

## **Views on the Prospects of Iraq's Oil and Gas Resources, By Munir Chalabi \***

Iraq has proven oil reserves of 118 billion barrels and this could be increased by up to 235 billion barrels. Iraq also has 78 trillion standard cubic feet of gas reserves which could also be increased by up to 110 trillion standard cubic feet through enhanced recovery and exploration.

The Iraqi Deputy Prime Minister Barham Salih stated that new exploration showed that Iraq has the world's largest proven oil reserves, with as much as 350 billion barrels. The figure is triple that of Iraq's present proven reserves and exceeds that of Saudi Arabia's estimated 264 billion barrels of oil. The new estimate had been based on recent geological surveys and seismic data compiled by reputable international oil companies.[1]

This analysis will cover two essential topics: First, an examination of the contending views on how Iraq's huge potential oil and gas natural resources can be harnessed for the benefit of the Iraqi people, and second, the actions of the two major Iraqi players, the Iraqi Federal Government and the Federal oil ministry in Baghdad, on the one hand, and the Kurdish Regional Government (KRG) in Erbil.

Views on the vital issue of how to use Iraq's oil and gas resources fall into two camps.

The first camp believes that Iraq's natural resources should stay nationalized and argues that Iraq should develop its own oil and gas resources with overseas technical help, but without bringing in the foreign International Oil Companies (IOCs) as participants or partners in this process. This camp enjoys wide public support and includes a large number of nationalists, Iraqi economists, oil and gas experts, civil society organizations, the Iraqi Federation of Oil Union, and some political parties such as 'the Sadr movement,' as well as some politicians from other parties in the Federal parliament. What characterizes this camp is that there is no real co-ordination between the different elements and this therefore seriously limits their potential.

The second camp favors privatizing the existing nationalized oil and gas resources, believing that Iraq cannot go it alone and needs to depend partially, if not completely, on the development of its natural resources by the IOCs. Within this camp are all the political parties within the 'front of the moderates' from all the three sectors of Iraqi society who form the Federal government, along with the Federal oil ministry in Baghdad, and the KRG in Erbil.[2]

### **The Federal government policies**

The Federal government and the oil ministry in Baghdad needed a new oil law to be approved by the federal parliament, in order to go ahead and deliver their privatization policies.

Over two and a half years have passed since the first attempt was made back in June 2006 by the federal oil ministry to present the first draft of the oil law; however, mainly due to internal Iraqi dynamics the progress on this law has been brought to a halt. In this analysis, I will not cover the reasons for this standstill, as I have already covered this in some detail[3], and those factors still stand.

These delays necessitated a change in tactics of both the US Administration and the IOCs. These delays also forced the federal government in Baghdad to restructure their privatization strategies on oil and gas and introduce a two stage plan.

*The first stage* covers the ministry's short term plans to go ahead with their privatization of the oil and gas resources using all the available old Baathists' privatization policies and laws.

The Federal oil ministry claims that they obtained the legal authority they need to hold their first bidding round for service contracts to manage several major fields, from the April 1987 Baathist's Revolutionary Command Council decree that dissolved the state Iraqi National Oil Company (INOC) and transferred the authority to sign contracts to the Ministry of Oil (MOO). This solution has provided a way for the Federal oil ministry to carry on their privatization policies until the new law is in force. The Federal government claims that this old decree provides all the authorization that it needs, but it may not be enough to enable it to actually close deals with the IOCs.

Both the Federal oil minister, Dr. Hussain Shahrastani, and the Prime Ministerial Oil Advisory Commission (PMOAC) chairman, Thameur Ghadhban, stated on several occasions that "the constitution does not stipulate that oil contracts must be passed by legislation." However, several powerful parliamentarians have disputed this view. Perhaps more importantly, there is a consensus among the IOCs' oil executives and legal observers that no companies will commit to Iraqi projects while their deal could be superseded by fresh legislation in the form of the new oil and gas law required by the constitution. If the law is not in place, a stop-gap solution by which each contract is approved by parliament (giving the deal the status of legislation) could provide the necessary comfort for IOCs to proceed with investments. Such a compromise would be welcomed by politicians. Parliament Oil and Gas Committee vice chairman Abdelhadi Al-Hassan stated on more than one occasion that currently "every contract has to go through the parliament," but this would be a very long-winded process. So the first stage of the plan is not going to

proceed that easily.

*The second stage* of this two stage strategy will be vital for the medium to long term plans of the Federal government. What they are working on at present is to develop the new oil and gas privatization law, which will be negotiated with the KRG in order to agree on a reconciliation form of law which will be acceptable to both sides and can be presented to the Federal Parliament.

The other tactic the central government in Baghdad is using is to present the new oil and gas law to the Federal Parliament as part of a package together with the 'Revenue Sharing law.' This tactic has previously been used with success: by satisfying all the parties within the 'front of the moderates' in the Federal parliament in terms of 'ethno-sectarian quota-sharing,' they can get them to accept the objectionable parts of the other laws.

The key issue which is facing the Federal oil ministry is the reinstatement of the INOC. To this date the federal government has not taken any genuine steps to reinstate INOC before they carry out any negotiations with the IOCs. This is clearly a calculated attempt by the Federal ministry of oil as part of its privatization plans, and will permit the IOCs to push for Production Sharing Contracts (PSCs) or similar modules of contracts, since without reinstating INOC first (which is needed to give the oil ministry the backup option of developing future oil production on its own), the negotiating position of the oil ministry will remain extremely weak.[4]

### **The policies of KRG on Oil & Gas**

Since the start of the US occupation of Iraq, both the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK), which together form the KRG, have based their policies on total co-operation with almost all the plans of the Bush/Cheney administration, and their strategies on oil and gas were no exception. Here they complied fully with US and IOC interests, which coincided with the interests of the 'leaders' of both parties.

The KDP and PUK policies were aimed at assuring that all oil and gas production and developments in the Kurdish areas should be carried out by IOCs through PSCs. They also wanted to ensure that any new INOC authority and ability to control production would be kept to the bare minimum level. The KRG also wanted all strategic decisions and planning to be made at the regional and not at the federal level.

So what are the main issues of disagreement between the Federal Government in Baghdad and the KRG on the new oil and gas law?

- a. The KRG wants to immediately privatize the vast majority of the oil and gas resources in the KRG areas, if not in all of Iraq, while the Federal government wants to privatize the majority of the proven oil and gas reserve resources and to keep only the existing producing fields nationalized.
- b. The KRG wants to go all out for the PSC models of agreements which satisfy all the needs of the IOCs, while the Federal oil ministry wants to use other modules of agreements such as the "Exploration Risk Contract" and the "Exploration and Production Contract," which are forms of 'hybrid' contracts that satisfy many but not all of the IOCs' requirements.
- c. The KRG wants strategic planning for development to be made at the regional level, while the Federal oil ministry wants it centralized and carried out at the Federal ministry level, but with the participation of the regions and governorates.
- d. The KRG has ventured out alone and started signing PSC contracts with several IOCs (up to 28 to this date) without presenting them to the federal oil ministry in Baghdad and without even any discussion with the Federal ministry. Federal oil minister Dr. Shahrastani very strongly opposed this move and called all these agreements illegal, threatening that any IOC which had signed such an agreement would be blacklisted by the Federal oil ministry in Baghdad.
- e. The KRG wants to spread their control of the oil and gas fields to areas that are not part of the KRG territory, which they call 'disputed areas' in the governorates of Ninewa and Diyala. The Federal government do not to this date accept the KRG's claims in these areas.
- f. The KRG wants to include the governorate of Kirkuk as part of the KRG region and therefore they want to control the vast majority of oil and gas resources in the north of Iraq. As the dispute between the Federal government and the KRG on Kirkuk has still not been resolved, the Federal government believes that all the oil and gas fields in Kirkuk should stay the responsibility of the Federal ministry of oil in Baghdad.

### **The new Iraqi Shell gas agreement rip-off**

The privatization program of the Federal oil ministry in Baghdad has now moved to cover gas resources.

The latest 'Heads of Agreement,' which was signed on the 22 September 2008, will form a 'joint venture' (JV) company between Shell and the

Federal Oil Ministry and will give Shell a 25-year monopoly on the whole of the gas industry of southern Iraq. The agreement will also give Shell the largest role in Iraq's oil and gas sector since the 1960s, with Iraq owning 51 percent and Shell 49 percent. The joint venture company will off-take and purchase all raw gas produced in the South of Iraq by either the 'South Oil Co.' or any other producers. The agreement covers the whole of the "South of Iraq," though a map appendix shows the contract territory extending for an unknown distance into the Arabian/Persian Gulf and any other areas as may be agreed by Shell and the Oil Ministry. The JV company would not focus solely on "associated gas," found during oil production but will "pursue development of non-associated gas fields in southern Iraq." The JV company will own all other products, such as fuel for cooking and heating and will sell it to the Oil Ministry or directly to domestic consumers -- bypassing the ministry or 'exported at prices' linked to international market prices. If such an agreement were to be approved by the government, it would be a "free gift" to one of the Federal oil ministry's closest known 'foreign friends,' since this was a non-competitive contract, with no open tender to get the best deal for the Iraqi side.[5]

One of the prominent Iraqi oil and gas experts, Mr. Fouad Al Amir, published in Arabic a comprehensive and detailed analysis of this agreement.[6]

### **The role of corruption in supporting privatization of Iraqi natural resources**

Corruption goes hand in hand with all dictators' regimes, for instance the old Baathist regime, and also with foreign occupations, including the existing US occupation of Iraq. Corruption has in fact played a vital role in sustaining the US occupation and in controlling Iraq throughout both the direct US occupation period with the Governing Council and through their appointed puppet government era led by Allawi.

Corruption has also played a fundamental role in sustaining support for US interests within the elected government of the 'front of the moderates' in Baghdad and the KRG in Erbil.

From the start of the US occupation in 2003, the US occupying administration in Iraq was corrupt from top to bottom and at all levels. This played a vital role in getting the support the US occupation needed to maintain their interests. Since privatization and control of Iraqi natural resources is one of the most important goals of the occupation, corruption played the same crucial purpose in getting some of the Iraqi supporting groups to endorse these policies.

US federal investigators are now starting an inquiry into the actions of a

number of senior US officers involved in the program to rebuild Iraq, according to several sources, including *The New York Times*, which cites interviews with senior government officials and court documents.

Most Iraqi and international analysts are convinced that the theft or waste of huge sums of US and Iraqi government money could only have happened if senior US officials were themselves involved in the corruption.

As one US businessman active in Iraq since 2003 said "I believe the real looting of Iraq after the invasion was by US officials and contractors, and not by people from the slums of Baghdad." [7]

US administration pay-offs and corruption have played a major role in the KRG plans, since the powerful leaders of both parties forming the KRG get a percentage with every PSC they sign. The rumors in Kurdistan, which were admitted by some US officials in Iraq, are that the IOCs pay up to 20% for each PSC agreement they endorse. Several officials close to various oil negotiations say Barzani's associates have requested that up to 10 percent of future revenue go to Barzani personally and an equal amount to Barzani's political party. [8] On June 23, 2004, US authorities transferred \$1.4 billion to Kurdish leaders which corresponded to the 17% share of the KRG from the \$8.3 billion component of the Iraqi peoples' 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.

Corruption within the majority of the Federal government ministries and in particular, in the Ministry of Oil is widespread. [9] Investigations involving the Ministry of Oil have been manipulated and the Inspector General of the ministry is completely ill-equipped to handle oil theft cases. There is no accurate accounting of oil production, no metering, and no transportation within the ministry, whilst the US occupying administration and organized crime groups are stealing oil for the benefit of militias/insurgents, corrupt public officials, and foreign buyers. [10]

## **Conclusion**

1. The process of privatization of Iraqi oil and gas resources, which was completely nationalized in two stages (1961 and 1972-75), was started by the Baath regime back in April 1987 when the Baathist government took its first steps down the privatization route and dissolved the Iraqi National Oil Company (INOC). This was followed during the 1990s by the signing of several PSC agreements with IOCs regarding giant Iraqi oil fields. In 1997, the Baathist government signed the first PSC agreement with the Russian oil company Lukoil regarding the giant West Qurna-2 oil field. Then in 2000 they signed a second PSC with the Chinese National oil

company on the giant Ahdab oil field, a third with the French Total on super giant Majnoon oil field, and three more privatization agreements with Indonesia, India, and Vietnam. However, due to the sanctions that were imposed on Iraq, no actual work was in fact started on the ground on any of the fields which were covered by these PSCs.[11]

2. The future of Iraqi oil and gas is bleak. This is due to the fact that the major players -- the Federal government/Federal oil ministry in Baghdad and the KRG oil ministry have the same plans for the future of the industry. They have both founded their policies on the privatization of the nationalized part of existing Iraqi oil and gas wealth. This contradicts article 111 of the Iraqi constitution which states "oil and gas are owned by all the people of Iraq in all the regions and governorates," and therefore cannot legally be privatized.

3. On the other hand there are very important disagreements between the Federal government in Baghdad and the KRG in Erbil as highlighted in the above analysis. The anti-privatization camp could use these important differences to its advantage.

4. The wide spread corruption in the Federal government, the oil ministry and the KRG at all levels, together with the absence of transparency and accountability are playing a crucial role in helping to generate support for the privatization policies within policy making political circles.

5. The privatization policies are not sectarian policies within the Federal oil ministry or the Federal government, as some would have us to believe. It is the policies of all the parties, from all three sectors of Iraqi society in the Iraqi 'front of the moderates' who form the Federal government in Baghdad and the KRG government in the Kurdish region of Iraq. The political facts show that all these parties are behind the privatization of Iraqi oil and gas resources.

Hussein Shahrastani, the oil minister, is a Shi'ite, whilst the Prime Ministerial Oil Advisory Commission (PMOAC) chairman, Thameur Ghadhban is a Sunni (he is the second most important individual in the Federal oil ministry and is an old Baathist who was appointed as oil minister by the Governing Council when they appointed Iyad Allawi as prime minister). Ashti Hourani, KRG minister of natural resources is a Kurd and all of them are very much supporters of the privatization of Iraqi oil and gas resources and co-operation with IOCs.

6. When the first versions of the new oil and gas law started to leak out back in 2006 and 2007, the majority of Iraqi oil and gas experts disagreed with the planned privatization, and put forward a united front against these drafts of the law that called for PSC modules with the IOCs. However, when the federal oil minister Hussain Shahrastani changed his

tactical position from supporting the PSC modules to presenting new privatization modules, such as "Exploration Risk Contracts" and "Exploration and Production Contracts" (EPC), and started openly criticizing the stand of the KRG on several aspects on the oil and gas law by the end of 2007/beginning of 2008 the united front started to weaken. Moreover, some of the Iraqi oil experts started to raise concerns which had a sectarian feel, such as regarding cooperation with Iran on border energy issues and with this the united front against the new privatization law started to fade. This is a very disappointing outcome, which all the anti-privatization groups will regret in the future as it will make the task of privatizing the oil and gas resources much smoother for the IOC and their friends in the Federal oil ministry and the KRG.

7. One of the main strategic objectives of the war on Iraq was to control Iraqi oil and gas resources.[12] The new US Obama/Biden administration has no policy differences on this issue from the Bush/Cheney's administration. This was clearly indicated back in November 2006 by the 'Iraqi study group report' which presented a joint and long term strategy by both the Democrats and the Republican parties.[13] The words of Mr. Obama in his February 27 speech on the new administration's policies on Iraq that, 'The United States pursues no claim on Iraq's territory or resources,' should not be taken as authentic by the Iraqi people, as only the actions on the ground in Iraq by the administration and the IOCs will reveal their true intentions.

If the US administration and the IOCs succeed in privatizing and controlling Iraqi oil and gas resources, then they will have won one of the most important objectives of the war on Iraq.

8. We are no longer fighting the war on the oil and gas front against a bunch of war-mongering religious fanatic neo-conservatives. Today with the new Obama/Biden administration, we are now facing a more sophisticated and intelligent enemy who shares the same objectives with the neo-conservatives but uses different tactics.

9. If the US Administration and the IOCs succeed in their intention to privatize the mainly nationalised Iraqi oil and gas resources, this will only be the initial step before they move on to impose these types of privatization laws on all the other Gulf countries and States which nationalised their oil and gas resources at the same time Iraq did -- back in the 1970s -- and where over two thirds of the world's proven oil reserves are located.

## Notes

1. See Sonia Verma, "[Iraq could have largest oil reserves in the world](#)," *Times of London*, May 20, 2008.



2. "[Unqualified firms' invited to 2nd Iraq oil tenders round](#)," *Gulf Times*, Dec. 28, 2008.
3. Munir Chalabi, "[What is holding up the delivery of the long-awaited Iraqi oil law?](#)" ZNet, Aug. 22, 2007; Munir Chalabi, "[The internal struggle for the Iraqi oil law continues](#)," ZNet, Jan. 2, 2008.
4. Benjamin Morgan, "[Revival of Iraq National Oil Co is key to output boost](#)," AFP, Feb. 3, 2009.
5. Ben Lando, "[Shell-Iraq gas company is a monopoly, secret agreement shows](#)," UPI, Nov. 2, 2008.
6. Fouad Al Amir [book on the gas agreement with Shell](#).
7. Patrick Cockburn, "[A 'fraud' bigger than Madoff](#)," *The Independent*, Feb. 16, 2009.
8. Michael Rubin, "[Is Iraqi Kurdistan a Good Ally](#)," *Middle East Forum*, Jan. 2008.
9. David Corn, "[Secret Report: Corruption is 'Norm' Within Iraqi Government](#)," Aug. 30, 2007.
10. "[Musings On Iraq: Iraqi Corruption](#)," July 4, 2008; Angelique van Engelen, "[US Investigation In to Iraqi Government's Corruption Is 'Classified Information': State Department](#)," *Global Politician*, Nov. 5, 2007.
11. Erica Goode and Riyadh Mohammed, "[Iraq Signs Oil Deal with China Worth Up to \\$3 Billion](#)," *New York Times*, Aug. 29, 2008.
12. David King, "[Iraq was the first 'resource war' of the century](#)," *Guardian*, Feb. 12, 2009.
13. Munir Chalabi, "[The Future of Iraqi oil as proposed by the Iraqi Study Group](#)," ZNet, Jan. 8, 2007.

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[Munir Chalabi's ZSpace Page](#), March 20, 2009