

Iraq's Oil

By Linda McQuaig

From his corner office in the heart of New York's financial district, Fadel Gheit keeps close tabs on what goes on inside the boardrooms of the big oil companies. An oil analyst at the prestigious Wall Street firm Oppenheimer & Co., the fit, distinguished-looking Gheit has been watching the oil industry closely for more than 25 years.

Selling the modern world's most indispensable commodity has never been a bad business to be in - particularly for the small group of companies that straddle the top of this privileged world. But never more so than now.

"Profit-wise, things could not have been better," says Gheit, "In the last three years, they died and went to heaven They are all sitting on the largest piles of cash in their history."

But to stay rich they have to keep finding new reserves, and that's getting tougher. Increasingly it means cutting through permafrost or drilling deep underwater, at tremendous cost. "The cheap oil has already been found and developed and produced and consumed," says Gheit. "The low-hanging fruit has already been picked."

Well, not all the low-hanging fruit has been picked.

Nestled into the heart of the area of heaviest oil concentration in the world is Iraq, overflowing with low-hanging fruit. No permafrost, no deep water. Just giant pools of oil, right beneath the warm ground.

This is fruit sagging so low, as it were, that it practically touches the ground under the weight of its ripeness.

Not only does Iraq have vast quantities of easily accessible oil, but its oil is almost untouched. "Think of Iraq as virgin territory This is bigger than anything Exxon is involved in currently It is the superstar of the future," says Gheit, "That's why Iraq becomes the most sought-after real estate on the face of the earth."

Gheit just smiles at the notion that oil wasn't a factor in the U.S. invasion of Iraq. He compares Iraq to Russia, which also has large undeveloped oil reserves. But Russia has nuclear weapons. "We can't just go over and ... occupy (Russian) oil fields," says Gheit. "It's a different ballgame." Iraq, however, was defenceless, utterly lacking, ironically, in weapons of mass destruction. And its location, nestled in between Saudi Arabia and Iran, made it an ideal place for an ongoing military presence, from which the U.S. would be able to control the entire Gulf region. Gheit smiles again: "Think of Iraq as a military base with a very large oil reserve underneath You can't ask for better than that."

There's something almost obscene about a map that was studied by senior Bush administration officials and a select group of oil company executives meeting in secret in the spring of 2001. It doesn't show the kind of detail normally shown on maps - cities, towns, regions. Rather its detail is all about Iraq's oil.

The southwest is neatly divided, for instance, into nine "Exploration Blocks." Stripped of political trappings, this map shows a naked Iraq, with only its ample natural assets in view. It's like a supermarket meat chart, which identifies the various parts of a slab of beef so customers can see the most desirable cuts Block 1 might be the striploin, Block 2 and Block 3 are perhaps some juicy tenderloin, but Block 8 - ahh, that could be the filet mignon.

The map might seem crass, but it was never meant for public consumption. It was one of the documents studied by the ultra-secretive task force on energy, headed by U.S. Vice-President Dick Cheney, and it was only released under court order after a long legal battle waged by the public interest group Judicial Watch.

Another interesting task force document, also released under court order over the opposition of the Bush administration, was a two-page chart titled "Foreign Suitors for Iraqi Oilfields." It identifies 63 oil companies from 30 countries and specifies which Iraqi oil fields each company is interested in and the status of the company's negotiations with Saddam Hussein's regime. Among the companies are Royal Dutch/Shell of the Netherlands, Russia's Lukoil and France's Total Elf Aquitaine, which was identified as being interested in the fabulous, 25-billion-barrel Majnoon oil field. Baghdad had "agreed in principle" to the French company's plans to develop this succulent slab of Iraq. There goes the filet mignon into the mouths of the French!

The documents have attracted surprisingly little attention, despite their possible relevance to the question of Washington's motives for its invasion of Iraq - in many ways the defining event of the post-9/11 world but one whose purpose remains shrouded in mystery. Even after the supposed motives for the invasion - weapons of mass destruction and links to Al Qaeda - have been thoroughly discredited, talk of oil as a motive is still greeted with derision. Certainly any suggestion that private oil interests were in any way involved is hooted down with charges of conspiracy theory.

Yet the documents suggest that those who took part in the Cheney task force - including senior oil company executives - were very interested in Iraq's oil and specifically in the danger of it falling into the hands of eager foreign oil companies, rather than into the rightful hands of eager U.S. oil companies.

As the documents show, prior to the U.S. invasion, foreign oil companies were nicely positioned for future involvement in Iraq, while the major U.S. oil companies, after years of U.S.-Iraqi hostilities, were largely out of the picture. Indeed, the U.S. majors would have been the big losers if U.N. sanctions against Iraq had simply been lifted. "The U.S. majors stand to lose if Saddam makes a deal with the U.N. (on lifting sanctions)," noted a report by Germany's Deutsche Bank in October 2002.

The disadvantaged position of U.S. oil companies in Saddam Hussein's Iraq would have presumably been on the minds of senior oil company executives when they met secretly with Cheney and his task force in early 2001. The administration refuses to divulge exactly who met with the task force, and continues to fight legal challenges to force disclosure. However a 2003 report by the General Accounting Office, the investigative arm of Congress, concluded that the task force relied on advice from the oil industry, whose close ties to the Bush administration are legendary. (George W. Bush received more money from the oil and gas industry in 1999 and 2000 than any other U.S. federal candidate received over the previous decade.)

The Cheney task force has been widely criticized for recommending bigger subsidies for the energy industry, but there's been little focus on its possible role as a venue for consultations between Big Oil and the administration about Iraq. One intriguing piece of evidence pointing in this direction was a National Security Council directive, dated February 2001, instructing NSC staff to co-operate fully with the task force. The NSC document, reported in The New Yorker magazine, noted that the task force would be considering the "melding" of two policy areas: "the review of operational policies towards rogue states" and "actions regarding the capture of new and existing oil and gas fields." This certainly implies that the Cheney task force was considering geopolitical questions about actions related to the capture of oil and gas reserves in "rogue" states, including presumably Iraq.

It seems likely then that Big Oil, through the Cheney task force, was involved in discussions with the administration about getting control of oil in Iraq. Since Big Oil has sought to distance itself from the administration's decision to invade Iraq, this apparent involvement helps explain the otherwise baffling level of secrecy surrounding the task force.

It's interesting to note that the Cheney task force deliberations took place in the first few months after the Bush administration came to office - the same time period during which the new administration was secretly formulating plans for toppling Saddam. Those early plans were not publicly disclosed, but we know about them now due to the publication of several insider accounts, including that of former Treasury secretary Paul O'Neill. So, months before the attacks of 9/11, the Bush White House was already considering toppling Saddam, and at the same time it was also keenly studying Iraq's oil fields and assessing how far along foreign companies were in their negotiations with Saddam for a piece of Iraq's oil.

It's also noteworthy that one person - Dick Cheney - was pivotal both in advancing the administration's plans for regime change in Iraq and in formulating U.S. energy policy.

As CEO of oil services giant Halliburton Company, Cheney had been alert to the problem of securing new sources of oil. Speaking to the London Petroleum Institute in 1999, while still heading Halliburton, Cheney had focused on the difficulty of finding the 50 million extra barrels of oil per day that he said the world would need by 2010. "Where is it going to come from?" he asked, and then noted that "the Middle East with two-thirds of the world's oil and the lowest cost, is still where the prize ultimately lies."

Cheney's focus on the Middle East and its oil continued after he became Bush's powerful vice-president. Within weeks of the new administration taking office, Cheney was pushing forward plans for regime change in Iraq and also devising a new energy policy which included getting control of oil reserves in rogue states. His central role in these two apparently urgent initiatives is certainly suggestive of a possible connection between the U.S. invasion of Iraq and a desire for the country's ample oil reserves - the very thing that is vehemently denied.

One reason that regime change in Iraq was seen as offering significant benefits for Big Oil was that it promised to open up a treasure chest which had long been sealed - private ownership of Middle Eastern oil. A small group of major international oil companies once privately owned the oil industries of the Middle East. But that changed in the 1970s when most Middle Eastern countries (and some elsewhere) nationalized their oil industries. Today, state-owned companies control the vast majority of the world's oil resources. The major international oil companies control a mere 4 per cent.

The majors have clearly prospered in the new era, as developers rather than owners, but there's little doubt that they'd prefer to regain ownership of the oil world's Garden of Eden. "One of the goals of the oil companies and the Western powers is to weaken and/or privatize the world's state oil companies," observes New York-based economist Michael Tanzer, who advises Third World governments on energy issues.

The possibility of Iraq's oil being reopened to private ownership - with the promise of astonishing profits - attracted considerable interest in the run-up to the U.S. invasion. In February 2003, as U.S. Secretary of State Colin Powell held the world's attention with his dramatic efforts to make the case that Saddam posed an imminent threat to international peace, other parts of the U.S. government were secretly developing plans to privatize Iraq's oil (among other assets). A confidential 100-page contracting document, drawn up by the U.S. Agency for International Development and the U.S. Treasury Department, laid out a

wide-ranging plan for a "Mass Privatization Program ... especially in the oil and supporting industries."

The Pentagon was also working on plans to open up Iraq's oil sector. In the fall of 2002, months before the invasion, the Pentagon retained Philip Carroll, a former CEO of Shell Oil Co. in Texas, to draft a strategy for developing Iraqi oil. Carroll's plans apparently became the basis of a proposed scheme, which became public shortly after the war, to redesign Iraq's oil industry along the lines of a U.S. corporation, with a chairman, chief executive and a 15-member board of international advisers. Carroll was chosen by Washington to serve as chairman, but the plans were shelved after they encountered stiff opposition inside Iraq.

Still, the prospect of privatizing Iraq's oil remained of great interest to U.S. oil companies, according to Robert Ebel, from the influential Washington-based Center for Strategic and International Studies (CSIS). Ebel, former vice-president of a Dallas-based oil exploration company, retains close ties to the industry. In an interview in his Washington office, Ebel said it was up to Iraq to make its own decisions, but he made clear that U.S. oil companies would prefer Iraq abandon its nationalization. "We'd rather not work with national oil companies," Ebel said bluntly, noting that the major oil companies are prepared to invest the \$35 to \$40 billion to develop Iraq's reserves in the coming years. "We're looking for places to invest around the world. You know, along comes Iraq, and I think a lot of oil companies would be disappointed if Iraq were to say 'we're going to do it ourselves' "

Along comes Iraq?

How fortuitous. U.S. oil companies just happened to have billions of dollars that they wanted to invest in undeveloped oil reserves when Iraq presented itself, ready for invasion.

Along comes Iraq, indeed.

In the past 14 decades, we've used up roughly half of all the oil that the planet has to offer. No, we're not about to run out of oil. But long before the oil runs out, it reaches its production peak. After that, extracting the remaining oil becomes considerably more difficult and expensive.

This notion that oil production has a "peak" was first conceived in 1956 by geophysicist M. King Hubbert. He predicted that U.S. oil production would peak about 1970 - a notion that was scoffed at the time. As it turned out, Hubbert was dead on; U.S. oil production peaked in 1970, and has been declining ever since. Hubbert's once-radical notion is now generally accepted.

For the world as a whole, the peak is fast approaching. Colin Campbell, one of the world's leading geologists, estimates the world's peak will come as soon as 2005 - next year. "There is only so much crude oil in the world," Campbell said in a telephone interview from his home in Ireland, "and the industry has found about 90 per cent of it."

All this would be less serious if the world's appetite for oil were declining in tandem. But even as the discovery of new oil fields slows down, the world's consumption speeds up - a dilemma Cheney highlighted in his speech to the London Petroleum Institute in 1999. For every new barrel of oil we find, we are consuming four already-discovered barrels, according to Campbell. The arithmetic is not on our side.

Particularly worrisome is the arithmetic as it applies to the U.S. With its oil production already long past peak, and yet its oil consumption rising, the U.S. will inevitably become more reliant on foreign oil. This is significant not just for Americans, but for the world, since the U.S. has long characterized its access to energy as a matter of "national security." With its unrivalled

military power, the U.S. will insist on meeting its own voracious energy needs - and it will be up to the rest of the world to co-operate with this quest. Period.

Canada plays a greater role in this "keep-the-U.S.-energy-beast-fed" scenario than many Canadians may realize. A three-volume report prepared by a bipartisan Congressional team and CSIS, the Washington think tank, highlights how important Canada is in the U.S. energy picture of the future. The report, *The Geopolitics of Energy into the 21st Century*, notes that Canada is "the single largest provider of energy to the United States," and that "Canada is poised to expand sharply its exports of oil to the United States in the coming years."

Fine - as long as Canada doesn't want to change its mind about this. Well, in fact, Canada can't change its mind about this - a point celebrated in the report. When Canada signed the North American Free Trade Agreement (NAFTA) in 1993, we gave up our right to cut back the amount of oil we export to the U.S. (unless we cut our own consumption the same amount). Interestingly, Mexico, also a party to NAFTA, refused to agree to this section, and was granted an exemption.

The U.S. report points out that that, under NAFTA, Canada is not allowed to reduce its exports of oil (or other energy) to the U.S. in order to redirect them to Canadian consumers. Redirecting Canadian oil to Canadians isn't permitted - regardless of how great the Canadian need may be. Some outside observers, like Colin Campbell over in Ireland, find the situation striking. "You poor Canadians are going to be left freezing in the dark while they're running hair dryers in the U.S.," says Campbell. It's a situation that comforts the U.S. senators, congressmen and think-tank analysts who wrote the report. With obvious satisfaction, they conclude: "There can be no more secure supplier to the United States than Canada."

Alas, for the U.S., not every part of the world is as pliant as Canada. Most of the world's oil is in the Middle East. And while different oil regions will reach their production peaks at different times, the Middle East will peak last, underlying Cheney's point that the region is where "the prize ultimately lies." Whoever controls the big oil reserves of the Middle East will then be positioned to, pretty much, control the world.

But we're supposed to believe that, as the Bush administration assessed its options just before invading Iraq in the spring of 2003, the advantages of securing vast, untapped oil fields - in order to guarantee U.S. energy security in a world of dwindling reserves and to enable U.S. oil companies to reap untold riches - were far from mind. What really mattered to those in the White House, we're told, was liberating the people of Iraq.

Adapted from *It's The Crude, Dude: War Big Oil, And The Fight For The Planet*, by Linda McQuaig, 2004. Published by Doubleday Canada Reproduced by arrangement with the Publisher. All rights reserved. Toronto-based political commentator Linda McQuaig is a past winner of a National Newspaper Award and an Atkinson Fellowship for journalism in public policy. Her column appears Sundays on the Star's op-ed page.