How Bush's Iraqi Oil Grab Went Awry

by DILIP HIRO

The Nation online, September 26, 2007

Here is the sentence in *The Age of Turbulence*, the 531-page memoir of former Federal Reserve chief Alan Greenspan, that caused so much turbulence in Washington last week: "I am saddened that it is politically inconvenient to acknowledge what everyone knows: the Iraq war is largely about oil." Honest and accurate, it had the resonance of the Bill Clinton's election campaign mantra, "It's the economy, stupid." But, finding himself the target of a White House attack--an Administration spokesman labeled his comment, "Georgetown cocktail party analysis"--Greenspan backtracked under cover of verbose elaboration. None of this, however, made an iota of difference to the facts on the ground.

Here is a prosecutor's brief for the position that "the Iraq War is largely about oil":

The primary evidence indicating that the Bush Administration coveted Iraqi oil from the start comes from two diverse but impeccably reliable sources: Paul O'Neill, the Treasury Secretary (2001-2003) under President George W. Bush; and Falah Al Jibury, a well-connected Iraqi-American oil consultant, who had acted as President Ronald Reagan's "back channel" to Iraqi President Saddam Hussein during the Iraq-Iran War of 1980-88. The secondary evidence is from the material that can be found in such publications as the *New York Times* and the *Wall Street Journal*.

According to O'Neill's memoirs, *The Price of Loyalty: George W. Bush, the White House, and the Education of Paul*

O'Neill, written by journalist Ron Suskind and published in 2004, the top item on the agenda of the National Security Council's first meeting after Bush entered the Oval Office was Iraq. That was January 30, 2001, more than seven months before the 9/11 attacks. The next National Security Council (NSC) meeting on February 1 was devoted exclusively to Iraq.

Advocating "going after Saddam" during the January 30 meeting, Defense Secretary Donald Rumsfeld said, according to O'Neill, "Imagine what the region would look like without Saddam and with a regime that's aligned with U.S. interests. It would change everything in the region and beyond. It would demonstrate what U.S. policy is all about." He then discussed post-Saddam Iraq -- the Kurds in the north, the oil fields, and the reconstruction of the country's economy. (Suskind, p. 85)

Among the relevant documents later sent to NSC members, including O'Neill, was one prepared by the Defense Intelligence Agency (DIA). It had already mapped Iraq's oil fields and exploration areas, and listed American corporations likely to be interested in participating in Iraq's petroleum industry.

Another DIA document in the package, entitled "Foreign Suitors for Iraqi Oilfield Contracts," listed companies from thirty countries--France, Germany, Russia, and Britain, among others--their specialties and bidding histories. The attached maps pinpointed "super-giant oil field," "other oil field," and "earmarked for production sharing," and divided the basically undeveloped but oil-rich southwest of Iraq into nine blocks, indicating promising areas for future exploration. (Suskind., p. 96)

According to high-flying oil insider Falah Al Jibury, the Bush Administration began making plans for Iraq's oil industry "within weeks" of Bush taking office in January 2001. In an interview with the BBC's *Newsnight* program, which aired on March 17, 2005, he referred to his participation in secret meetings in California, Washington, and the Middle East, where, among other things, he interviewed possible successors to Saddam Hussein.

By January 2003, a plan for Iraqi oil crafted by the State Department and oil majors emerged under the guidance of Amy Myers Jaffe of the James A. Baker III Institute for Public Policy at Rice University. It recommended maintaining the state-owned Iraq National Oil Company, whose origins dated back to 1961--but open it up to foreign investment after an initial period in which U.S.-approved Iraqi managers would supervise the rehabilitation of the war-damaged oil infrastructure. The existence of this group would come to light in a report by the *Wall Street Journal* on March 3, 2003.

Unknown to the architects of this scheme, according to the same BBC *Newsnight* report, the Pentagon's planners, apparently influenced by powerful neocons in and out of the administration, had devised their own super-secret plan. It involved the sale of all Iraqi oil fields to private companies with a view to increasing output well above the quota set by the Organization of the Petroleum Exporting Countries (OPEC) for Iraq in order to weaken, and then destroy, OPEC.

Secondary Evidence

On October 11, 2002 the *New York Times* reported that the Pentagon already had plans to occupy and control Iraq's oilfields. The next day *The Economist* described how Americans in the know had dubbed the waterway demarcating the southern borders of Iraq and Iran "Klondike on the Shatt al Arab," while Ahmed Chalabi, head of the US-funded Iraqi National Congress and a neocon favorite, had already delivered this message: "American companies will have a big shot at Iraqi oil--if he gets to run the show."

On October 30, Oil and Gas International revealed that the Bush administration wanted a working group of twelve to twenty people to (a) recommend ways to rehabilitate the Iraqi oil industry "in order to increase oil exports to partially pay for a possible U.S. military occupation government," (b) consider Iraq's continued membership of OPEC, and (c) consider whether to honor contracts Saddam Hussein had granted to non-American oil companies.

By late October 2002, columnist Maureen Dowd of the *New York Times* would later reveal, Halliburton, the energy services company previously headed by Vice President Dick Cheney, had prepared a confidential 500-page document on how to handle Iraq's oil industry after an invasion and occupation of Iraq. This was, commented Dowd, "a plan [Halliburton] wrote several months before the invasion of Iraq, and before it got a no-bid contract to implement the plan (and overbill the U.S.)." She also pointed out that a *Times* request for a copy of the plan evinced a distinct lack of response from the Pentagon.

In public, of course, the Bush Administration built its case for an invasion of Iraq without referring to that country's oil or the fact that it had the third largest reserves of petroleum in the world. But what happened out of sight was another matter. At a secret NSC briefing for the President on February 24, 2003, entitled, "Planning for the Iraqi Petroleum Infrastructure," a State Department economist, Pamela Quanrud, told Bush that it would cost $7 billion to $8 billion to rebuild the oil infrastructure, if Saddam decided to blow up his country's oil wells, according to *Washington Post* reporter Bob Woodward in his 2004 book, Plan of Attack (pp. 322-323). Quanrud was evidently a member of the State Department group chaired by Amy Myers Jaffe.

When the Anglo-American troops invaded on March 20, 2003, they expected to see oil wells ablaze. Saddam Hussein proved them wrong. Being a staunch nationalist, he evidently did not want to go down in history as the man who damaged Iraq's most precious natural resource.

On entering Baghdad on April 9, the American troops stood by as looters burned and ransacked public buildings, including government ministries--except for the Oil Ministry, which they guarded diligently. Within the next few days, at a secret meeting in London, the Pentagon's scheme of the sale of all Iraqi oil fields got a go-ahead in principle.

The Bush Administration's assertions that oil was not a prime reason for invading Iraq did not fool Iraqis though. A July 2003 poll of Baghdad residents--who represented a quarter of the Iraqi national population--by the *London Spectator* showed that while 23 percent believed the reason for the Anglo-American war on Iraq was "to liberate us from dictatorship," twice as many responded, "to get oil". (Cited in Dilip Hiro, *Secrets and Lies: Operation "Iraqi Freedom" and After*, p. 398.)

As Iraq's principal occupier, the Bush White House made no secret of its plans to quickly dismantle that country's strong public sector. When the first American proconsul, retired General Jay Garner, focused on holding local elections rather than privatizing the country's economic structure, he was promptly sacked.

Impassable Hurdles

Garner's successor, L. Paul Bremer III, found himself dealing with Philip Carroll--former Chief Executive Officer of the American operations of (Anglo-Dutch) Royal Dutch Shell in Houston--appointed by Washington as the Iraqi oil industry's supreme boss. Carroll decided not to tinker with the industry's ownership and told Bremer so. "There was to be no privatization of Iraqi oil resources or facilities while I was involved," Carroll said in an interview with the BBC's *Newsnight* program on March 17, 2005.

This was, however, but a partial explanation for why Bremer excluded the oil industry when issuing Order 39 in September 2003 privatizing nearly 200 Iraqi public sector companies and opening them up to 100 percent foreign ownership. The Bush White House had also realized by then that denationalizing the oil industry would be a blatant violation of the Geneva Conventions which bar an occupying power from altering the fundamental structure of the occupied territory's economy.

There was, as well, the vexatious problem of sorting out the thirty major oil development contracts Saddam's regime had signed with companies based in Canada, China, France, India, Italy, Russia, Spain, and Vietnam. The key unresolved issue was whether these firms had signed contracts with the government of Saddam Hussein, which no longer existed, or with the Republic of Iraq, which remained intact.

Perhaps more important was the stand taken by Grand Ayatollah Ali Sistani, the senior Shiite cleric in the country and a figure whom the occupying Americans were keen not to alienate. He made no secret of his disapproval of the wholesale privatization of Iraq's major companies. As for the minerals--oil being the most precious--Sistani declared that they belonged to the "community," meaning the state. As a religious decree issued by a grand ayatollah, his statement carried immense weight.

Even more effective was the violent reaction of the industry's employees to the rumors of privatization. In his *Newsnight* interview Jibury said, "We saw an increase in the bombing of oil facilities and pipelines built on the premise that privatization is coming."

In the immediate aftermath of the invasion, much equipment was looted from pipelines, pumping stations, and other oil facilities. By August 2003, four months after American troops entered Baghdad, oil output had only inched up to 1.2 million barrels per day, about two-fifths of the pre-invasion level. The forecasts (or dreams) of American planners' that oil production would jump to 6 million barrels per day by 2010 and easily fund the occupation and reconstruction of the country, were now seen for what they were--part of the hype disseminated privately by American neocons to sell the idea of invading Iraq to the public.

With the insurgency taking off, attacks on oil pipelines and pumping stations averaged two a week during the second half of 2003. The pipeline connecting a major northern oil field near Kirkuk--with an export capacity of 550,000-700,000 barrels per day--to the Turkish port of Ceyhan became inoperative. Soon, the only oil being exported was from fields in the less disturbed, predominantly Shiite south of Iraq.

In September 2003, President Bush approached Congress for $2.1 billion to safeguard and rehabilitate Iraq's oil facilities. The resulting Task Force Shield project undertook to protect 340 key installations and 4,000 miles (6,400 km) of oil pipeline. It was not until the spring of 2004 that output again reached the pre-war average of 2.5 million barrels per day--and that did not hold. Soon enough, production fell again. Iraqi refineries were, by now, producing only two-fifths of the 24 million liters of gasoline needed by the country daily, and so there were often days-long lines at service stations.

Addressing the 26th Oil and Money conference in London on September 21, 2005, Issam Chalabi, who had been an Iraqi oil minister in the late 1980s, referred to the crippling lack of security and the lack of clear laws to manage the industry, and doubted if Iraq could return to the 1979 peak of 3.5 million barrels per day before 2009, if then.

Meanwhile, the Iraqi government found itself dependent on oil revenues for 90 percent of its income, a record at a time when corruption in its ministries had become rampant. On January 30, 2005, Stuart W. Bowen, the special inspector general appointed by the U.S. occupation authority, reported that almost $9 billion in Iraqi oil revenue, disbursed to the ministries, had gone missing. A subsequent Congressional inspection team reported in May 2006 that Task Force Shield had failed to meet its goals due to "lack of clear management structure and poor accountability", and added that there were "indications of potential fraud" which were being reviewed by the Inspector General.

The endorsement of the new Iraqi constitution by referendum in October 2005 finally killed the prospect of full-scale oil privatization. Article 109 of that document stated clearly that hydrocarbons were "national Iraqi property". That is, oil and gas would remain in the public sector.

In March 2006, three years after the Anglo-American invasion of Iraq, the country's petroleum exports were 30 percent to 40 percent below pre-invasion levels.

Iraq's Flawed Hydrocarbon Law

In February 2007, in line with the constitution, the draft hydrocarbon law the Iraqi government presented to parliament kept oil and gas in the state sector. It also stipulated recreating a single Iraqi National Oil Company that would be charged with doling out oil income to the provinces on a per-capita basis. The Bush administration latched onto that provision to hype the 43-article Iraqi bill as a key to reconciliation between Sunnis and Shiites--since the Sunni areas of Iraq lack hydrocarbons--and so included it (as did Congress) in its list of "benchmarks" the Iraqi government had to meet.

Overlooked by Washington was the way that particular article, after mentioning revenue-sharing, stated that a separate Federal Revenue Law would be necessary to settle the matter of distribution--the first draft of which was only published four months later in June.

Far more than revenue sharing and reconciliation, though, what really interested the Bush White House were the mouthwatering incentives for foreign firms to invest in Iraq's hydrocarbon industry contained in the draft law. They promised to provide ample opportunities to America's oil majors to reap handsome profits in an oil-rich Iraq whose vast western desert had yet to be explored fully for hydrocarbons. So Bush pressured the Iraqi government to get the necessary law passed before the parliament's vacation in August--to no avail.

The Bush Administration's failure to achieve its short-term objectives does not detract from the overarching fact--established by the copious evidence marshaled in this article--that gaining privileged access to Iraqi oil for American companies was a primary objective of the Pentagon's invasion of Iraq.