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Oil Companies in Iraq

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The United States and the United Kingdom did not wage war on Iraq for the officially stated reasons. That much is obvious. The world's superpower and its key ally were not acting because they feared the Iraqi government's weapons of mass destruction or its ties with the terrorist group al-Qaeda. Nor were they fighting to bring democracy to the Middle East, a region where the two governments had long supported reactionary monarchs and odious dictators, including Iraqi president Saddam Hussein himself.

It is time, then, to set aside the sterile discussions about "intelligence failures" and to consider a deeper reason for the conflict. This paper will argue that the war was primarily a "war for oil" in which large, multinational oil companies and their host governments acted in secret concert to gain control of Iraq's fabulous oil reserves and to gain leverage over other national oil producers. In arguing for the primacy of oil, we do not imply that other factors were not at play. The imperial dreams of the neo-con advisors in Washington contributed to the final outcome, as did the re-election strategies of the political operatives in the White House. But the Iraq war did not emerge solely from the Bush administration. As we shall see, it involved both London and Washington, through the course of many governments. And it emerged from a decades-long effort by the world's largest companies to appropriate the planet's most lucrative natural resource deposits.

Several elements contribute to make the case for an oil war: the enormous, long-term political influence of the oil companies, the close personal ties between the companies and their host governments, the long history of prior conflicts and wars over Iraqi oil, and the enormous potential profitability of the Iraqi fields. To consider the evidence, and answer the questions of skeptics, we must begin by reviewing the companies' power and influence over a period of many decades. Later, we will turn to the immediate events leading up to the 2003 war itself.

Companies' Great Size & Global Presence

By the early 20th Century, when most business firms were relatively small by modern standards and purely national in scope, Standard Oil and Royal Dutch Shell were already global companies that controlled a worldwide network of production and distribution. By 1911, they held rich production fields in the Dutch East Indies (today's Indonesia), Romania, Russia, the United States, Venezuela and Mexico, as well as refineries, pipelines, rail cars, tankers, storage depots and other facilities in dozens of countries. Standard Oil alone had a fleet of nearly 100 ships.[1]

Large as they were a century ago, the oil companies have since grown mightily, due to worldwide collusion in production and pricing and to fierce backing by their host governments. For decades, the so-called "Seven Sisters," all of them firms based in the US or the UK, dominated the industry and ruled the global oil market through a tightly-knit cartel. Though nationalizations by producer countries in the 1970s dealt a serious blow to these firms, they continued to dominate the oil industry through control over the"downstream" end of the business -- transport, refining, petrochemicals, and marketing -- while building new production facilities in more friendly locations.[2]

Today, a wave of mergers has given the successor companies a new and unprecedented scale, reducing the major firms to just five. In 2003, annual revenues of the leader, ExxonMobil, were an astonishing $247 billion.[3] By way of comparison, Exxon's revenue is vastly greater than such well-known international companies as Walt Disney ($25 billion) and Coca Cola ($19 billion) and it is larger than the revenues of 185 national governments, including Brazil, Canada, Spain, Sweden and the Netherlands. Only the world's six richest countries – the US, Japan, Germany, France, Italy and the UK – had revenues above this level. [4]

Among the world's fifteen largest corporations listed in the 2002 "Fortune Global 500," five were oil companies. After US-based Exxon came the UK giants Shell and British Petroleum (BP), the mammoth French firm Total, and the huge US-based Chevron. Compared to the large automakers, with their anemic profits, the oil companies stand out among the world's biggest corporations for their high profitability. In 2001 (and again in 2003), Exxon earned the world's highest profits. In 2003, its earnings reached a record $22 billion, more than General Motors, Ford, DaimlerChrysler and Toyota taken together.[5]

Oil, Economy & Warfare

To understand the special "national security" status enjoyed by the oil companies, we must first consider oil's economic importance and then its central role in war. Oil provides nearly all the energy for transportation (cars, trucks, buses airplanes, and many railroad engines). Oil also has an important share of other energy inputs – it heats many buildings and fuels industrial and farm equipment, for example. Overall, oil has a 40% share in the US national energy budget. Beyond energy, oil provides lubrication and it is an essential feedstock for plastics, paint, fertilizers and pharmaceuticals. Sometime in the future, the world may switch to renewable energy and other non-oil inputs, but oil now reigns as the indispensable ingredient of the modern economy. For this reason, governments are nervous about their national oil supply.[6]

Modern warfare particularly depends on oil, because virtually all weapons systems rely on oil-based fuel – tanks, trucks, armored vehicles, self-propelled artillery pieces, airplanes, and naval ships. For this reason, the governments and general staffs of powerful nations seek to ensure a steady supply of oil during wartime, to fuel oil-hungry military forces in far-flung operational theaters. Such governments view their companies' global interests as synonymous with the national interest and they readily support their companies' efforts to control new production sources, to overwhelm foreign rivals, and to gain the most favorable pipeline routes and other transportation and distribution channels. "One of our greatest helpers has been the State Department," mused John D. Rockefeller, founder of Standard Oil in his 1909 book, *Random Reminiscences of Men and Events.* "Our ambassadors and ministers and consuls have aided to push our way into new markets in the utmost corners of the world."[7]

The oil industry gained its crucial role in military affairs during World War I. In the run-up to the war, the world's navies converted from coal to oil-fired ships, because of significant advantages in speed and range of operation. The war also marked the first military uses of the automobile, truck, tank and airplane. Belligerents on both sides faced severe oil shortages, but the Allies eventually gained the upper hand with vastly greater supplies. Lord Curzon, a member of the British War Cabinet, concluded that "the Allied cause has floated to victory upon a wave of oil."[8]

Government policy makers give the highest priority to oil matters during wartime, as many historical studies show. Japanese and German officials made desperate efforts to gain oil sources during World War II while US and British leaders did their utmost to deny them this resource. But even allies could be bitter oil rivals. In many wartime meetings and cables, President Franklin Roosevelt and Prime Minister Winston Churchill wrangled over their countries' respective post-war shares of Middle East oil reserves.[9] After the war, George Kennan, Director of the US State Department's Policy Planning Division, reacted with unbridled enthusiasm at US oil companies' primacy (to the exclusion of Britain) in the newly-discovered Saudi Arabia fields. The United States, he wrote, had just acquired "the greatest material prize in world history."[10]

Oil Rents, Corruption & Conflict

Just as governments like the US and the UK need oil companies to secure fuel for their global war-making capacity, so the oil companies need their governments' military power to secure control over global oilfields and transportation routes. It is no accident, then, that the world's largest oil companies are located in the world's most powerful countries.

Power has primacy in the oil business, because of the incomparable value of key fields. Production costs vary widely from one place to another, leading to intense competition for the lowest-cost locations. The difference between cost and sales price is so large that economists sometimes refer to the gap as a "rent" – an extraordinary profit enjoyed by a producer with a unique market advantage.[11]

All producer companies want to gain control of such lucrative profits, by fair means or foul. Company rivalry typically leads beyond ordinary market-based competition. As many studies show, companies and their sponsor governments do not shrink from backing dictatorial governments, using bribery and corruption, promoting civil violence and even resorting to war, to meet their commercial goals and best their competitors.[12] The modern history of the Middle East bears witness to this process. In one notorious example, US intelligence services recruited in 1959 a young Iraqi thug named Saddam Hussein to take part in the assassination of Iraqi Prime Minister Abd el-Karim Qasim. Washington feared that the nationalist Qasim might act independently and alter the favorable terms under which their oil companies operated.[13] A few years earlier, in 1953, the CIA engineered a coup in Iran, overthrowing the democratic government of Mohammed Mossadegh and installing the autocratic Shah, in order to gain control over Iranian oil and redistribute British production shares to US companies.[14]

A recent court case in France, involving high officials of the national oil company Elf Aquitaine, provides a glimpse of more recent operations in this world of oil intrigue and covert competition between the giant companies. The case revealed bribes, espionage, sexual favors, arms smuggling, civil strife and plots to overthrow governments, all with the complicity of French military and intelligence services as well as politicians at the highest levels. These actions had a terrible effect on a number of oil-producing countries, mostly in Africa. They spread malfeasance, corruption and anti-democratic practices in France as well. [15]

Special Government Favors and "National Security"

Those who deny oil company complicity in the Iraq War always insist that the companies have little political influence, that they are "out of the loop" in Washington, that they are just one industry group among many others. These arguments are utterly false. The oil companies have always enjoyed "insider" privileges with the US and UK governments, resulting in many unique favors in the name of "national security."

The United States government offers the companies extremely favorable tax treatment, including the "oil depletion allowance" and "intangible drilling costs" – far more than the ordinary capital depreciation available to other companies. In 1960, at the behest of the National Security Council, the international companies obtained the lucrative "foreign tax credit," enabling deductions for taxes or royalties paid to foreign governments. In 1974, while the US corporate tax rate was 48%, the nineteen largest oil companies paid a tax rate of only 7.6%.[16]

The companies have also enjoyed unofficial immunity from anti-trust or anti-monopoly laws. Though the US government knew for decades about the international oil cartel, federal authorities took no enforcement action until 1952, when President Harry Truman ordered a criminal anti-trust suit. The companies mobilized all their legal and political muscle to quash the case. General Omar Bradley, Chairman of the Joint Chiefs of Staff, reportedly approached the President and successfully urged that the "national security" required a softening of the government's legal stance. Shortly afterwards, the National Security Council decided on various limitations to the suit that further weakened the government's case. Though the judicial process lumbered on for fifteen years, the oil companies had nothing to fear and remained safely protected by the national security umbrella. Today, after a decade of mega-mergers, the companies still escape anti-trust scrutiny.[17]

US military/security policy has served the oil companies as comprehensively as have the tax and legal rulings. Virtually every US presidential security doctrine since World War II has aimed at protecting company interests in the oil-rich Persian Gulf. The Truman Doctrine, the Eisenhower Doctrine, and the Nixon, Carter, and Reagan Doctrines all asserted Washington's special concerns in the Gulf and arrogated to the United States special rights to "protect" or "defend" the area. Recently-released secret papers show that during the oil crisis and Arab oil embargo of 1973, Washington seriously considered sending a military strike force to seize some of the region's richest fields – in Saudi Arabia, Kuwait and Abu Dhabi.[18]

In 1979, President Jimmy Carter set up the US Central Command, a permanent military force designed to intervene in the Middle East on short notice. Presidents have expanded and strengthened this force several times since. Headquartered in Florida, but with a number of bases in the Middle East, the command maintains pre-positioned supplies and heavy weapons at Diego Garcia in the Indian Ocean and it can call on strike aircraft units, global satellite intelligence, cruise missiles, rapidly deployable ground troops and carrier-based naval fleets.[19]

In testimony to Congress in 1999, General Anthony C. Zinni, commanding officer of the Central Command, affirmed the importance of the Persian Gulf region, with its huge oil reserves. It is a "vital interest" of "long standing," he said, and the United States "must have free access to the region's resources."[20]

Close Personal Ties between Companies and Governments

Given the close political relations between the oil companies and their governments, it should be no surprise to find close ties at the personal level binding companies and governments together. The career of Allen Dulles serves as a case in point. He began as a US diplomat in the Middle East and rose to be chief of the Near East section of the State Department. In the early 1920s, he led the campaign to win US oil firms' participation in Iraq. Later he served as a corporate lawyer at Sullivan and Cromwell, New York's leading counsel for the oil industry. After wartime intelligence service, he was named head of the CIA by President Eisenhower. As CIA chief, he arranged for the overthrow of Mossadegh, winning a place in Iran's rich oil fields for US firms. In every assignment he consistently served company interests.[21]

Max Thornberg came to the US State Department as senior petroleum advisor in 1941, directly from Bahrein Petroleum, a joint venture of Standard Oil of California. Thornberg operated nearly independently of his government superiors. He continued to receive his company salary, informed company executives of private government meetings and actively promoted company proposals. He apparently could not conceive of a conflict of interest. Having worked in the industry his whole life, he thought of industry goals and those of the US government as being identical.[22]

The administration of President George W. Bush represents an especially close set of personal ties between the oil companies and the government – at the very highest level. The president and his father were both longtime industry insiders from Texas and chief executives of their own oil companies. Other oil figures at the top of the administration include Vice President Dick Cheney, former CEO of Halliburton, the nation's largest oil-services company, and National Security Advisor Condolezza Rice, a former director of Chevron Texaco, after whom the company named one of its supertankers. These very visible figures give the administration its peculiarly strong oil flavor. In the earliest days of the administration, they promoted a number of striking industry-favorable policy decisions, such as the rejection of the Kyoto Treaty on global warming, the ouster of the head of the Intergovernmental Panel on Climate Change, and the elaboration of a strongly pro-oil national energy plan.

In the UK, close ties likewise bind companies and successive governments together, The government even held a majority stake in BP, with seats on the board, until 1987. By contrast to the United States, where the oil companies are first among such peers as General Motors, Walmart and Citigroup, in the UK, oil giants Shell and BP tower far above the next tier firms like British Telecom, Unilever and ICI.[23] From such heights, UK oil executives speak almost as unofficial members of government. In recent years, a number of personal ties stand out, especially the close friendship between Prime Minister Tony Blair and BP CEO John Browne (Lord Browne of Maddingley). The Blair-Browne relationship was so close that wags in the press called the company "Blair Petroleum," though it would have been more accurate to say that Blair was the BP Prime Minister. At least a dozen BP executives held government posts or sat on official advisory committees, including Browne's immediate predecessor David Simon (Lord Simon of Highbury). Simon had stepped down as BP CEO to serve as Blair's unelected Minister for European Trade and Competitiveness from May 1997 to July 1999.[24] Later on, Tony Blair's longtime friend and personal assistant Anjl Hunter, director of government relations and known as "the gatekeeper" in Downing Street, joined BP as head of public relations in the summer of 2002, just as the war was actively brewing.[25]

After a century of closely-combined action on the global stage, company chieftans and government leaders see their relationship as cooperative and thoroughly complementary. In April, 2003, shortly after the war in Iraq, Lord Browne responded tartly to critics by saying: "It is quite ethical and appropriate for a global company, based in the UK, to be supported by the British government."[26] He did not, of course, go into the details.

Seven Oil Wars to Control Iraq

Before coming to the Iraq war of 2003, we will review the modern history of conflicts over Iraq. There have been a total of seven wars in the past ninety years, all closely related to oil. What follows is a thumbnail sketch of those conflicts, to suggest the constant military struggle over this oil-rich territory.

<u>1. Colonial Conquest (1914-18).</u> The first conflict took place during World War I, when the British captured the area from the Ottoman Empire during a bloody four-year campaign. Lord Curzon, a member of the War cabinet who became Foreign Minister immediately after the war, famously stated that the influence of oil over British policy in Iraq was "nil." "Oil," said Curzon, "had not the remotest connection with my attitude over Mosul," the major city in Iraq's northern oil-bearing region.[27] Studies by a number of historians have shown that Curzon was lying and that oil was indeed the major factor shaping British policy towards Iraq.[28] Sir Maurice Hankey, Secretary of the War Cabinet, even insisted enthusiastically in a private cabinet letter that oil was a "first class war aim."[29] London had ordered its forces to continue fighting after the Mudros Armistice was signed, so as to gain control of Iraq's main oil-producing region. Fifteen days

later, the British army seized Mosul, capital of the oil region, blocking the aspirations of the French, to whom the area had been promised earlier in the secret Sykes-Picot agreement.[30]

2. War of Pacification (1918-1930). To defend its oil interests, Britain fought a long war of pacification in Iraq, lasting from 1918 throughout the next decade. The British crushed a country-wide insurrection in 1920 and continued to strike at insurgents with poison gas, airplanes, incendiary bombs, and mobile armored cars, using an occupation force drawn largely from the Indian Army. This carnage killed or wounded thousands of Iraqis, burning villages and extracting colonial taxes by brutal means. Winston Churchill, as Colonial Secretary, saw the defense of Iraq's lucrative oil deposits as a test of modern weaponry and military-colonial use of force, enabling Britain to hold the oil fields at the lowest possible cost.[31]

3. Re-Occupation (1941). Though Britain granted nominal independence to Iraq in 1932, it maintained a sizeable military force and a large air base in the country and continued to rule "indirectly." In 1941, fearful that Iraq might fall into the hands of the Axis, London again decided to seize direct control of the country through military force. Broad geo-strategic wartime goals drove this campaign, but not least was British concern to protect the Iraqi oil fields and keep them in British hands, free not only from German but also from US challenge.[32]

4. Iran-Iraq War (1980-88). In 1980, Iraq attacked its neighbor, Iran. A long war ensued through 1988, a savage conflict causing hundreds of thousands of casualties on both sides, costing tens of billions of dollars and destroying much of both countries' oilfields and vital infrastructure. Foreign governments, interested in gaining geo-strategic advantage over both nations' oil resources, promoted, encouraged and sustained the war, some arming both sides. The US and the UK supplied Iraq with arms, chemical and biological weapon precursors, military training, satellite targeting and naval support. Other powers participated as well, notably France, Germany and Russia.[33] The big oil companies profited mightily, as war conditions kept Iraqi and Iranian oil off the market, driving worldwide prices substantially higher. By bankrupting the two governments and ruining their oil infrastructure, the war also potentially opened the way for the return of the companies through privatization in the not-too-distant future. But after the war, when Iraq and Iran turned to Japanese oil companies for new private investments, including a Japanese role in Iraq's super-giant Majnoun field, the stage was set for yet another conflict.

5. Gulf War (1991). Following the Iraqi invasion of Kuwait in August 1990, the US decided to intervene militarily and Washington assembled a number of secondary military partners, including the UK and France. As US President George Bush summed up the oil-centered threat posed by Saddam Hussein at

the time: "Our jobs, our way of life, our own freedom and the freedom of friendly countries around the world would all suffer if control of the world's great oil reserves fell into the hands of Saddam Hussein."[34] US forces heavily bombed Iraqi cities and military installations and then launched a short and decisive ground war, ending the Iraqi occupation of its neighbor. The war badly battered Iraq, destroying much of its electricity and water purification systems and claiming 50-100,000 casualties.

6. Low Intensity Conflict During the Sanction Period (1991-2003). After the armistice, the UN's pre-war embargo continued, because the US-UK used their Security Council vetoes to block its lifting. The sanctions imposed a choke-hold on Iraq's economy, restricted oil sales and kept the country's oil industry in a shambles. By blocking foreign investment and preventing reconstruction, the sanctions further ruined the country's economic base. At the same time, with Iraqi supplies largely off the market, international oil prices were supported and company profits benefited. The US and the UK declared their goal to oust Saddam and their intelligence services made many efforts to assassinate him or to overthrow his government by military coup. The US-UK also established "no-fly" zones in much of Iraqi airspace, using air patrols to launch periodic attacks on Iraqi military targets. Four times, the US-UK launched major attacks, using scores of strike aircraft and cruise missiles – in January 1993, January 1996, June 1996 and December 1998. Though oil companies from a number of other countries negotiated with the Iraqi government for production deals, none dared to challenge the sanctions (and the Anglo-American companies) by beginning production under such risky circumstances.

7. Iraq War (2003). This war, launched by the US in spite of strong opposition at the UN, overthrew the government of Saddam Hussein and brought the US-UK coalition into direct rule over Iraq and in direct control of the oil fields. The war caused further deterioration of Iraq's infrastructure, many casualties, and a chaotic and dysfunctional economy. Though the coalition rules Iraq, it has faced a tough armed resistance during many months following the main conflict. War number eight, the coalition's war of pacification, has already begun.

The Exceptional Lure of Iraqi Oil

Constant wars hint at the exceptional lure of Iraq's oil fields. Iraq's oil is of good quality, it exists in great quantity, and it is very cheap to produce, offering the world's most extraordinary and profitable oil rents.

Officially, Iraq's reserves are stated as 112 billion barrels, the world's second largest after Saudi Arabia. According to the US Department of Energy, Iraq's real reserves may be far greater – as much as 3-400 billion barrels after further prospecting.[35] Iraq's Senior Deputy Oil Minister confirmed high estimates on May

22, 2002, in an interview with *Platts*, a leading industry information source. He said: "we will exceed 300 billion barrels when all Iraq's regions are explored," and he went on to affirm that "Iraq will [then] be the number one holder of oil reserves in the world."[36]

Iraq's oil is the world's cheapest to produce, at a cost of only about $1 per barrel. The gigantic "rent" on Iraq's oil, during decades of production, could yield company profits in the range of $4-5 trillion dollars – that is, $4-5 million, millions. Assuming fifty years of production and 40% royalties, Iraq could yield annual profits of $80-90 billion per year – more than the total annual profits of the top five companies, even in the banner year of 2003.[37]

As the world's other oilfields seriously deplete during the next two decades, global production will increasingly depend on the enormous reserves of the Persian Gulf region. Iraq will then represent a large and increasing percentage of the world's supplies – perhaps over thirty percent. An international company must hold a serious stake in Iraq if it is to retain its status as a major player in the world's oil industry. The Anglo-American giants know they must gain the lion's share in Iraq or decline irrevocably.

Shortly before the war, industry experts described Iraq as a future "gold rush," where the companies would battle to gain control of key reserves.[38] At that time, a well-informed diplomat at the UN commented bluntly: "Exxon wants Majnoun and they are determined to get it."[39] And a longtime industry observer said: "There is not an oil company in the world that doesnâ€˜t have its eye on Iraq."[40]

Control of Reserves

Oil companies' future profits – and their current share prices and market capitalization – depend to a large degree on their control of reserves. The 1972 oil nationalizations in Iraq pushed the US and UK companies completely out of the country. Before that date, they held a three-quarter share of the Iraq Petroleum Company, including Iraq's entire national reserves. After 1972, all that oil disappeared from their balance sheets.

In the 1980s and 90s, their rivals in France, Russia and even Japan and China began to make deals that led towards lucrative production sharing agreements, allowing those competitors to gain a large potential share of Iraq's oil reserves. The sanctions regime, enforced under the United Nations and maintained at the insistence of the US and UK from 1990 to 2003, prevented these deals from coming to fruition, thus protecting the future stake of the US-UK companies.

In recent years, as older fields worldwide have dwindled, the companies have faced rising replacement costs for their reserves. According to a 2002 report by energy consultants John S. Herold, "finding costs" for new reserves rose 61% in 2001, pushing replacement costs to $5.31 a barrel.[41] "Finding new sources of oil has become the industry's main challenge, as old fields in North America and Europe are being tapped out," commented the *Wall Street Journal* in early 2003.[42] Imagine, then, the lure of the vast Iraqi fields, offering nearly free acquisition and a huge addition to total reserves. As Fadel Gheit of Fahnstock & Co. in New York concluded, Iraq "would be a logical place in the future for oil companies to replace their reserves."[43]

New Iraq Contracts and Moves toward War

The big US-UK companies made no secret of their strong desire for Iraqi oil. BP and Shell conducted secret negotiations with Saddam Hussein, while Exxon and Chevron took a harder line and waited for Washington to eliminate Saddam covertly. In 1997, as the sanctions lost international support, Russia's Lukoil, France's Total, China National and other companies struck deals with the government of Iraq for production sharing in some of Iraq's biggest and most lucrative fields. Lukoil reached an agreement for West Qurna, Total got Majnoun, while China National signed on for North Rumaila, near the Kuwaiti border.[44] Paris, Moscow and Beijing, as Permanent Members in the UN Security Council pressed for an easing of the sanctions, with support from a growing number of other countries. Grassroots movements, concerned about Iraq's humanitarian crisis, called on the UN Security Council to end the sanctions forthwith.

In 1997-98, the US companies saw the writing on the wall. With Iranian fields already slipping into the hands of competitors, such losses in Iraq threatened to reduce them to second rank and confront them with fierce international competition and downward profit pressure. The companies stepped up their lobbying in Washington and made their wishes for Iraq oil crystal clear. "Iraq possesses huge reserves of oil and gas – reserves I'd love Chevron to have access to," enthused Chevron CEO Kenneth T. Derr in a speech at the Commonwealth Club of San Francisco.[45]

Almost as soon as Iraq signed the new oil agreements, Washington began to deploy military forces near the country's borders in a very threatening forward posture. Operation Phoenix Scorpion and Operation Desert Thunder in various phases lasted almost continuously from November 1997 through December 1998. In Washington, the rhetoric grew increasingly hard-line and threatening. On January 26, 1998 members of the right-wing Project for a New American Century sent a letter to President Bill Clinton warning that the containment policy "has been steadily eroding over the past several month" and calling for "removing Saddam Hussein from power."[46] CIA sources told journalists and members of Congress that Saddam was hiding large stocks of deadly weapons. Congress held hearings and began drafting legislation. The President asked the

Pentagon to plan a variety of military options, ranging from limited strikes (later designated Operation Desert Fox) to full-scale war (Operation Desert Lion).

On May 1, President Clinton signed a law that provided $5 million in funding for the Iraqi opposition and set up "Radio Free Iraq." That was only the beginning. On May 29, the Project for a New American Century sent an open letter to Congress on Iraq, insisting that the US government was not sufficiently firm with Saddam, attacking what it called the President's "capitulation" and warning of severe "consequence" to US interests. Among the signatories of this high-profile letter were Donald Rumsfeld, Paul Wolfowitz, Richard Perle, Elliot Abrams, John Bolton and others who would later take high posts in the Bush administration.[47] The Clinton White House was ready to oblige. On August 14, the President signed another law (PL 105-235) that accused Iraq of building weapons of mass destruction and failing to cooperate with UN inspectors, declaring ominously: "Iraq is in material and unacceptable breach of its international obligations." Finally, on October 31, the President signed the "Iraq Liberation Act of 1998" (PL 105-338), a text still more bellicose. "It should be the policy of the United States to support efforts to remove the regime headed by Saddam Hussein from power in Iraq," read the key sentence. In London, government leaders made similar expressions of determination and a UK Strategic Defence Review of July 1998 affirmed readiness to use force. "Outside Europe," the Review concluded, "the greatest risks to our national economic and political interests . . . will remain in the Gulf."[48]

On December 16-19, 1998, the US-UK launched Operation Desert Fox. Hundreds of strike aircraft and cruise missiles hit Baghdad and other major Iraqi targets, including an oil refinery. The attacks ended the UN arms inspection program, pre-empting any declaration that Iraq was nearly free of mass destruction weapons. Following Desert Fox, US-UK air forces patrolled the "no-fly" zones with new, more aggressive rules of engagement and regular attacks on Iraqi targets.

This increasingly aggressive policy towards Iraq expressed a hardening conviction among leaders in the US and the UK that Saddam Hussein could not be ousted by covert means, and that invasion and direct control over Iraq's oil would now be required.

The Bush Administration Heads for War

The new Bush administration came into office in January 2001 at this critical juncture. Revelations by former Secretary of the Treasury Paul O'Neill inform us that the new administration started planning for an invasion of Iraq almost immediately. According to O'Neill, Iraq was "Topic A" at the very first meeting of the Bush National Security Council, just ten days after the inauguration. "It was about finding a way to do it," reports O'Neill, "That was the tone of the President, saying â€˜Go find me a way to do this.'"[49] Meanwhile, the President ordered stepped-up overflights and provocative attacks on Iraqi targets under a plan, evidently known as Operation Desert Badger. On February 16, US aircraft bombed Iraqi radar installations north of the no-fly zone and very close to southern limits of Baghdad. Readily audible from the Iraqi capital, this attack drew wide media comment.

Just a few weeks later, the hastily-organized National Energy Policy Development Group, chaired by Vice President Cheney, studied the challenge posed by French, Russian and other companies. One of the documents produced by the Cheney group, made public after a long court case, is a map of Iraq showing its major oil fields and a two-page list of "Foreign Suitors for Iraqi Oilfield Contracts." The list showed more than 40 companies from 30 countries with projects agreed or under discussion, but not a single US or UK deal.[50] The list included agreements or discussions with companies from Germany, India, Italy, Canada, Indonesia, Japan and other nations, along with the well-known French, Russian and Chinese deals. The Cheney Group's report, released in May, warned ominously of US oil shortfalls that might "undermine our economy, our standard of living, our national security."

The Bush administration seems to have reached a near-decision on war with Iraq in the late spring of 2001. The events of September 11, 2001 and the US war on Afghanistan, postponed the timetable of operations, but may have helped solidify the support of the UK ally. According to Sir Christopher Meyer, the British ambassador in Washington at the time, President Bush raised the issue of Iraq with UK Prime Minister Tony Blair at a private dinner at the White House just nine days after September 11. Bush asked for British support for removal of Saddam Hussein from power, a clear reference to a military operation. According to Meyer's account, Blair gave his silent assent to the proposal. 52 As the wheels of policy began to turn in the Pentagon and the While House, oil industry publications like *Platts* and *Oil and Gas Journal* reflected the growing sense of urgency within the industry that the time for action had arrived. Early in 2002, more than a year before the conflict, Bush and Blair affirmed their plans for war and (while keeping their decision secret) stepped up efforts to prepare their governments and their publics for the use of force.

As war talk increased in Washington and at the UN, oil issues came into the open. The influential Heritage Foundation published in September a report on "The Future of a Post-Saddam Iraq" which called for the privatization of Iraq's national company and warned that competitor companies would lose their Saddam-era contracts. The companies, the Bush administration and the Iraqi opposition held many meetings over post-war oil. The *Washington Post* reported in September that the big companies were "maneuvering for a stake" in postwar

Iraq and that the war could cause major "reshuffling" of world petroleum markets. Former CIA Director James Woolsey told the *Post* that the US would use access to post-war oil as a bargaining chip to win French and Russian support for the war.[51] Also at this time, Iraqi exile leaders said publicly that a post-Saddam government would "review" all the foreign oil agreements. Ahmad Chalabi, leader of the Iraqi National Congress, US favorite as heir to the Iraqi leadership, was quoted as saying: "American companies will have a big shot at Iraqi oil."[53]

Russian officials told the London-based *Observer* newspaper that they feared a post-war nullification of the large Russian contracts, with the most lucrative deals given over to US companies. The *Observer* quoted one official in Moscow as saying that the impending conflict could be called "an oil grab by Washington." In France, it was reported that Total was actually in negotiations with the US government "about redistribution of the oil regions between the world's major companies."[54]

On October 21, Deutsche Bank added to the war-for-oil speculation by publishing a major investor-research study entitled: "Baghdad Bazaar: Big Oil in Iraq?" The report, which noted that "war drums are beating in Washington" and "Big Oil is positioning for post-sanctions Iraq," analyzed the upward stock market potential of the oil industry in light of declining world reserves and Iraq's post-war potential. On November 1, Youssef Ibrahim of the Council on Foreign Relations, warned in the *International Herald Tribune* that the coming war was "bound to backfire," calling it a "a misguided temptation to get more oil out of the Middle East by turning a â€˜friendly' Iraq into a private American oil pumping station."[55]

Meetings continued all fall and into the new year in Washington, London, Houston and elsewhere, between government officials, oil executives and Iraqi opposition leaders in various combinations. US envoys held private talks on oil in Moscow, Paris, Beijing and other capitals. In December, there was a meeting of oil company figures at a resort near Sandringham in Scotland, featuring a talk by the former head of Iraq's Military Intelligence Agency. Topics on the agenda included Iraq's future oil potential and whether post-Saddam Iraq might pull out of OPEC.[56] In the Pentagon, war planners were considering how to seize Iraq's oil fields in the first hours and days of the impending conflict.

The War and After

US-UK forces invaded Iraq on March 20, 2003, seizing the major oilfields and refineries almost immediately. When coalition forces later entered Baghdad, they set a protective cordon around the Oil Ministry, while leaving all other institutions unguarded, allowing looting and burning of other government ministries, hospitals and cultural institutions. Looters sacked the National Museum and burned a wing of the National Library, but the Oil Ministry stood relatively unscathed, with its thousands of valuable seismic maps safe for future oil exploration.

President Bush quickly appointed Phil Carroll, a former high-ranking US oil executive, to assume control of Iraq's oil industry and on May 22, Bush issued Executive Order 13303 giving immunity to oil companies for all activities in Iraq and deals involving Iraqi oil. On the same day, under pressure from the US and the UK, the UN Security Council passed Resolution 1483 which lifted the former sanctions and allowed the occupation authorities to sell Iraqi oil and put the proceeds in an account they controlled. Every step in the early post-war period confirmed the centrality of oil, not as an Iraqi national resource to be protected, but as a spoil of war to be controlled. Now, many months after the war, the picture remains the same.

Company Bonanza or Greedy Overreach?

Was the war a bold and successful calculation or a major error, resulting from official hubris and company greed? The war's authors hoped to affirm a New American Century and company pre-eminence, but the conflict instead could limit US global ambitions and set back oil company aspirations. It is too early to be certain of the outcome, but we can make a few preliminary conclusions.

The companies hoped that the Iraq war would allow them to take over Iraq's oil reserves with only a minimum of difficulty. Self-confident assurances by pro-war ideologues in Washington reinforced the widely-held conviction that the sole superpower could easily mobilize international support and that the people of Iraq would welcome the invaders and applaud the "liberation" offered by a US occupation government. The hawks expected that they could rapidly set up a pliant government and privatize the Iraqi industry or distribute production agreements speedily to US firms. But these ideas proved illusory. Instead, Bush and Blair faced enormous worldwide opposition to the war. And in spite of US forces' rapid seizure of the country, they now grapple with economic chaos and an intense and lethal resistance movement.

The companies, it should be said, are not in a great hurry. They plan and act on decades-long time horizons. They can wait out the insecurity of the present if the precious Iraqi oil fields fall dependably into their hands sometime in the next few years. But it is by no means certain that the Anglo-American giants will get their way as easily in Iraq as they did in Washington. As they wait, the violence of pacification and resistance engulfs the country. War number eight gets under way.

Notes

[1]See, for example, Daniel Yergin, The Prize (New York: Simon & Schuster, 1991).

[2]The Seven Sister companies arose after the federal anti-monopoly breakup of the Standard Oil Trust in 1911. They included three Standard Oil spinoffs, Standard Oil Company of New Jersey, Standard Oil Company of New York , and Standard Oil Company of California, as well as Texaco, Gulf, and the UK giants Royal Dutch Shell and British Petroleum. See Anthony Sampson, The Seven Sisters: the great oil companies and the world they made (London: Hodder & Staughton, 1988)

[3]Data from ExxonMobil web site, announcement of 2003 earnings, January 29, 2004, http://www.exxonmobil.com/corporate/files/corporate/earnings_4q03.pdf.

[4]Data from CIA World Factbook web site (www.cia.gov/cia/publications/factbook) and Fortune Global 500 (www.fortune.com/fortune/fortune500). Note that we are comparing company revenue with government revenue, not with national GNP. The seventh richest government, the Netherlands, had a revenue in 2001 of $134 billion, far below Exxon's figure.

[5]See tables posted on the Global Policy Forum web site, based on information from Fortune and the CIA Factbook –
www.globalpolicy.org/socecon/tncs/oiltable.htm -
www.globalpolicy.org/socecon/tncs/oiltncs2002.htm -
www.globalpolicy.org/socecon/tncs/tncstat2.htm

[6]Ordinary citizens worry about having a plentiful supply of gas for their automobiles, too. On this basis, the US government has often mobilized its people around aggressive Middle East military policies.

[7]John D. Rockefeller, Random Reminiscences of Men and Events (New York: Doubleday, 1909)

[8]Yergin,183.

[9]Michael B. Stoff, Oil, War and American Security: the search for a national policy on foreign oil 1941-1947 (New Haven: Yale University Press, 1980), 147-50.

[10]Wilson D. Muscamble, George F. Kennan and the Making of American Foreign Policy (Princeton: Princeton University Press, 1992)

[11]Rents sometimes result from technical advances, patents, copyrights, and the like, advantages that normally disappear after a period of time. Oil rents are

long-lasting and can yield far higher spreads between the normal profit rate and the rate expressed by the rent.

[12]Virtually all historical studies of the industry provide evidence of this kind. See Yergin (1991) and Sampson (1988) See also: Joe Stork, Middle East Oil and the Energy Crisis (New York: Monthly Review, 1976) and Fiona Benn, Oil Diplomacy in the Twentieth Century (New York: St. Martin's Press, 1986).

[13]Richard Sale, "Saddam Key in Early CIA Plot," United Press International, April 10, 2003. Sale quotes a US operative who knew Saddam at that time saying: "He was a thug – a cutthroat." Saddam was 22 years old at the time of the botched assassination.

[14]See Kermit Roosevelt, Countercoup, the struggle for the contol of Iran (New York: McGraw-Hill, 1979), a book written by the CIA's coup-maker in Tehran, and Ervand Abrahamian, Iran Between Two Revolutions (Princeton: Princeton University Press, 1982).

[15]See, for example, Joseph Fitchett and David Ignatius, "Lengthy Elf Inquiry Nears Explosive Finish," International Herald Tribune," February 1, 2002 and Nicholas Shaxon, "The Elf Trial: political corruption and the oil industry," in Transparency International, Global Corruption Report 2004 (London: Pluto Press, 2004), pp. 67-71. Almost all the world's oil-producing countries have suffered from abusive, corrupt and undemocratic governments and an absence of durable development. Indonesia, Saudi Arabia, Libya, Iraq, Iran, Angola, Colombia, Venezuela, Kuwait, Mexico, Algeria – these and many other oil producers have a sad record, which includes dictatorships installed from abroad, bloody coups engineered by foreign intelligence services, militarization of government and intolerant right-wing nationalism. On poverty and war in oil-producing countries see Christian Aid, Fueling Poverty: Oil, War and Corruption (London, 2003) and Michael Ross, Extractive Sectors and the Poor (Oxfam America, 2001).

[16]For a lengthy discussion of the special tax treatment of the companies see John M. Blair, The Control of Oil (New York: Random House, 1976), 187-203.

[17]Blair (1976), 71-76.

[18]New York Times, January 2, 2004.

[19]For a discussion of the Central Command as a force designed for oil-related intervention, see Michael T.Klare, Resource Wars: the new landscape of global conflict (New York: publisher, 2001)

[20]Testimony of the senate Armed Services Committee, April 13, 1999.

[21]See Peter Grose, Gentleman Spy: the life of Allen Dulles (Boston: Houghton Mifflin, 1994)

[22]Stoff (1980), 64-68.

[23]In 2003, for example, while BP had revenues of $233 billion, British Telecom had revenues of $29 billion, Barclays $26 billion, Lloyds $22 billion, Unilever $20 billion, BAT $18 billion and ICI only $10 billion.

[24]In recent decades in the UK, government ministers have nearly always been drawn from elected members of parliament, sitting in the House of Commons. Simon had just been named to the unelected House of Lords and had no parliamentary experience or popular constituency.

[25]On Hunter, see New York Times, August 30, 2003.

[26]As quoted in Guardian, April 6, 2003.

[27]Curzon was responding to fierce criticism in parliament and the press. T. Johnson, MP, had said, for example, that "The trail of oil was all over the question of Mosul and Iraq." Curzon wrote three articles in The Times (London) on August 2, 9 and 16, 1924 in which he set forth his denials.

[28]See Helmut Mejcher, Imperial Quest for Oil: Iraq 1910-1928 (London: Ithaca Press, 1976) and Peter Sluglett, Britain in Iraq 1914-1932 (London: Ithaca Press, 1976)

[29]A note the Foreign Secretary Arthur Balfour, as quoted in Yergin, 188.

[30]On the seizure of Mosul, see Mechjer (1976), 42. Merchjer notes that the British also postponed the signing of the armistice to enable their forces to make more progress towards Mosul. See also Sluglett (1976).

[31]See, for example, David E. Omissi, British Air Power and Colonial Control in Iraq: 1920-1925 (Manchester: Manchester University Press, 1990), Sluglett, V.G. Kiernan, Colonial Empires and Armies: 1815-1960 (Stroud: Sutton, 1998).

[32]Raghid Solh, Britain's 2 Wars with Iraq, 1941-1991 (Reading: Ithaca Press, 1996)

[33]Dilip Hiro, The Longest War: the Iran-Iraq military conflict (New York: Routledge, 1991)

[34]As quoted by the New York Times, August 16, 1990

[35]See US Department of Energy, Energy Information Administration website at http://www.eia.doe.gov/emeu/cabs/iraq.html

[36]Platts website.

[37]I have arrived at this figure based on assumptions about four variables. I assume 350 billion barrels of reserves, $30 oil rent average in real terms, 75% recovery rate and 60% company share of the rent (the remainder going to the government). Different assumptions would yield different final estimates. For example, assumptions based on worldwide oil scarcity would drive the number up, while assumptions based on rapid conversion to sustainable energy sources would drive the number down. World Energy Outlook of 2001, published by the International Energy Agency, estimated that the total value of foreign contracts signed by the Iraqi government of Saddam Hussein might reach $1.1 trillion, a. number consistent with mine, since the contracts covered only a fraction of Iraq's total oil potential. See "Scramble to care up Iraqi oil reserves lies behind US diplomacy," Observer, October 6, 2002.

[38]Author's Interview with an expert, November, 2002.

[39]Author's Interview with a UN diplomat, November, 2002.

[40]Interview with a US-based industry observer, November, 2002

[41]Platts website –www.platts.com/Oil/Resources/

[42]Susan Warren, "Exxon's Profit Surged in 4th Quarter," Wall Street Journal, February 12, 2004.

[43]Platt's website, www.platts.com/Oil/Resources/f.. A recent example, not dealing with Iraq, shows the great importance of company reserves. On January 9, 2004, Shell announced that it had revaluated its worldwide reserves downward by 20%. The firm's stock immediately declined by 7%. Shell had reduced its estimated reserves by 3.9 billion barrels, bringing the company's total to 15.4 billion barrels (Exxon's reserves were 22 billion barrels at that time). By contrast, Iraq's single super-giant Majnoun field (promised pre-war to Total) has estimated reserves of 10- 30 billion barrels, while the super-giant West Qurna field (promised to Lukoil) has estimated reserves of 15-18 billion barrels. If Shell could get control of such a field in Iraq, it could more than double its total company reserves and enjoy an enormous lift in its share prices. This demonstrates clearly what is at stake in Iraq, since share valuation brings fifty years or more of future production immediately into the market capitalization of the firm.

[44]China had become a major player in the Middle East oil game because of its rapid economic growth and huge future oil needs, with Persian Gulf imports

estimated to rise from 0.5 million barrels per day in 1997 to 5.5 million barrels per day in 2020.

[45]As posted on the company web site at www.cherontexaco.com/news/archive/chevron_speech/1998/98-11-05.asp

[46]Project for a New American Century web site – www.newamericancentury.org/iraqclintonletter.htm

[47]www.newamericancentury.org/iraqletter.htm

[48]UK Ministry of Defence website, White Paper, July 18, 2002 – www.mod.uk/issues/sdr/newchapter.htm

[49]Ron Suskind, The Price of Loyalty: George W. Bush, the White House and the Education of Paul O'Neill (New York, Simon & Schuster, 2004) 174-75

[50]The Cheney documents were curiously made public in response to a law suit by a conservative organization called Judicial Watch. The administration fought the Judicial Watch case in court, but eventually lost. The "Foreign Suitors" list includes Shell, but lists no contract results with the company. Exxon, Chevron and BP are not on the list at all. Two small UK firms, Branch Energy and Pacific Resources are also to be found on the list.

[51]Dan Morgan and David B. Ottaway, "In Iraqi War Scenario, Oil is Key Issue as U.S. Drillers Eye Huge Petroleum Pool," Washington Post, September 15, 2002.

[52]David Rose, "Bush and Blair Made Secret Pact for Iraq War," The Observer, April 4, 2004 [53]Morgan and Ottaway (2002)

[54]Ed Vulliamy, Paul Webster and Nick Paton Walsh, "Scramble to Carve up Iraqi oil reserves lies behind US diplomacy," The Observer, October 6, 2002.

[55]Youssef Ibrahim, "Bush's Iraq adventure is bound to backfire," International Herald Tribune, November 1, 2002.

[56]Peter Beaumont and Faisal Islam, "Carve-Up of Oil Riches Begins," Observer, November 3, 2002.