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Oil rush: Scramble for Iraq's wealth

Critics said the war was all about the nation's lucrative fuel industry. Are they now being proved right?

Patrick Cockburn reports from Baghdad

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As America withdraws its military force from Iraq, international oil companies prepare to move in, bidding for contracts to run oilfields such as Al-Sheiba (above) near Basra on the Gulf coast

For many Iraqis, the reason the US invaded their country in 2003 was to get control of their oil. I never believed this at the time. I thought that the US overthrew Saddam Hussein and occupied Iraq primarily because it wanted to reassert its power after 9/11 and believed the war in Iraq would be easily won.

It is only now, six years after the American invasion, that the battle for the control of Iraqi oil production is moving to the centre of politics in Baghdad. On 29 and 30 June, the Iraqi government will award contracts under which international oil companies will take a central role in producing crude oil from Iraq's six super-giant oilfields over the next 20 to 25 years. By coincidence, 30 June is also the date on which the last American troops will be leaving Iraqi cities. On the very day that Iraq regains greater physical authority over its territory, it is ceding a measure of control over the oilfields on which the future of the country entirely depends.

The contracts have been heavily criticised inside Iraq as a sell-out to the big oil companies, which are desperate to get back into Iraq – oil was nationalised here in 1972, and Iraq and Iran are the only two places in the world where immense quantities of oil might still be discovered. Several of those criticising the contracts work in the Iraqi oil industry. "The service contracts will put the Iraqi economy in chains and shackle its independence for the next 20 years," said Fayad al-Nema, head of the state-owned South Oil Company, which produces 80 per cent of Iraq's crude. "They squander Iraq's reserves."

The government made a serious miscalculation last year. It believed the oil price would stay around the \$140-a-barrel mark. It raised government salaries and hired more employees – who now total at least two million, double the level under Saddam Hussein. Some 600,000 people work in the army, the police and the security apparatus. Expensive contracts were signed for the supply of electric plants and aircraft.

When the price of oil unexpectedly collapsed – though it has risen again in the past few months – the Iraqi government found itself broke. Its revenues are being swallowed up by the higher salaries, the rationing system and recurrent costs. It has frozen government hiring, but it dare not cut the number of state employees because the availability of new jobs is one reason that levels of violence have fallen. Cut-backs might damage the government's prospects in the crucial parliamentary election next January that will decide who holds power in Iraq for years to come.

Government in Iraq is all about oil, because it produces 95 per cent of the state's revenue. Saddam accused Kuwait of deliberately driving down the price of oil in 1990 to wreck the Iraqi economy, and this was one of the reasons he gave for invading the emirate.

The fall in the price of oil is bad news for Iraq, but more disastrous is the decline in its output, which has been dropping sharply owing to years of neglect. Out of 1,400 oil wells in southern Iraq – an area responsible for 80 per cent of production – a third are no longer working. "It's a fearful situation," says Jabbar al-Luaibi, a former head of the South Oil Company and a government adviser.

Iraqis and non-Iraqis alike have come to think of crises in Iraq in terms of people slaughtering each other. This has been the pattern over the past six years. But Iraqis are now waking up to the fact that they face a different type of crisis, one that will profoundly affect their future. Aside from oil, Iraq exports very little apart from dates. Most of the crude is pumped out of super-giant oilfields such as Kirkuk and Bai Hassan in the north and Zubair, Rumaila, Missan and Qurna in the south. It is their output which is now in disastrous decline.

In the last year of Saddam Hussein's rule in Iraq, and despite UN sanctions, the country produced 2.6 million barrels a day of crude. This compares to 2.4 million today, and both these figures are well down on the 3.5 million Iraq produced in the 1970s.

The government's desperate need to increase oil output, at a time when it does not have any money to invest, has given it no option but to turn to the international oil companies. The Iraqi Oil Minister, Hussain Shahrastani, says he needs \$50bn for investment which he does not have. Under the service contracts to be signed at the end of the month, the companies do not get a share of Iraq's oil, but they will get a fee for halting the fall in output and then increasing production. The deal is not perfect from their point of view, but such is their eagerness to return to Iraq that they will go along with it.

The government feels it has no choice but to give up a measure of control over its one asset in return for expertise and investment – though this situation is partly of its own making. The economy is a barely floating wreck. It has suffered from 30 years of war, sanctions and occupation. For six years the US and successive Iraqi governments have talked about reconstruction, but they have done little. I long ago developed a simple test for propaganda claims about reconstruction: I climb on the roof of my hotel in the Jadriyah district of Baghdad and study the skyline to see if any cranes are visible. To this day there are almost none – aside from a few rusting ones where Saddam was building a giant mosque, and, until recently, a cluster where the US was erecting a giant new embassy.

There are improvements in Baghdad: security is much better than last year. But the two million refugees abroad are still not coming back in large numbers, and it is easy to see why. There is more electricity, but still less than in Amman or Damascus. The petrol supply is better and you only occasionally see long queues of vehicles outside petrol stations. But not all the change is in the right direction. Iraq now has about 18 million mobile phones compared to none under Saddam Hussein. They are essential for communication in a country where violence, checkpoints and traffic jams make it difficult to see people in person. But over the past six months, the mobile phone system has got worse and worse. Often I dial half a dozen times before getting through, and then it is like talking to somebody at the bottom of a mineshaft.

I have been driving around Baghdad to see how far ordinary life is returning. I live in Jadriya, in a loop on the river Tigris, which I always hoped was as safe as Baghdad was ever going to get because it is overwhelmingly Shia – the uprising against the US in 2003-07 was Sunni – and President Talabani has his own heavily guarded district across the road from my hotel. These days there are people on the streets at midnight sitting in simple cafes with glaring lights. The same is true in parts of the Karada district where shopkeepers normally live above their shops. But this is not typical. On the other side of the Tigris, in mixed or Sunni areas, restaurants close at nine in the evening. This is inconvenient as people in Baghdad used to be nocturnal at this time of year, to avoid the intense summer heat.

I am wary about what restaurants I go to. This is partly because I am invariably the only foreigner. Many of them also have bad memories. I have started going again to the White Palace restaurant, which I had deserted after an Iraqi journalist was shot and wounded there a few years

ago. In west Baghdad the Sumad, a Kurdish-owned restaurant, was hit by a car bomb and several killed, but they have reopened with a comforting brick wall just inside the plate glass window.

Some areas have gone up and others down in the years of violence. Shurja, once the centre of Baghdad's great markets, is much emptier these days and the big merchants supplying Iraq often live in Dubai. Everywhere there are signs of poverty. In the centre of the city my car had to manoeuvre between a donkey cart and a tricycle rickshaw, one of many being imported from China. Almost nothing is made in Iraq. Even the heaps of watermelons by the fruit stalls are often imported from Syria.

Only the rationing system has kept many Iraqis from starvation in recent years, and this alone costs \$6bn annually. The government cannot afford to see its oil revenues go down, which explains why it is ignoring criticism of the new oil contracts. The US may not have invaded Iraq in order to control its oil reserves, but a consequence of the invasion has been to bring back the international oil companies.