for the future, I do not think that 3.5 million barrels per day will be attained before 2009–10 or that 6 million barrels per day will be reached before 2012 at best.