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The Future of Oil in Iraq: Scenarios and Implications

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Iraq holds the world's third largest oil reserves base after Saudi Arabia and Russia, with 78 bn barrels of proven reserves and 51 bn barrels undiscovered according to US Geological Survey (USGS) figures. The Organization of the Petroleum Exporting Countries (OPEC) estimated Iraq's remaining proven reserves at 112.5 bn barrels.

However, Iraq's contribution to global oil security is not a decisive factor in the mounting American campaign against Saddam Hussein's regime. Iraq supplies about 2% of the world's oil. If sanctions were lifted and the existing production and transport infrastructure repaired, that share could rise to 4% over the following three years. With a massive investment programme supported by a stable investment climate, the share could rise to 6–7% over a 5–10-year period. Even under such a utopian scenario, Iraq could not challenge Saudi Arabia's pivotal role in the future of oil. Today, Saudi Arabia produces 10% of the world's oil and has the resources (twice the reserves of Iraq), the technical capacity and access to finance that would allow an increase to a 12–15% share of the world's oil over a 10-year period. Saudi Arabia also plays an important role in holding spare capacity to balance the market – an unlikely role for Iraq, which is desperate to increase its revenues.

Moreover, if protecting the commercial interests of American oil companies and getting more oil onto the market were prime objectives of the Bush administration, sanctions would be lifted against Iran and Libya. Orchestrating an invasion and change of regime in Iraq is a risky enterprise fraught with uncertainty about the short- and medium-term stability of key producing countries. It is also an expensive venture. The last Gulf War's spike in oil prices helped set off an economic recession. For that war, American allies paid almost 80% of the bill. According to the House Budget Committee's Democratic staff, the cost of the Gulf war of 1991 was $79.9 bn in 2002 dollars, a rough indication of what a conflict of similar dimensions might cost today. Today, however, no allies appear willing to share these costs.

If the US engages Iraq in war, it will be because it perceives a threat to its allies and to its interests in Saddam Hussein's pursuit of Iraq's foreign policy. This threat may not be as imminent and direct as stated by hawkish American politicians; but there are grounds to argue that Saddam Hussein's Iraq is a destabilizing force in an oil-rich region of critical importance to US interests, defiant of America, and bullying or threatening its regional allies. In this perspective, Iraq is too powerful an actor in the Middle East, with a strong historical legacy, an important population and considerable oil wealth, to leave in the hands of a defiant, trouble-making dictator.

Though it is clear that such a war would directly affect the commercial interests of various states, we should keep in mind that these oil interests do not dictate the foreign policy of any of the key governments involved. Washington and London clearly have interests in arranging that a favourable political outcome in Iraq will not disadvantage those US and British companies which did not negotiate oil production-sharing agreements (PSAs) because of sanctions and US policy. Also, countries that have built a special relationship with Iraq over the past decades, such as France and Russia, want to participate in rebuilding Iraq after sanctions are lifted. But more importantly, these states want stability in Iraq and the region. Other Middle East producers also have a stake in Iraq's future, as instability in Iraq would have serious repercussions for the region.

This paper aims to explore the potential impact on oil of political change in Iraq. We will examine possible outcomes in terms of three scenarios. These scenarios are not predictions of future events, but rather tools to help structure our analysis, notably in terms of oil prices and supply, as well as investment. Each scenario implies a different set of risks and opportunities for the oil industry. It would be misleading to attach details of events, agreements, quantities or timing to any scenario. It is the broad differences that are worth discussing. There is no assumption that the scenarios are equally probable.

(1) *US-topia* – Territorial integrity, disarmament, national pluralism/democracy.
(2) *Made in Iraq* – Internal/independent coup, new regime meeting minimum US requirements.
(3) *Turmoil* in and around Iraq – New regime unable to maintain domestic cohesion, with region-wide terrorism and sabotage in reaction to continued US military operations.

(1) US-TOPIA

In the *US-topia* scenario, American forces win the war and the peace. They drive Saddam Hussein out of power quickly, with little loss of civilian life and property. The US sponsors a friendly regime in Iraq that is legitimized by some kind of democratic process. This regime will disarm Iraq quickly, allowing a prompt lifting of sanctions. US or UN troops would have a limited short-term presence with a role limited to the execution of the disarmament programme. The territorial integrity of Iraq will be preserved by a nationally pluralistic regime representing the various ethnic and political groups of Iraq, possibly through a federal structure. Reaction to this outcome in the region and the Arab world is moderate, provided the change of regime appears to be generally welcomed by the people of Iraq.

For the oil industry, the main features of this scenario in the short term would be:

- very little disruption of current production;
- rapid lifting of sanctions, enabling the Iraqi National Oil Company (INOC) to restore production to its 3.3 mn b/d capacity;
- a challenge to OPEC, which would face the problem of accommodating rising Iraqi production. It would be difficult to legitimize the current rates of production in OPEC by an increase in overall quotas, and difficult to resist a quota being reintroduced for Iraq at a level which would not constrain the rebuilding of its oil revenues.

For the medium term, INOC would be likely to review and renegotiate the PSAs that had been initialled, and challenge the contracts where performance had been inadequate. In the course of these renegotiations room would be sought to include major American and British companies that had refrained from negotiating PSAs under sanctions. These renegotiations would be extremely difficult. The excluded major companies would be looking for participation in the very large fields, in some of which major, technologically competent and financially strong companies have already begun negotiations. INOC would be likely to take advantage of the arrival of would-be incumbents to argue that the terms offered under sanctions were negotiated ‘under duress’. The likely net outcome would be the slow emergence of more severe terms for the foreign companies.

This scenario leads to the sustained expansion of the Iraqi oil industry, but not quickly, with production rising above 4 mn b/d after 2005–6 and continuing to expand thereafter to 6 mn b/d or more after 2010. The effect on price and price expectations would depend on developments elsewhere in the market but would be unlikely to be overwhelming.

(2) MADE IN IRAQ

In the *Made in Iraq* scenario, the impending war against Iraq brings a group of officers to pre-empt an American strike by organizing a coup against Saddam Hussein. The coup is successful and order is maintained. The new government rules in much the same way as Saddam Hussein, but meets minimal American demands by disarming the country of the ‘weapons of mass destruction’ and admitting long-term inspection programmes to confirm its adherence to UN resolutions. In doing so, the officers spare Iraqis from an American offensive. There is no war and no US occupying force. Sanctions are slowly lifted, on the condition of compliance to American and UN requirements. UN and US containment of Iraq is exercised by inspections, destruction of weapons, and economic controls. The sanctions regime procedure may be maintained to ensure that oil export revenues are used mainly for non-military purposes, reparations, debt service (probably rescheduled) and agreed humanitarian and economic priorities. These are likely to include the expansion of the oil industry to provide the revenue needs for these various objectives.

The impact on the oil industry would be similar to that under the first scenario. The main effects would be within Iraq, with perhaps less leverage for the entry of new US and British companies, and more difficult decision-making, as project funding and imports for projects would have to be fitted into whatever international economic controls were in place. Production rising to 5 mn b/d by 2010 would be feasible, maintaining pressure of supply on the market.

(3) TURMOIL

The *Turmoil* scenario results from protracted war waged in Iraq by American forces. The new regime selected by Washington is unable to win broad domestic political or institutional support. Internal strife plagues the shifting political coalitions of Iraqi Arab Sunni, Shi'a, Kurds and Turkmen. Central authority breaks down. Neighbouring states seek to protect their friends and damage their opponents in Iraq (Iran protecting the Shi'a; Turkey the Turkmen against the Kurds; Saudi Arabia the Sunnis). There is a more or less spontaneous and uncoordinated wave of popular protest, terrorism and sabotage against American and European troops, people and property through the Arab states and possibly in other Muslim states as well.

This scenario would have serious implications for the oil industry inside and outside Iraq. Iraqi production would be disrupted immediately, and for an unforeseeable length of time. There might be temporary disruptions induced by sabotage of other supplies. Oil prices would rise in response to this uncertainty, possibly to high levels, until the situation is clarified. The terrorist and sabotage activity would make it difficult for foreign companies – including oilfield service companies – to operate normally throughout the region, so that investment and development plans of other producers would be disrupted. The long-awaited plans for foreign service contracts in Kuwait would never materialize. Contracts in Iran would effectively be limited to non-US and non-European companies, either because of companies’ reluctance to engage or because of political opposition in Iran. There might be similar developments in Indonesia if extremist Islamic groups expanded their activities there.

The policies of other Middle East producers might also change. The government of Saudi Arabia might choose to abandon its past policy of broadly supporting stability in the oil market. The market has in the past found Saudi Arabia willing and able to maintain spare capacity, to match supplies lost through disruption, and generally to expand capacity in line with demand. These policies have served Saudi interests to stabilize the oil price, and to expand the market for oil and the Saudi share of the market. However, they might be politically difficult to sustain in the face of ongoing warfare in Iraq involving US and other foreign troops.

The slowdown in capacity expansion would tend to sustain oil prices at higher levels than would be the case under the first two scenarios, even as the political situation stabilized. The sustained high prices would depress the world economy and therefore oil demand over a 3–5-year period, while at the same time stimulating oil and gas developments outside the troubled areas. A price cycle similar to that of 1979–83 would be likely.

Iraq's production outlook

To assess the impact of potential disruptions of Iraqi oil on the market, the paper will briefly survey Iraq's production capabilities (see Tables 1–3). It is well known that production output has been irregular and quite limited by damage to oil installations during the Gulf war and by UN sanctions. Modification of sanctions and investment under the oil-for-food programme led to significant growth in production in the last five years. However, the protracted conflict between the UN sanctions committee and Iraq over surcharges and strict retroactive pricing reduced Iraqi oil exports to 1.2 mn b/d, well short of its actual export capacity of 2.2 mn b/d.

According to Iraq's Oil Minister, Amr Rashid,

TABLE 1: IRAQI OIL EXPORTS UNDER THE OIL-FOR-FOOD PROGRAMME (MN B/D)

Average 2000	Average 2001	Jan-Jul 2002	Sept 2002
1.92	1.71	1.21	1.10

Source: *Middle East Economic Survey* (MEES), 45:35, 2 September 2002 and 45:40, 7 October 2002.

TABLE 2: IRAQI CRUDE OIL PRODUCTION (MN B/D)

Average 1995	Average 1996	Average 1997	Average 1998	Average 1999	Average 2000	Average 2001
0.55	0.57	1.19	2.11	2.55	2.56	2.31

Oct 2001	Nov 2001	Dec 2001	Jan 2002	Feb 2002	Mar 2002
2.8	2.72	2.0	2.31	2.54	2.53

Sources: *MEES*, 45:17, 29 April 2002; Cambridge Energy Reseach Associates (CERA), 2002.

TABLE 3: IRAQ'S PRODUCING OILFIELDS (ESTIMATES)

Company	Production (mn b/d) (March 2001)	New production (mn b/d) (July 2002)
South Oil Company (SOC)		
South Rumaila	0.7	
North Rumaila	0.35	
Zubair	0.155	
West Qurna	0.14	0.25 estimated
Missan	0.04	
Luhais	0.03	
Nahr Bin Omar	0.005	
Majnoon		0.05
		0.1 expected end 2002
North Oil Company (NOC)		
Kirkuk	0.8	TPAO added a rig
Bai Hassan	0.1	
Jambur	0.075	
Khabbaz	0.025	
Saddam	0.025	
Ain Zalah	0.008	
Sufaya	0.008	
Total NOC and SOC	**2.46**	

Sources: Petroleum Argus, 2001 Special Report: Iraq, 19 March 2001; Energy Intelligence Group, *Energy Compass*, 4 July 2002.

production capacity stands at 3.2 mn–3.3 mn b/d, roughly equivalent to volumes produced in 2000 and the first half of 2001. Iraq exported approximately 2 mn b/d through the UN oil-for-food programme, while the rest was used for domestic energy needs or smuggled to Syria, Turkey, and the Arabian Gulf, or sold to Jordan outside the UN programme. Pushing capacity beyond 3.3 mn b/d would require the release of $740 mn in oil equipment contracts blocked by UN sanctions.

The 1991 UN sanctions regime bars foreign investment in Iraq's oil sector, but the 1996 UN oil-for-food programme allows drilling work and the UN Sanctions Committee has approved the award of several drilling contracts to Russian and Turkish oil companies.[1] Several Security Council members have been bargaining with the US for the release of contracts for supplies of goods and services that international companies have signed with Iraq but which Washington has put on hold. According to the weekly statement issued by the UN Office for the Iraq Programme on 30 April, there were 2,106 contracts on hold worth $5.1 bn. Of these, $4.4 bn was for humanitarian supplies and $772 mn for oil industry spare parts and equipment. Moreover, there were 242 contracts worth $417 mn in the 'inactive hold' category, which means that suppliers have not provided the additional technical information requested by the 'holding' committee for over 60 days; and 456 contracts worth $1.2 bn in the 'active hold' category, meaning that there has been no feedback from the holding committee for over 60 days, despite the provision of additional information by suppliers.

The United Nations has recently approved an Iraqi crude oil export deal with Agip, part of Italy's ENI group. This is the first such contract approval in two years, and may be related to Baghdad's more conciliatory steps towards the UN. Recent moves by Iraq to drop its surcharge on oil exports on the same day it promised to welcome the UN inspectors back into the country allow us to expect an increase in Iraqi exports in the coming months. In fact, Iraqi exports surged in the week of 20 September to their highest weekly average since May 2002, at 1.9 mn b/d. Baghdad's capitulation on the surcharge demonstrates its concern to avoid any source of tension with the UN that could be used as a pretext for war or that could limit its oil revenues at this critical time of escalating tension with the United States.

For more significant investment to take place political change in Iraq will be necessary. The United States will not allow foreign investment to assist in expanding production in Iraq unless one of the three scenarios we described takes place – that is, unless Saddam Hussein is replaced and the disarmament of Iraq is completed. In a status quo scenario, we should expect production in Iraq to remain limited, oscillating between 0.5 and 2.5 mn b/d in response to quarrels with the United Nations.

Frustrated by the reticence of foreign investors, the Iraqi government launched a 'national effort' in 1999 aimed at increasing production to make up for the declining capacity in ageing fields. In 2001, Iraq began developing on its own the giant southern Majnoon oilfield promised to TotalFinaElf, which had all but signed a production-sharing contract for that field. Since then, Iraqi authorities have been warning foreign companies they will lose their fields unless they disregard the sanctions regime and start work. Nevertheless, the importance of this domestic drilling is quite limited in terms of barrels produced (as demonstrated in Table 3) and, realistically, this national effort can only aim to draw foreign investors back in.

In the event of a *Made in Iraq* coup, we can expect Iraqi oil authorities to pursue the national effort campaign as a lure for foreign companies to step up the pace at which projects are realized. However, this investment would inevitably be slow in coming as American suspicion of the new regime's commitment to abide by UN resolutions and disarm Iraq might delay foreign investment by one year, perhaps more. In this scenario, traditional partners of Iraq will be favoured. The new government will not be indebted to Washington, at least not to the same extent as an imported version would be. In return for meeting US and UN demands on disarmament in order to escape invasion and achieve the lifting of sanctions, it will expect freedom to manage the internal affairs of Iraq, including its oil business.

What investments will be needed in Iraq?

The Arab Petroleum Investments Corporation (Apicorp), which is sponsored by the Organization of Arab Petroleum Exporting Countries (OAPEC), presented a survey of projected investments in the Arab upstream and downstream sectors. It estimated the financial requirements for maintenance and expansion of Iraq's oil sector from 2002 to 2006 to be $5.5 bn. This conservative figure includes rehabilitating the production capacity and raising it to its previous level, and assumes the lifting of UN sanctions.

Iraq hoped to reach its production target of 6 mn b/d by developing the country's largest oilfields as well as by finding and developing oilfields in the Western Desert. Reaching this target depends on access to equipment, technology and investment. Iraqi authorities estimate that this will cost about $21 bn and could be achieved within 8 to 10 years of the lifting of sanctions. In view of this target, the Iraqi oil authorities have awarded 12-year Development and Production Contracts (DPCs) to foreign oil companies, in which Iraq would hold 10% of the equity.[2] This investment programme could proceed once sanctions are lifted, under either the *US-topia* or the *Made in Iraq* scenario. In both cases Iraq might seek to improve the terms of contracts, taking advantage of the new competition between investors.

Production disruptions

A preliminary consideration in our discussion of the implications of invasion scenarios is the immediate impact of production disruptions caused by a war. Drawing on previous historical experience in the Gulf war of 1991, some commentators have predicted a significant spike in oil prices. After Iraqi forces invaded Kuwait in August 1990, oil prices climbed rapidly from a low of $15 a barrel and peaked at $40 in October 1990, in spite of assurances that the United States would release oil from the strategic reserve. Prices remained high for more than a year in what some interpreted as a tax on consumers worldwide to allow Saudi Arabia and Kuwait to pay for the American and allied bill for the war.

The numbers have changed since. To stabilize oil prices during the Gulf war of 1991, OPEC producers had to replace 5 mn barrels a day, equivalent to the combined exports of Iraq and Kuwait. In the light of Iraq's now marginal and unreliable oil exports, there are only 1.2 mn barrels to replace. Other OPEC producers have about 6 mn barrels of shortfall capacity that could be called upon to quickly replace the Iraqi exports. Half is in Saudi Arabia, which has a policy of maintaining 2 or 3 mn barrels a day of surplus capacity, and most of the rest is in Kuwait and the United Arab Emirates. The Saudi Oil Minister, Ali Al Naimi, confirmed after the meeting of OPEC ministers in Osaka on 19 September that OPEC would move immediately to increase production to ease any shortage in the event of a war on Iraq.[3] Price stabilization can also be achieved by releasing oil from the US and European strategic petroleum stocks.

It is unlikely that the Iraqi military could cause serious production disruptions to other sources of oil. The idea that Saddam Hussein could execute precision strikes to shut down shipping lanes such as those in the Straits of Hormuz and prevent Saudi Arabia from getting its oil to market is not supported by accounts of the Iraqi army's military capacity – even at the height of its power.[4]

In this sense, the impact of production disruptions in Iraq should not be the prime focus of concern with an invasion scenario such as *US-topia* or under a *Made in Iraq* coup. A strike against Iraq would undoubtedly lead to a spike in oil prices, but part of the impact of predicted events in Iraq is already incorporated into the price of a barrel, which includes a ‘war premium’ that has varied during the past months. It was approximately $5 in October and significantly lower in November. Oil traders have been dealing with the threat of war in Iraq for over a year. They now focus on timing and will await the confirmed collaboration of shortfall producers. In the *Turmoil* scenario, the situation would be far more serious. The scale of disruptions of supplies from Iraq would be large and its duration unforeseeable. Supplies from other Middle East exporters would probably be disrupted – albeit temporarily – by terrorism, sabotage or policy vacillation.

Who will rebuild the Iraqi oil industry?

There is more uncertainty regarding the future of Iraq's oil industry and this longer-term view is of greater interest to other Middle East producers, to oil importers and to potential investors. Regional producers are in something of a Catch-22 situation, as they would be threatened by the materialization of either scenario 1 or scenario 3. If Iraq were stable, supported financially and politically by an American patron, its oil production could double in three years and reach an export capacity of 3.5 mn b/d. In a six-year time frame, Iraqi exports could reach 4.5 mn b/d. Though the territorial integrity and political stability of Iraq would have a positive impact on neighbours, its stability and new importance to Washington would reduce the diplomatic leverage of countries such as Turkey, Saudi Arabia and Egypt, while increasing domestic resentment of American involvement in the region. Key Persian Gulf producers would be threatened by renegotiations of OPEC quotas in favour of Iraq's new production capacity. On the other hand, the *Turmoil* scenario is hardly more comforting, as the instability caused by a botched American invasion could spread across to Saudi Arabia, Turkey and Iran.

The interests of potential investors are divided between ‘incumbents’ who maintained links with the Iraqi regime over the past decade and ‘incomers’ who respected the US Sanctions Act prohibiting such contacts – and would look to find at least equality of opportunity in the new Iraq.

A) The incumbents

A survey of the companies that have been awarded or promised contracts to invest in Iraq's oil sector shows who would be first in the line to negotiate with the new leadership (see Table 4).

TABLE 4: FOREIGN INVESTMENT AGREEMENTS AND CONTRACTS

Field	Production capacity mn b/d	Reserves bn bbl	Cost estimate $bn	Company	Status of negotiation
Majnoon	0.6	10-30	4.0	TotalFinaElf	Selected for direct negotiations. Contract initialled.
West Qurna Phase II	1 / 0.6*	15	3.7	Lukoil/Zarubezhneft/ Mashinoimport	Contracts signed in 1997. Work has not started because of sanctions.
Nahr Bin Omar	0.44	6	3.4	TotalFinaElf	Selected for direct negotiations.
Nassiriya	0.3	2 / 2.6*	1.9	Eni/Repsol	Talks with both firms.
Halfaya	0.22 / 0.25*	2.5 / 4.6*	2	BHP, CNPC, South Korean consortium	Discussions held.
Ratawi	0.2 / 0.25*	1 / 3.1*	2.5	Shell/Nexen/ Petronas/Crescent	Discussions held.
Suba-Luhais	0.1	2.2	5.5	Mashinoimport/ Salvneft	
Tuba	0.18 / 0.2*	0.5 / 1.5*	1.25	ONGC/Sonatrach/ Reliance/Pertamina	Reliance and Sonatrach agreed to bid together in 2000. Pertamina is also bidding.
Gharaf	0.1 / 0.13*	1	2.5	TPAO/Japex	Discussions earlier with Japex, now with TPAO.
Khurmala	0.1	1	2.5	Stroyexport/Bow Canada	
Rafidain	0.1	0.3 / 0.68*	0.75	Pacific/Sidanco/ Tatipeneft/JNPC/ Perenco	Discussions held.
Al-Ahdab	0.09	0.2	0.5	CNPC	Contract signed in 1997. Work has not started.
Amara	0.08	0.2 / 0.48*	0.5	PetroVietnam	Preliminary accord signed.
West Qurna Phase I	0.2	0.4	1	Zarubezhneft	
West Qurna DS 6	0.065	0.2	0.5	Bashneft	
Western Desert Bloc 3		2* (and 1.2 tcf of gas)		Pertamina	Agreement in principle signed in 2000.
Western Desert Bloc 8				ONGC	Agreement ratified in 2000. No work done because of US pressure on New Delhi.
South Rumaila Mishrif	0.25	0.4	1	Tatneft	
North Rumaila Mishrif	0.25	0.4	1	Mashinoimport	
Hemrin	0.06	0.2	0.5	Stroyexport/Bow Canada	
Zubair Mishrif	0.06	0.2	0.5	Indigenous	
Nur	0.05*			Syrian Petroleum Company	E&P agreement signed in 2001. Work has not started.
Kifl Structure				ETAP	Heads of agreement signed in early 2002

Sources: Deutsche Bank, *Global Oil & Gas*, 9 August 2002, and *Major Oils 2002 – Crossing the Rubicon*, October 2002; *MEES*, 16 July 2001 and 14 October 2002.

** Indicates MEES figures where diverging.*

France's TotalFinaElf (TFE) has been the most high-profile player to sign preliminary agreements with Iraq to develop its fields. If TFE succeeds in signing for both of the promised fields, the prize would be great for the group's future, doubling its reserves (with an added 10 bn barrels) and eventually adding 400,000 b/d to its production (a 16% increase).[5] However, these fields, like those awarded to Lukoil, are the ones that would be of greatest interest to the major American and British companies so far excluded during the sanctions regime.

Iraq and Russia have signed numerous oil and gas agreements over the past five years. Very few have been implemented because of UN sanctions. Iraqi oil authorities have been particularly disappointed by the failure of Russian firms to carry out their obligations authorized by the UN oil-for-food programme. The 1997 production-sharing agreement for the West Qurna field has not been implemented, nor have the contracts with Zarubezhneft to drill 45 wells and with Tatneft to drill 33 wells.[6] Nevertheless, the political leadership continues to instruct the oil authorities to negotiate further deals with Russian firms and is negotiating a bilateral economic cooperation agreement. For Baghdad, cementing its close relations with Moscow through commercial contracts ensures that Russia remains a stakeholder in Iraq's stability. For Moscow, these agreements have been advantageous even without immediate implementation because they guarantee its future role in rebuilding the country when sanctions are lifted.

Companies from developing countries are well represented in this survey (see Table 5). Baghdad may hope some of these companies will tie their governments into strategic alliances with Iraq. This is the case with the TPAO: Turkey is a trading partner whose support in the event of an attack on Iraq would be important; similarly with CNPC of China, historically a friendly state, and a member of the UN Security Council. China, an arms supplier to Iraq during the 1980s, has observed the UN arms embargo during the 1990s, and has maintained friendly relations with Iraq, as well as with other oil producers in the Middle East. Most other companies on this list do not necessarily offer added support to the government in Iraq, and their presence is mostly a testimony to the absence of other key international oil companies that have shied away from negotiations with the pariah government in Baghdad. In a post-sanctions regime, many of these interests, in the hands of companies with limited technical or financial resources, could be expected to pass to major US and British companies. Unfortunately for the latter, most of the reservoirs concerned are relatively small.

TABLE 5: WHO ARE THE STAKEHOLDERS IN IRAQ'S OIL INDUSTRY?

Company	Home Country
Sonatrach	Algeria
BHP	Australia
Pacific	Britain
Shell	Britain/ The Netherlands
Bow	Canada
Nexen	Canada
CNPC	China
TotalFinaElf	France
ONGC	India
Reliance	India
Pertamina	Indonesia
Eni	Italy
Japex	Japan
Petronas	Malaysia
Crescent	Pakistan
Bashneft	Russia
LUKoil	Russia
Mashinoimport	Russia
Stroyexport	Russia
Tatneft	Russia
Zarubezhneft	Russia
Korean consortium	South Korea
Repsol	Spain
SPC	Syria
ETAP	Tunisia
TPAO	Turkey
PetroVietnam	Vietnam

A key issue for all the companies that have invested time to negotiate these contracts has been whether the agreements currently in place will survive a change of regime in Iraq. In the event of an invasion, the future of these agreements may hinge on the result of negotiations with the United States and their countries' support for US policy in Iraq. On the other hand, historical relations are not easily set aside and, regardless of these recent diplomatic negotiations, incumbent companies may benefit from sympathetic oil authority negotiators when Iraq's economy opens up to foreign investment.

The Iraqi leadership has nurtured its ties with traditional allies such as France and Russia, and has developed commercial ties with other influential actors, such as China and Turkey. The links between these states and Baghdad are multidimensional and cover more than oil contracts. Russia has long been Iraq's main arms supplier and business partner. Moscow has important economic interests in Iraq, including a Soviet-era debt of $7–8 bn (which is worth from

$10–12 bn today), contracts to operate and develop oilfields worth as much as $30 bn over 20 years, and $1.5 bn a year in trade in Russian goods under the UN oil-for-food programme.[7] The Iraqi–Russian economic cooperation agreement will be worth an estimated $40 bn for 67 projects, including 15 proposals in the oil and gas sector. The Russians have asked to develop several known oilfields such as West Qurna, Rumailah and Luhais, as well as several Western Desert exploration blocks. They are also asking for concession rights to some super giant fields that have been committed, but not awarded, to international oil firms.[8]

There are, however, signs of an emerging Russian–American energy dialogue on Iraq. In early May, the US agreed to release around $700 mn worth of contracts on hold to Russia.[9] This appears to have prompted Russia to drop its demand for a mechanism for the gradual easing of sanctions against Iraq. The American–Russian energy partnership discussed in spring 2002 points to a broader framework for an entente between the two countries on energy and commercial matters. In September, American officials negotiating with their Russian counterparts to secure the support of Russia at the Security Council argued that Russia would be more likely to get its debt paid off and have a better commercial relationship with Iraq if it were part of the international community. Washington does not appear to have made specific offers, but it has suggested the possibility of negotiating explicit guarantees for Russian interests, mostly oil-related. Although there has been no official confirmation, many commentators speculate that there is an understanding between the US and Russia that Iraqi–Russian oil deals will be honoured if there is a change of regime in Iraq.

France's goal is to preserve its special historical relationship with Iraq but it does not want to be left empty-handed. As a senior French official put it to the *New York Times*: 'We built a strategic relationship there. We have a market. We want the oil and we want to be in the game of rebuilding the country. If there were a new regime and we have not been with the Americans, where will we be?'[10]

B) The incomers

In the perhaps unlikely event that a regime change led by America brings about *US-topia*, with a stable government and law and order in Iraq, companies from countries that have participated in the political and/or military campaign to oust Saddam Hussein will be rewarded with opportunities for investment in Iraq's lucrative oilfields, if only to compensate for opportunities missed as a result of the sanctions regime. In this sense, the United States and the United Kingdom are clearly future stakeholders in Iraq's oil. US policy has certainly kept American and British oil companies at a distance, but they have had opportunities to express their interests. According to a Washington Institute for Near East Policy report dating back to 1997, nine US companies (Mobil, Conoco, Chevron, Occidental, Arco, Exxon, Texaco, Coastal and Amoco) had already contacted Iraq to express interest in developing oilfields. British Petroleum and British Gas had similar contacts with the Iraqi government. Branch Energy conducted discussions over a service contract regarding Gharraf, and Pacific Resources has been discussing the development of Rafidain. Finally, Ranger Oil received information on exploration and development of Western Desert Block 6.[11] Senior Iraqi opposition members have indicated that oil exploration and production contracts with governments and international companies signed by the current Iraqi administration would be reviewed by a future government. They also stated that there would be no wholesale award of contracts to US companies, but that foreign companies would be invited to rehabilitate and develop the Iraqi upstream sector.[12] However, such hopes should be tempered by the institutional memory of Iraqi oil authorities, who, even after a change in regime, will favour companies with which they have developed ties over the years.

There is no guarantee of an open door for any of the oil companies, regardless of which change of regime scenario becomes reality. It is indeed likely that initial oil contracts will be awarded to oilfield services companies such as Schlumberger Ltd and the Halliburton Corporation to rehabilitate oilfields, rather than to oil companies for the development of new fields. Once oilfields, critical export terminals and pipelines are repaired, Iraqi oil authorities could consider developing new fields – and they may still do so without the help of foreign oil companies.

Comment

Many sights are set on the lucrative opportunities of Iraq, but the gold rush may not occur, or at least not for some time. The future stability of Iraq is a key issue, as foreign investors will wait for a positive investment climate to rebuild its oil industry. We will need to think through the longer-term consequences of an intervention in Iraq and elaborate a strategy that can promote peace and stability for Iraq and its neighbours.

The shape and timing of an American military intervention in Iraq will have an important impact on the viability of a new regime in Baghdad as well as on political tensions in the region. If, for instance, the American army invades Iraq unilaterally and without a long-term commitment to peace-building, the new regime could probably not offer sufficient guarantees to attract the much-needed foreign investment to rebuild the country and its oil industry. Moreover, if the attack is very damaging to civilians and is prolonged, reactions by other governments in the region and by terrorist groups, saboteurs and popular demonstrations will not make the Middle East a easy place for foreign oil companies to do business in.

One could argue, in this sense, that for the oil industry, among others, an important part of the medium- and longer-term legacy of a regime change in Baghdad will be its impact outside Iraq. This will depend on some critical elements that are not reviewed in this paper, for example:

- the degree of multilateral (UN) involvement during any invasion and in the setting up and regulation of a subsequent Iraqi government;
- the scale, composition and role of any military force remaining in Iraq after a change of regime;
- demonstrated US and international commitment to the resolution of the Palestinian–Israeli conflict.

Endnotes

[1] Turkey's TPAO has a $3 million contract to drill 22 wells in the Kirkuk field and has moved in a rig to join the 40 Iraqi rigs operating there. Russia's Zarubezhneft and Tatneft have not moved in to drill the wells awarded to them, presumably because they could not move their rigs out as quickly as the Turkish firms in the event of an attack on Iraq.
[2] *World Energy Outlook* (2001), International Energy Agency.
[3] Interview in *Al Hayat*, 19 September 2002.
[4] According to Salah Halaby, Egyptian Commander during the Gulf war, of the 37 SCUD missiles launched by Iraq in the 1991 war, 50% were destroyed by American anti-missiles and only 20% of the remaining missiles actually hit even the vicinity of their target.
[5] Deutsche Bank, *Oil & Gas*, 27 August 2002.
[6] *MEES*, 45:34, 26 August 2002.
[7] Russian companies were awarded 40% of Iraqi crude allocations under the oil-for-food programme.
[8] *MEES*, Ibid.
[9] *MEES*, Ibid.
[10] *New York Times*, 15 September 2002.
[11] *Policy Watch; Oil, Business, and the Future of Iraqi Sanctions*, No. 283, 24 November 1997
[12] *MEES*, 45 :41,14 October 2002.

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