

A killing in Iraq

Jon Mendel and Peter Gibb consider Iraq and the global oil trade

Writing in *The Independent* recently (7/1/07), Andrew Murray-Watson and Tim Webb have exposed clearer than ever how the West will "make a killing" on Iraqi oil wealth. They report that "Iraq's massive oil reserves, the third-largest in the world, are about to be thrown open for large-scale exploitation by Western oil companies."

A controversial new law will make sure the value of Iraq's natural resources can now be recaptured by the West's monopoly capitalists. The rents of the oil fields will largely be lost for Iraq's national reconstruction and indigenous enterprise.

The proposal is US government-sponsored. A draft of the new law has been seen by *The Independent on Sunday*. It would give the big Western oil companies, such as BP, Shell and Exxon advantageous "30-year contracts to extract Iraqi crude and allow the first large-scale operation of foreign oil interests in the country since the industry was nationalised in 1972."

Murray-Watson and Webb point out that "the huge potential prizes for Western firms will give ammunition to critics who say the Iraq war was fought for oil." In a hole in Iraq, the Bush administration still appears to be digging for oil. The idea that this was 'war for oil' has helped make the US-led invasion unpopular in Iraq; passing laws which appear to verify this, and are drafted by the US, will only stir up additional anger.

In a recent report with global perspective, commodities adviser *InvestmentU* describes seismic changes in the way world oil is now being traded. "Rapid economic expansion in Russia, India and, most importantly, China, has led the governments in these countries to review their traditional sources of oil, and to make substantial changes in the way they get it". In effect, as the world's reserves of crude draw down, the big users are turning their backs on the free market.

"In the past" according to the report, "the world has relied on an open marketplace to set the price of energy. For decades, the NYMEX [New York Mercantile Exchange] has been the epicenter of energy trade. But China and India, in cooperation with a key supplier, Russia, have turned the tables by making bilateral agreements to lock in long-term supplies at set prices, or by forming consortiums to guarantee supply".

Thus the emerging new global super-economies learn fast from their predecessors when it comes to loading the economic dice: end-of-an-era fear is breeding a new protectionism.

An increasing number of commentators are beginning to argue that the invasion of Iraq is the US's government's own way of pursuing the same ends – characterising the Iraq war as trade carried on by other means.

But for the national situation in Iraq there are a number of simple, relatively cheap measures that could quickly be taken to improve the functioning of Iraq's oil industry, and its public image. For example, one point emphasised by shocked interviewees on the BBC's recent *Baghdad Billions* documentary (Radio 4, 9/1/07) is that Iraqi oil is still not metered properly. Such basic measures should be taken before there's even a need to think of more complex moves such as long-term oil extraction deals.

There is also the issue of Iraqi 'sovereignty'. The state is currently nothing like a sovereign country in any conventional sense. In the midst of the current civil chaos it clearly lacks a monopoly of 'legitimate' force within its borders – in the Weberian sense. Elections held in Iraq

have, to put it mildly, been problematic, and the government is currently facing a number of violent challenges. If long-term deals are made under this Iraqi government, this could seriously limit the capacity of future governments to decide what to do with the state's resources – and thus further limit the capabilities of the Iraqi state.

One more positive solution which has been suggested for Iraq is to use revenue from Iraqi oil to pay a 'resource dividend' to the Iraqi people – similar to the situation in Alaska. This idea has been advanced by among others Ariel Cohen for The Heritage Foundation and Thomas Palley for Foreign Policy in Focus. Each Iraqi citizen would be given a regular payment drawn from Iraqi oil sales. This proposal could have several benefits:

- it would provide extra income to Iraqi citizens, and boost the economy and help ameliorate poverty.
- if Iraqis knew that they would benefit from oil revenues in a way that was clear and direct, attacks on oil infrastructure would become less popular, and calls for transparency and anti-corruption measures would be likely to become more insistent.
- it would leave control of and income from oil in the hands of Iraqi citizens. There would be benefits from this in the short term and, if Iraq became more stable and decided to change the way oil is handled in the longer term, the Iraqis would be in a much better position to negotiate their terms with the oil companies. **L&L**

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