

The internal struggle for the Iraqi oil law continues, By Munir Chalabi *)

A year has passed since the landmark deadline of December 2006, which was 'publicly' imposed by the IMF, the Iraqi Study Group (ISG), the US administration and the International Oil companies (IOCs) on the Iraqi government to deliver the long awaited Iraqi oil law.

But it still seems that we are no closer today to seeing the new law approved than we were back in December 2006.

In an August 22, 2007 "[What is holding up the delivery of the long-awaited Iraqi oil law,](#)" I covered the history, the background and the political developments surrounding the controversy over the Oil Law, including all the external and internal factors behind the delays in its materialization.

I concluded that internal Iraqi factors were the main causes behind the hold-up of the new oil law.

The developments on the ground over the past four months proved the accuracy of this analysis. Therefore, this article should be read in conjunction with the earlier analysis and should be seen as a further step in bringing the debate surrounding the oil law up-to-date.

The Iraqi dynamics behind all the delays in the approval of the oil law have become more and more obvious over the previous few months. Their role in setting back the delivery of the oil law is becoming accepted by many International and by most Iraqi oil experts and analysts as the key factors bringing the progress on the oil law to a halt, as well as bringing some changes to US tactics on this benchmark.

In this analysis, I will cover the various internal Iraqi factors in more detail, as they have developed over the past few months.

1. The split between the Central Government/Oil Ministry in Baghdad and the Kurdistan Regional Government (KRG).

The split on several issues involving the oil law has increased dramatically in the past four months between the above parties and has become public on a number of occasions.

This divide has widened due to the following factors:

First, there was the passing of the "Kurdish Oil law" by the KRG on August 6, 2007, which is mainly founded on Production Sharing Contracts (PSC) model agreements with the IOCs to develop oil production in the Kurdish region, without obtaining the approval of the federal government or awaiting the outcome of the federal oil law.

Second was the rush by the KRG to sign five PSC agreements with smaller IOCs, including DNO from Norway and others from Canada and Turkey, before the enactment of the Kurdish oil Law. These actions were followed by the signing of another fifteen PSC agreements since the passing of the law, without the consultation of the federal oil ministry in Baghdad, as well as having no provisions within the agreements for sharing revenues with the central government.

Third was the inclusion of areas which are located outside the recognized Kurdish region, such as some of the oil fields of the governorate of Ninewa. in the September 2007 PSC agreement with the US company, Hunt Oil (see Iraqi oil expert Faleh Al-Khayat, "[KRG Assigns Khurmala Dome in the Kirkuk Field Unilaterally,](#)" Amman, Jordan, November 8, 2007.).

Fourth was the decision by the KRG to give one of its newly founded oil companies the responsibility of developing Khurmala, which is one of the three domes of the giant oil producing Kirkuk fields, which is listed under annex 1 of the draft oil law (which lists those fields that may only be developed by the Iraqi National Oil Company [INOC]). The KRG had asked that Khurmala be moved to annex 3 (which lists fields that may be contracted to the IOCs, permitting PSCs) in order for it to be given to the private companies at a later date. (See [Letter of Iraqi oil professionals](#) of September 26, 2007.) This follows a signed agreement by the Oil Ministry in Baghdad with a Turkish company

two years ago which was about to start construction activities, but were blocked from doing so by the KRG.

These factors all led the Oil & Gas parliamentary committee and the minister of oil, Dr. Shahristani, to declare on several occasions that the federal Oil Ministry considers all these agreements as illegal and they have threatened to take legal action against these companies, as well as putting them on a blacklist, depriving them from participation in any future contracts with the Oil Ministry.

As this split widens, the approval of the federal oil law in the Iraqi parliament will be an extremely difficult goal to achieve under such circumstances.

2. The weakness of Al-Maliki's Government and the sectarian divisions within the parties participating in the political process.

The formation of the "front of the moderates" on August 15, 2007, between the two main Kurdish parties (KDP and the PUK), two of the main Shiite parties -- the SCIRI and Al-Dawa party (the Al-Maliki wing is called the "External organization") -- and the Islamic Party/Accord front (the main Sunni party), did not succeed in delivering the new oil law up to this date.

The failure of these parties in approving the oil law and the re-Baathification law was due to the following reasons:

First, the front was no more than a conservative political alliance, formed to pass certain laws with no agreed political agenda or plans among the parties involved.

Second, the disagreements and divisions between the parties were very wide, as each of them was mainly concerned with supporting its own party interests, the interest of the sectarian groups each represents, as well as gaining a larger slice of political power. This was the main reason behind the action of the Accord front in pulling out its ministers from Al-Maliki's government.

Third, when the parties formed the "front of the moderates" they all agreed to support the oil law in principle. However, when it came down to the details they disagreed on several issues in the oil law.

In addition, several MP's from Al-Dawa's "Iraq organization" wing and the "Accord front" had never been supporters of the draft oil law.

Fourth, the long standing combined political and sectarian disagreements between the parties involved in the alliance were stronger than all the on-going pressure that have been forced upon them by the US Administration to this date.

These disagreements and the sectarian agendas of the political parties paralyzed the government's ability to agree on the oil law, so that when the law itself reached parliament their ability to agree on the law was also impaired -- despite the fact that the parties within the "front of the moderates" held the majority in the federal parliament.

Finally, came the deadline for the crises on the Kirkuk Referendum. Under Article 140 of the Iraqi constitution, the Iraqi government must complete the normalization process in Kirkuk, hold a census and then a referendum on the status of Kirkuk no later than December 31, 2007. This process has now been delayed by a further six months, which has created more tensions between the parties involved in the political process and has formed another obstacle to agreement on the oil law.

3. Increased Iraqi public awareness and pressure.

This topic was covered in more detail in [my August 22 analysis](#).

However, it is important to emphasize that the activities of Iraqi civil society's organizations, groups, and individuals against the oil law have been increasing in several parts of Iraq and in particular in Basra and Baghdad.

4. The security and economic crisis.

The partial improvements of the security situation in the past few months was more visible in Baghdad, its surrounding areas and the western provinces. However, this is most likely no more than temporary progress, as these improvements are founded

mainly on security measures and few political consensuses. Therefore, only a small percentage of the millions of displaced civilians were able to return to their homes. On the other hand, there was an increase in the number of military attacks by occupying forces against civilian targets in the south/centre provinces of Al Diwaniya, Al Kute and Karbala, as well as in the activities of the CIA-controlled death squads in the southern provinces of Al Amarah and Basrah.

The recent escalation of tension between the Turkish government and the KRG, and the military attacks of the Turkish army and air force in the Kurdish provinces, with the consent and help of the US administration, have widened the areas where military actions are taking places in Iraq. This is a new area of conflict, which has resulted in reaching parts of Iraq which have had no or very few military attacks and civilian casualties during the previous four years.

As for the economic situation, it remains unchanged. There have been no improvements in the job market, with millions still unemployed and most Iraqi cities and towns still having either no or severe shortages of electricity, clean water and other basic life necessities.

So, Iraqis are still continuing to question the wisdom of trying to concentrate on rushing the Oil & Gas law through parliament while the country continues to be in such a devastated state.

Conclusions:

In addition to the conclusions in [my August 22 article](#) which still stand in principle, the following new conclusions have surfaced since then, and are highlighted below:

1. The US Administration and the IOCs have recognized in the past few months that their tactics up until the middle of 2007 of 'publicly' imposing all kinds of benchmarks and deadlines on the Iraqi government are having the opposite effect on their chances of having the oil law passed by the Iraqi parliament.

2. It has become clear that it's in the interest of the US & the IOCs to use more discreet methods of pressure in order to improve their chances of having the oil law materialize. This change in tactics is due to the increase in opposition and mistrust by the vast majority of the Iraqi people from all classes. This rejection is not only towards the oil law, but also towards all US administration policies that attempt to continue the occupation under different forms.

These tactical changes should not be seen as an indication of any strategic changes in the US attitude toward the oil law. The US administration, the Democrats, and the strong international oil lobbies are all adamant that passing this oil law is a vitally important benchmark, and that this goal should be pursued, whatever the cost to the Iraqi people.

3. Some Iraqi and international oil experts and analysts believe that the US Administration and the big oil giants were behind the pressured rush in passing the Kurdish oil law in August 2007 without waiting for the outcome of the federal oil law. They also believe that the twenty PSC agreements which were signed between the KRG and IOCs were further part of the discreet pressure applied on the federal parliament to pass the federal oil law. This pressure seems to have been yet another mistaken policy, which has misfired and resulted in widening the split between the oil ministry in Baghdad and the KRG, and has ultimately caused even more delay to the federal oil law.

4. Several Iraqi civil society organisations and groups including the group of the "sixty Iraqi oil professionals" (see [their Sept. 26, 2007, letter](#)), the IFOU "Iraqi Federation of the Oil Union" and individual Iraqi oil experts have issued statements supporting the stance of the oil minister and the parliamentary committee in rejecting the steps which were taken by the KRG. Such support should be looked upon as no more than tactical support to this particular stance of the Iraqi oil minister, but not towards his strategy on the oil law.

5. It is becoming more and more apparent that the US Administration and the big IOCs are using the KRG's self interest, as a main tool in their plan to pass the federal oil law.

6. It is interesting to note that none of the big IOCs have signed any PSC agreements with the KRG and that they have left these PSCs to the smaller companies. This clearly indicates that the big IOCs are relying mainly on the federal oil law for their big contracts.

On the other hand we see that the big IOCs are carrying out all types of 'behind closed doors' negotiations with the oil ministry in Baghdad to prepare the ground for quick deals as soon as the federal oil law materializes (see Ben Lando, United Press International, "[Analysis: Big oil to sign Iraq deals soon](#)," December 6, 2007).

7. Other methods used recently by the big IOCs include negotiations to share among themselves some of the already-signed PSCs with the old Baath regime. It was reported that US giant Chevron and France's Total have agreed to jointly develop "The Majnoon oil field," one of the largest oil fields in southern Iraq. (Dow Jones news service report, August 8, 2007.) But this giant field is listed as number 16 in annex 1 of the draft oil law (versions of February and June 2007), which is the list of fields that can only be developed by the INOC. This indicates that the Iraqi Government/Oil Ministry have secretly agreed with some IOCs to deceive the Iraqi Parliament, and to give the IOCs some of the oil fields that the new law prohibits from being developed by anyone other than INOC. The Majnoon oil field was the main field which the Iraqi Baathist government wanted to give to Total under a PSC agreement during their secret negotiations in the 1990s, and over which Total reached a tentative agreement with the Baathist government in 2000. The negotiations did not end with any official open agreement because of the UN sanctions at the time ([Oil Companies in Iraq: A Century of Rivalry and War](#)).

8. No action has been taken by the federal government to reinstate INOC. To this date, the Iraqi government has not attempted to introduce a law to reinstate INOC, which was dissolved by the Baath government back in 1987. This is clearly a deliberate attempt by the ministry of oil to give the IOCs the upper hand to push for PSC modules, since without reinstating INOC first, which gives the oil ministry the backup option of developing future oil production on its own, the negotiating position of the ministry will remain very weak,.

9. The Iraqi oil minister and the technocrats in the oil ministry, who, together with their foreign advisers, are behind the rush for the approval of the draft oil law, are becoming very frustrated with the inability of the government and the "front of the moderates" to get the oil law approved by the parliament. This has led them to start secret negotiations, some of which have taken place between Dr. Shahrstani and representatives of BP, Shell, and other big IOCs at the beginning of December during the OPEC meetings in Abu Dhabi. (Lando, "[Analysis: Big oil to sign Iraq deals soon](#).")

10. It is significant to note, that the entire vigorous political struggle in opposition to the new oil law has been carried out within the framework of the existing Iraqi political process. This emphasizes that with all the negative features of this process, there are no alternative options to use. Recent Iraqi political history indicates that the oil law would have been passed some time ago, in a similar fashion to the privatization laws of the Baath regime between 1987 and 2002, if the Occupation's Governing Council and its appointed puppet, Allawi's Government were still in power.

11. There is an increase in the positive and effective campaigning taking place around the world against the oil law by international organisations. Some of these organisations have been formed from existing groups, especially to oppose the oil law including the UK "[Hands off Iraqi oil](#)", the US "[Stop the Iraqi oil law](#)", and others. Environmental groups,

anti-occupational movements and several international trade unions are providing vital support to the Iraqi anti-oil law movements, and they are carrying out very constructive and helpful media campaigns. (UK Organizations: [PLATFORM](#) and [War on Want](#); US Organizations: [Global Policy Forum](#), [Institute for Policy Studies](#), and [Oil Change International](#).)

12. The most important struggle facing the opponents of the federal oil law is still ahead. We all have to remember that the most significant motive behind the US/UK war and the follow up occupation of Iraq was to ensure their full control over Iraqi oil reserves. So neither the US/UK Administrations nor the big IOCs or their friends are going to easily give up the fight simply because of the internal Iraqi factors which delay the new oil law. They will intensify their pressure on all Iraqi parties, especially their allies in the "front of the moderates". They will change tactics and use all types of tricks. They will pay whatever it takes and will give all types of promises, in order to pass the oil law in one form or another through the Iraqi parliament. They need this law for their future domination and control.

The year 2008 will be a vital one for all Iraqi and international opponents of the oil law. If the US Administration and the IOC succeed in their assault to privatize nationalized Iraqi oil, then this will be their first step before they move to impose these types of privatization laws on other Gulf countries and states, where over 75% of the world's proven oil reserves are located.

*) Munir Chalabi is an Iraqi political and oil analyst living in the UK

First publication: January 02, 2008 [Munir Chalabi's ZSpace Page](#)

Iraqi Economists Network, March 16, 2013