Oil and the Bush Agenda

Antonia Juhasz

Remember oil? That thing we *didn't* go to war in Iraq for? Now with his war under attack, even President George W. Bush has gone public, telling reporters last August, '[a] failed Iraq … would give the terrorists and extremists an additional tool besides safe haven, and that is revenues from oil sales'. Of course, Bush not only wants to keep oil out of his enemies' hands, he also wants to put it into the hands of his friends.

The President's concern over Iraq's oil is shared by the Iraq Study Group, which on December 6 released its much-anticipated report. While the mainstream press focused on the report's criticism of Bush's handling of the war and the report's call for (potential) removal of (most) US troops (maybe) by 2008, ignored was the report's focus on Iraq's oil. Page 1, chapter 1 laid out in no uncertain terms Iraq's importance to the Middle East, the United States and the world with this reminder: 'It has the world's second-largest known oil reserves'. The group then proceeds to give very specific and radical recommendations as to what should be done to secure those reserves.

Guaranteeing access to Iraq's oil, however, isn't the whole story. Despite the lives lost and the utter ruin that the war has brought, the overarching economic agenda that the administration is successfully pursuing in the Middle East might be the most enduring legacy of the war – and the most ignored.

Just two months after declaring 'mission accomplished' in Iraq, Bush announced his plans for a US-Middle East Free Trade Area to spread the economic invasion well-underway in Iraq to the rest of the region by 2013. Negotiations have progressed rapidly as countries seek to prove that they are with the United States, not against it.

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The Bush Agenda

Within days of the 9/11 terrorist attacks, then-US Trade Representative Robert Zoellick announced that the Bush administration would be 'countering terror with trade'. Bush reiterated that pledge four years later when he told the United Nations, 'By expanding trade, we spread hope and opportunity to the corners of the world, and we strike a blow against the terrorists. Our agenda for freer trade is part of our agenda for a freer world'. In the case of the March 2003 invasion and ongoing occupation of Iraq, these 'free trade' – or corporate globalisation – policies have been applied in tandem with America's military forces.

The Bush administration used the military invasion of Iraq to oust its leader, replace its government, implement new economic and political laws, and write a new constitution. The new economic laws have transformed Iraq's economy, applying some of the most radical – and sought-after – corporate globalisation policies in the world and locking in sweeping advantages to US corporations. Through the ongoing occupation, the Bush administration seeks to ensure that both Iraq's new government and this new economic structure stay firmly in place. The ultimate goal – opening Iraq to US oil companies – is reaching fruition.

In 2004, Michael Scheuer – the CIA's senior expert on al Qaeda until he quit in disgust with the Bush administration – wrote, 'The US.invasion of Iraq was not pre-emption; it was … an avaricious, premeditated, unprovoked war against a foe who posed no immediate threat but whose defeat did offer economic advantages'.

How right he was. For it is an absolute fallacy that the Bush administration had no post-invasion plan for Iraq. The administration had a very clear economic plan that has contributed significantly to the disastrous results of the war. The plan was prepared at least two months prior to the war by the US consultancy firm, BearingPoint, Inc., which then received a $250 million contract to remake Iraq's economic infrastructure.

L. Paul Bremer III – the head of the US occupation government of Iraq, the Coalition Provisional Authority (CPA) – followed BearingPoint's plan to the letter. From May 6, 2003 until June 28, 2004, Bremer implemented his '100 Orders' with the force of law, all but a handful of which remain in place today. As the preamble to many of the orders state, they are intended to 'transition [Iraq] from a … centrally planned economy to a market economy' virtually overnight and by US fiat.

Bremer's orders included firing the entire Iraqi military – some half a million men – in the first weeks of the occupation. Suddenly jobless, many of these men took their guns with them and joined the violent insurgency. Bremer also fired 120,000 of Iraq's senior bureaucrats from every government ministry, hospital and school. His laws allowed for the privatisation of Iraq's state-owned enterprises (excluding oil) and for American companies to receive preferential treatment over Iraqis in the awarding of reconstruction contracts. The laws reduced taxes on all corporations by 25 per cent and opened every sector of the Iraqi economy to private foreign investment. The laws allowed foreign firms to own 100 per cent of Iraqi businesses (as opposed to partnering with Iraqi firms) and to send their profits home without having to invest a cent in the struggling Iraqi economy. Iraqi laws governing banking, foreign investment, patents, copyrights, business ownership, taxes, the media, agriculture and trade were all changed to conform to US goals.

After the US corporate invasion of Iraq

More than 150 US companies were awarded contracts for post-war work totalling more than $50 billion.

The American companies were hired, even though Iraqi companies had successfully rebuilt the country after the previous US invasion. And, because the American companies did not have to hire Iraqis, many imported foreign workers instead. The Iraqis were, of course, well aware that American firms had received billions of dollars for reconstruction, that Iraqi companies and workers had been rejected and that the country was still without basic services. The result: increasing hostility, acts of sabotage targeted directly at foreign contractors and their work, and a rising insurgency.

Halliburton received the largest contract, worth more than $12 billion, while 13 other US companies received contracts worth more than $1.5 billion each. The seven largest reconstruction contracts went to the Parsons Corporation of Pasadena, California ($5.3 billion); Fluor Corporation of Aliso Viejo, California ($3.75 billion); Washington Group International of Boise, Idaho ($3.1 billion); Shaw Group of Baton Rouge, Louisiana ($3 billion); Bechtel Corporation of San Francisco ($2.8 billion); Perini Corporation of Framingham, Massachusetts ($2.5 billion); and Contrack International, Inc. of Arlington, Virginia ($2.3 billion). These companies are responsible for virtually all reconstruction in Iraq, including water, bridges, roads, hospitals, and sewers and, most significantly, electricity.

US Air Force Colonel Sam Gardiner, author of a 2002 US government study on the likely effect that US bombardment would have on Iraq's power system, said, 'frankly, if we had just given the Iraqis some baling wire and a little bit of space to keep things running, it would have been better. But instead we've let big US companies go in with plans for major overhauls'.

Many companies had their sights set on years-long privatisation in Iraq, which helps explain their interest in 'major overhauls' rather than getting the systems up and running. Cliff Mumm, head of Bechtel's Iraq operation, put it this way: '[Iraq] has two rivers, it's fertile, it's sitting on an ocean of oil. Iraq ought to be a major player in the world. And we want to be working for them long term'.

And, since many US contracts guaranteed that all of the companies' costs would be covered, plus a set rate of profit (known as cost-plus contracts), they took their time, building expensive new facilities that showcased their skills and would serve their own needs should they be running the systems one day.

Mismanagement, waste, abuse and criminality have also characterised US corporations in Iraq – leading to a series of US contract cancellations. For example, a $243 million contract held by the Parsons Corporation for the construction of 150 health care centres was cancelled after more than two years of work and $186 million yielded just six centres, only two of which are serving patients. Parsons was also dropped from two different contracts to build prisons, one in Mosul and the other in Nasiriyah. The Bechtel Corporation was dropped from a $50 million contract for the construction of a children's hospital in Basra after it went $90 million over budget and a year-and-a-half behind schedule. These contracts have since been turned over to Iraqi companies.

Halliburton's subsidiary KBR is currently being investigated by government agencies and facing dozens of charges for waste, fraud and abuse. Most significantly, in 2006, the US Army cancelled Halliburton's largest government contract, the Logistics Civil Augmentation Program (LOGCAP), which was for worldwide logistical support to US troops. Halliburton will continue its current Iraq contract, but this year the LOGCAP will be broken into smaller parts and competitively bid out to other companies.

The Special Inspector General for Iraq Reconstruction (SIGIR), a congressionally-mandated independent auditing and oversight body, has opened 256 investigations into criminal fraud, four of which have resulted in convictions. SIGIR has provided critical oversight of the US reconstruction, but this fall it nearly fell prey to a Republican attempt to shut down its activities well ahead of schedule. Fortunately, it survived.

The Special Inspector General's October 2006 report to Congress reveals the failure of US corporations in Iraq. In the electricity sector, less than half of all planned projects in Iraq have been completed, while 21 percent have yet to begin. Even the term 'complete' can be misleading as, for example, SIGIR has found that contractors have failed to build transmission and distribution lines to connect new generators to homes and businesses. Thus, nationally, Iraqis have on average just 11 hours of electricity a day, and in Baghdad, the heart of instability in Iraq, there are between four and eight hours on average per day. Before the war, Baghdad averaged 24 hours per day of electricity.

While there has been greater success in finishing water and sewage projects, the fact that 80 per cent of potable water projects are reported complete does little good if there is no electricity to pump the water into homes, hospitals or businesses. Meanwhile, the health care sector is truly a tragedy. Just 36 percent of planned projects are reported as complete. Of 20 planned hospitals, 12 are finished and only six of 150 planned public health centres are serving patients today.

Overall, the economy is languishing, with high inflation, low growth, and unemployment rates estimated at 30 to 50 per cent for the nation and as high as 70 percent in some areas. The International Monetary Fund has enforced a structural adjustment programme on Iraq that mirrors much of Bush's corporate globalisation agenda, and the administration continues to push for Iraq's admission into the World Trade Organisation.

Iraq has not, therefore, emerged as the wealthy free market haven that Bush & Co. had hoped for. Several US companies are now preparing to pack up, head home and take their billions of dollars with them, their work in Iraq left undone.

The Bush administration is likely to follow a dual strategy: continuing to pursue a corporate free-trade haven in Iraq, while helping US corporations extricate themselves without consequence. The administration will also focus on the big prize: Iraq's oil.

Winning Iraq's oil prize

The Bush Agenda does have supporters, especially those corporate allies that have both shaped and benefited from the administration's economic and military policies.

In the 2000 election cycle, the oil and gas industry donated 13 times more money to Bush's campaign than to Al Gore's. The Bush administration is the first in history in which the president, vice president and secretary of state are all former energy company officials. In fact, the only other US president to come from the oil and gas industry was Bush's father. Moreover, both George W. Bush and Condoleezza Rice have more experience running oil companies than they do working for the government.

Planning to secure Iraq's oil for US companies began on the tenth day of the Bush presidency, when Vice President Dick Cheney established the National Energy Policy Development Group – widely referred to as 'Cheney's Energy Task Force'. It produced two lists, titled 'Foreign Suitors for Iraqi Oilfield Contracts as of 5 March 2001', which named more than 60 companies from some 30 countries with contracts for oil and gas projects across Iraq – none of which were with American firms. However, because sanctions were imposed on Iraq at this time, none of the contracts could come into force. If the sanctions were removed – which was becoming increasingly likely as public opinion turned against the sanctions and Hussein remained in power – the contracts would go to all of those foreign oil companies and the US oil industry would be shut out.

As the Bush administration stepped up its war planning, the State Department began preparations for post-invasion Iraq. Meeting four times between December 2002 and April 2003, members of the State Department's Oil and Energy Working Group mapped out Iraq's oil future. They agreed that Iraq 'should be opened to international oil companies as quickly as possible after the war' and that the best method for doing so was through Production Sharing Agreements (PSAs).

Production Sharing Agreements are considered 'privatisation lite' in the oil business and, as such, are the favourite of international oil companies and the worst-case scenario for oil-rich states. With Production Sharing Agreements, oil ownership ultimately rests with the government, but the most profitable aspects of the industry – exploration and production – are contracted to the private companies under highly favourable terms. None of the top oil producers in the Middle East use such agreements, because they favour private companies at the expense of the exporting governments. In fact, Production Sharing Agreements are only used in respect to about 12 per cent of world oil reserves.

After the invasion

Two months after the invasion of Iraq, in May 2003, the US appointed senior adviser to the Iraqi Oil Ministry, Thamer al-Ghadban, announced that the new Iraqi government would honour few, if any, of the dozens of contracts signed with foreign oil companies under the Hussein regime.

At the same time, Bremer was laying the economic groundwork for a 'US corporate friendly' Iraq. When Bremer left Iraq in June 2004, he bequeathed the Bush economic agenda to two men, Ayad Allawi and Adel Abdul Mahdi, who Bremer appointed interim Prime Minister and Finance Minister, respectively. Two months later, Allawi (a former CIA asset) submitted guidelines for a new petroleum law to Iraq's Supreme Council for Oil Policy. The guidelines declared 'an end to the centrally planned and state dominated Iraqi economy' and advised the 'Iraqi government to disengage from running the oil sector, including management of the planned Iraq National Oil Company (INOC), and that the INOC be partly privatised in the future'.

Allawi's guidelines also turned all undeveloped oil and gas fields over to private international oil companies. Because only 17 of Iraq's 80 known oil fields have been developed, Allawi's proposal would put 64 per cent of Iraq's oil into the hands of foreign firms. However, if a further 100 billion barrels are discovered, as is widely predicted, foreign companies could control 81 percent of Iraq's oil – or 87 percent if, as the Oil Ministry predicts, 200 billion barrels are found.

On December 21, 2004, Mahdi joined US Undersecretary of State Alan Larson at the National Press Club and announced Iraq's plans for a new petroleum law that would open the oil sector to private foreign investment.

'I think this is very promising to the American investors and to American enterprise, certainly to oil companies', said Mahdi. He described how, under the proposed law, foreign companies would gain access both to 'downstream' and 'maybe even upstream' oil investment in Iraq. ('Downstream' refers to refining, distribution, and marketing of oil. 'Upstream' refers to exploration and production.)

The draft petroleum law adopted Allawi's recommendation that currently producing oil fields are to be developed by Iraq's National Oil Company, while all new fields are opened to private companies using Production Sharing Agreements.

The Bush administration and US oil companies have maintained constant pressure on Iraq to pass the petroleum law. The administration appointed an advisor to the Iraqi government from BearingPoint to support completion of the law. And in July 2006, US Energy Secretary Samuel Bodman announced in Baghdad that oil executives told him that their companies would not enter Iraq without passage of the new oil law. *Petroleum Economist* magazine later reported that US oil companies considered passage of the new oil law more important than increased security when deciding whether to go into business in Iraq.

The Iraq Study Group, recognising as it did the primacy of oil in its Iraq calculations, recommended that the US 'assist Iraqi leaders to reorganise the national oil industry as a commercial enterprise' and 'encourage investment in Iraq's oil sector by the international community and by international energy companies'.

Put simply, US oil companies want access to as much of Iraq's oil as they can get and on the best possible terms. The fact that Iraq is a war-ravaged and occupied nation works to the companies' benefit. As a result, the companies and the Bush administration are holding US troops hostage in Iraq until they get what they want. Once the companies get their lucrative contracts, they will still need protection to get to work. What better security force is there than 144,000 American troops?

Three days after the release of the Iraq Study Group Report, the al-Maliki government announced that Iraq's oil law was near completion. The law adopts Production Sharing Agreements and not only opens Iraq to private foreign companies, but permits 'for the first time – local and international companies to carry out oil exploration in Iraq'.

To ensure that this model prevails, the Iraq Study Group recommends that Iraq's constitution be rewritten to give the central government of Iraq – as opposed to individual regions – the ultimate decision-making authority over all of Iraq's developed and undeveloped oil fields.

Standard Oil Company's John D. Rockefeller famously said, 'Own nothing, control everything'. He would be proud of the US oil companies and the Bush administration, as they seem poised to get exactly the control they want over Iraq's oil.

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