

Iraqi Oil: Transparency and Corruption, By Munir Chalabi

On June 11, 2011, the Los Angeles Times reported that at least \$6.6 billion out of the \$12 billion of Iraq's money from the United Nations' oil-for-food program was very likely stolen, stating, "For the first time, federal auditors are suggesting that some or all of the cash may have been stolen, not just mislaid in an accounting error. Stuart Bowen, special inspector general for Iraq reconstruction, an office created by Congress, said the missing \$6.6 billion may be the largest theft of funds in national history." [1] Many analysts believed that such a robbery could not be a regular occurrence, but they soon found out that they were very much mistaken: this was just the beginning of a colossal robbery process and the \$6.6 billion was no more than the "tip of the iceberg."

Corruption goes hand in hand with all dictatorial regimes -- as seen with the old Ba'athist regime in Iraq -- and also with foreign occupations, including the US occupation of Iraq since April 2003. Corruption has in fact played a vital role in sustaining the US occupation and in controlling Iraq throughout the direct US occupation period from 2003 to 2005 and has in addition played a fundamental role in sustaining support for US interests since the establishment in 2005 of the elected government in Baghdad and the Kurdish Regional Government (KRG) in Erbil. Crucially, corruption provided the support the US administrations needed to maintain their interests, getting Iraqi groups to support Washington's efforts to privatize and control Iraqi natural resources.

Corruption within the majority of the Federal government ministries in Iraq, and particularly in the Ministry of Oil (MoO) is widespread. Investigations involving the MoO have been manipulated as in every other ministry, and MoO's Inspector General is completely ill-equipped to handle oil theft cases. There is no accurate accounting of oil production; Iraq to this date has no nationwide metering system and so does not

know how much oil it actually produces, therefore increasing the likelihood of oil theft.[2]

The level of corruption in oil contracts in the Kurdish areas is more noticeable, as the powerful leaders of both parties forming the KRG get a percentage with every Production Sharing Contract (PSC) they sign. This was admitted by some US officials in Iraq, as the International Oil Companies (IOCs) pay up to 20% for each PSC agreement the leaders endorse. Several officials close to various oil negotiations say associates of Kurdish leader Masoud Barzani have requested that up to 10 percent of future revenue go to Barzani personally and an equal amount to his political party. On June 23, 2004, US authorities transferred \$1.4 billion to Kurdish leaders which corresponded to the KRG's 17% share of the \$8.3 billion of the Iraqi people's money from the 'oil for food program.' Less than a week after receiving that windfall, the KRG signed its first PSC agreement with the Norwegian company DNO.[3]

How open are the IOCs about their international dealings?

Transparency International is best-known for its [annual examination of corruption around the world](#). [4] The country level disclosure on international operations of IOCs and National Oil companies (NOCs) is an indication of their level of transparency and corruption. The lower the level scored, the lower the transparency and the higher the level of corruption within their international operations.

This area is where many of the giant IOCs and NOCs companies fall down. The average score is only 16%, with well-known companies scoring low on the list. The level of disclosure on International operations of the main IOCs and NOCs which operate in Iraq is shown to be:

BP-14%, CNPC-1%, Eni-20%, Total-11%, Chevron-8%, Conoco-16%,

Petronas-0%, Lukoil-15%, Exxon-10%, Sonangol-0%.

At the same time, the Transparency International World corruption index puts Iraq as one of the most corrupt countries in the world as it comes in at 175th position out of the 178 countries shown in the index.[5]

The above clearly indicates that the international operations of the IOCs and foreign NOCs which have an extremely low levels of transparency and operate in Iraq, one of the most corrupt countries in the world, should be looked at as a thriving environment in which to cultivate an excessive level of corruption.

How transparent are the 1st and 2nd bid rounds contracts?

It was widely expected that the American drilling companies stood to make tens of billions of dollars from the new petroleum activity in Iraq long before any of the oil producers start to see any returns on their investments. Most of the IOCs that won the 11 fields in both auctions are now sub-contracting their drilling operations mostly to the four largely American oil services companies that are global leaders in their field: Halliburton, Baker Hughes, Weatherford International and Schlumberger. Those four have won the largest portion of the subcontracts to drill for oil, build wells and refurbish old equipment.[6]

The consortium that succeeded in winning the Rumaila oil field bid is led by BP (38 %) partnering with the China National Petroleum Corporation (CNPC; 37 %) and the Iraqi State Oil Marketing Organisation (SOMO; 25%). The consortium aims to nearly triple the Rumaila field's output from 0.95 million barrels per day (mbd) to 2.8 mbd, which would make it the world's second largest producing oilfield.

At the start of 2010, a series of service contracts for the drilling of 56

wells in Rumaila were signed between the Iraqi MoO and a group of five oil drilling companies put forward by BP and CNPC, including several US companies such as Weatherford, Schlumberger, ADC (US/Saudi) and China's Daqing Petroleum, with a distribution of wells of roughly ten to eleven for each company, valued at around \$10 million per well. These inflated prices forced the Upstream Journal on March 31, 2010, to call it "The Rumailah feast"; the Journal confirmed these statistics in an interview with Mr. Abdul Mahdi Al-Omaid, the general manager of contracts in the MoO.[7]

The estimated real cost of each well should be no more than \$2.5 million at the prices prevailing in other countries of the Arabian/Persian Gulf based on the same drilling specifications for drilling wells around 2000 metres in depth. The difference is \$7.5 million per well. So we find that the difference between the real values and the paid prices in this deal was altogether around \$420 million, because the value of the transaction with the five companies was approximately \$560 million, while the real value should not be more than \$140 million.[8]

In addition, some Iraqi oil experts -- including some who are supporting the 1st & 2nd bid rounds -- have investigated the drilling deals and concluded that the consortium led by BP must have paid substantial bribes to MoO officials in order to allow such absurd prices to be accepted.

This scandal was exposed by several Iraqi oil experts in articles and during TV interviews, despite the media blackout imposed by the Iraqi MoO on the content of the contracts and which I covered in my previous analyses.[9] This disgrace recently compelled Halliburton to submit new offers for new wells at \$5 million for the drilling of each well, with specifications higher than the specifications of the 56 Rumaila wells mentioned above. The depth of the wells covered by Halliburton's offers is up to 3,000 metres, while the cost of the 56 Rumaila wells was \$10

million per well, with a depth of no more than 2,000 metres.

However, despite forcing oil service companies to reduce their prices to below half of that charged for the 56 Rumaila wells, these are still much higher prices compared to those seen in neighbouring countries.

It is important to note here that the level of corruption in drilling contracts was much higher in the KRG's drilling contracts with the IOCs signed three years ago, at costs reaching \$30 million per well, with approximately the same specifications as the wells from Halliburton's offer, while the highest drilling contracts signed 2 years ago between the Iraqi MoO and the IOCs to drill wells in the south with the same specifications as that for Rumaila, reached \$17 million per well.

To illustrate the importance of this matter it is imperative to point out that the process of developing the fields currently under way will include the drilling of over four thousand new wells, over a period of five to six years from now, a number which is believed sufficient to produce 12 million barrels per day. However, even after the new reduced prices from Halliburton, the difference in prices still stands at \$1.5 to 2 million per well with a 3,000 metre depth and 2.5 million dollars for wells with 2,000 metre depth, which is more than the customary prices seen in other Gulf countries.

Iraqi oil expert Mr. Hamza Al-Jawahri, who is working as an independent consultant for the MoO and who supported the 1st and 2nd bid rounds, believes that such financial corruption will cost the oil ministry an additional \$6 billion, and this difference is for the digging of wells and processed only in accordance with the new price reduction by Halliburton. If we take, however, the difference between the costs already paid for the previous 56 Rumaila wells, the difference will amount to \$26 billion.[10] So the question we raise here is what do these highly inflated and

suspicious prices include other than the drilling requirements needed for developing the new oil facilities?

Another area of suspicious activity by the IOCs, including BP, is that the companies are charging between one and two million dollars per annum for each foreign drilling specialist and field engineer, which is more than four times the estimated real cost for specialists employed in other countries in the Gulf.

It is also important to look at the available information on the other IOCs' drilling activities, which are still behind in their progress compared to BP/CNPC's operation in the Rumaila oil field, in order to identify the level of transparency of the other IOCs awarded the other contracts in the 1st and 2nd bid rounds.

The Italian newspaper *Corriere della Sera* quoted Italian government investigators as saying that Eni Group managers are suspected of taking kickbacks for their development of the Zubair oil field in Iraq as well as for work in the Jurassic field in northern Kuwait. The newspaper claimed that Italian engineering and construction companies had bribed Eni and Saipem executives in order to secure subcontracts.[11] It is notable here that Eni involvement in the Zubair oil field at this phase is still in the early stages of the development of the field and it mainly consists of drilling new wells. It is also notable that the Zubair wells were contracted by the Iraqi MoO to Eni drilling subcontractors at \$7 million for each 3,000-metre deep well in comparison to the same wells which cost around \$3 million in other parts of the Gulf area outside of Iraq, which makes Eni's subcontractors' prices about 2.4 times the prevailing prices.

We are also now aware that the French public prosecutor's office, which answers to the justice ministry, decided to bring charges against Total, the French oil giant, its CEO and 18 others including former conservative

interior minister Charles Pasqua. In addition, Total current chief executive officer Christophe de Margerie, who was part of the consortium that won the Halfia oil field in 2009, is to stand trial in Paris over alleged wrongdoing and is accused of bribing foreign nationals regarding Iraq's oil-for-food program during Saddam Hussein's rule.[12]

Conclusion

The UK Foreign Office Minister Lord Howell said in his speech at the Iraq Petroleum Conference in London on July 12, 2011, "Corruption must be tackled to enhance investor confidence and the Rule of Law must be a cornerstone of government. These are the necessities for the high investment we all want to see." [13]

These calls by Lord Howell undeniably justify the start of an enquiry by the British Government into the allegations of bribery and corruption which seem to be standard practices carried out by the British company BP, as the largest partner in the Rumaila consortium, and its drilling subcontractors. It would seem obvious that if the Iraqi side is corrupt, which seems to be the case by all indications, then BP/CNPC who are responsible for any deals by their drilling subcontractors, could also be involved in bribery and corruption with regard to the Rumaila field. This is a highly suspicious situation and accusations have been made by several Iraqi oil specialists regarding the existence of such huge discrepancies, especially when BP/CNPC sub-contractors are justified by BP in charging the Iraqi MoO four times the going price for oil well excavations. Such investigations should be carried out in a similar way that the Italian and French Governments are currently looking into Eni and Total.

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Notes

1. "[Missing Iraq money may have been stolen, auditors say](#)," Los Angeles Times, June 11, 2011.
2. Munir Chalabi, "[Views on the Prospects of Iraq's Oil and Gas Resources](#)," ZNet, March 20, 2009.
3. Michael Rubin, "[Is Iraqi Kurdistan a Good Ally](#)," Middle East Forum, Jan. 2008; Barbara Jones and Peter Simpson, "[Iraqis call for inquiry into Blair and Korean tycoon: Oil Minister is being probed over corruption claims](#)," Mail Online News, March 28, 2010.
4. "[Transparency International on oil companies and corruption: who is the most open?](#)," Guardian Datablog, Feb. 28, 2011.
5. "[Corruption index 2010 from Transparency International](#)," Guardian Datablog, Oct. 26, 2010.
6. Andrew E. Kramer, "[In Rebuilding Iraq's Oil Industry, U.S. Subcontractors Hold Sway](#)," New York Times, June 16, 2011.
7. "Drillers tuck into Rumailah feast," [Upstreamonline.com](#), March 31, 2010.
8. Hamza Al-Jawahri ([in Arabic](#)).
9. Munir Chalabi, "[Iraqi Oil: What is hidden inside the Oil Contracts from the 1st and 2nd Bid Rounds?](#)," ZNet, April 24, 2011.
10. Hamza Al-Jawahri ([in Arabic](#)).
11. "[Italian firms probed for oil bribery in Iraq](#)," Zawya, June 23, 2011; "[Italy probes ENI for corruption in Iraq, Kuwait](#)," AFP, June 22, 2011.
12. France 24, "[Total and French ex-minister face oil-for-food trial](#)," Aug. 3, 2011.
13. Foreign and Commonwealth News, "[Foreign Office Minister for Energy addresses Iraq Petroleum Conference](#)," July 12, 2011.

[Munir Chalabi's ZSpace Page](#), September 26, 2011