

# When it comes to oil, the U.S. is bypassing democracy in Iraq

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## Oil pressure

By Greg Muttitt | August 28, 2006

“The oil belongs to the Iraqi people. It’s their asset,” declared President George W. Bush in a press conference on the White House lawn in June. He had just returned from a surprise visit to Baghdad, in which oil had been one of the main subjects of discussion.

“We talked about how to advise the government to best use that money for the benefit of the people”, he clarified.

Since the new Iraqi government was formed in May 2006, the U.S. government has dramatically scaled up its efforts to provide “advice”. Last month, the administration and major oil companies reviewed and commented on a new law governing Iraq’s crucial oil sector, before it has even been seen by the Iraqi parliament.

Violating the very notions of freedom and democracy Bush invokes in nearly every speech on Iraq, the U.S. government has actively intervened in the restructuring of Iraq’s oil industry since at least 2002.

In October 2002, the State Department established a working group on oil and energy, as part of its “Future of Iraq” project. The project brought together influential exiled Iraqis with US government officials and international consultants. Later, some members of the group became part of the Iraqi government. The result of the project’s work was a draft framework for Iraq’s oil policy. Despite Iraq being rich in oil and technical expertise, the group recommended a major role for foreign companies, through long-term contracts—an approach which would set Iraq at odds with the rest of the

Middle East, where major oil producers keep their oil in the public sector.

In January 2003, the wheels started to turn as the Coalition Provisional Authority appointed the former head of Shell USA as senior oil adviser, in daily contact with the Iraqi Ministry of Oil. He was joined by an executive from ExxonMobil, and after six months, the post was rotated to former managers of ConocoPhillips and BP.

In December 2003, the framework was set out in more detail when USAID commissioned a report by the privatisation specialists BearingPoint entitled “Options for developing a sustainable, long-term Iraqi oil industry.” The report reinforced the “Future of Iraq’s” report, recommending long-term contracts with foreign companies. Pointing to the “success” of this model, BearingPoint used Azerbaijan’s privatization model as an example. The report commented approvingly that Azerbaijan’s high corruption and lack of democracy had not impeded investment—the government had simply given away a higher share of revenues, in order to attract companies. The implication was that Iraq, which has a nascent democracy and chronic corruption, might follow the same approach.

After the handover to the interim government in June 2004, senior oil advisers—now based within the Iraq Reconstruction Management Office



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(IRMO) in the U.S. Embassy—continued work closely with the Oil Ministry in shaping policy. Post holders included executives from ChevronTexaco and Unocal.

In 2006, these efforts intensified. In February, the IRMO advisers accompanied eight senior officials from the Oil Ministry on a trip to the U.S., sponsored by the U.S.' Trade and Development Agency. On the trip, they met oil company representatives to discuss the future structure of the Iraqi oil industry.

The same month, at the request of the State Department, USAID provided an adviser to the Oil Ministry, again from BearingPoint, to work directly on a new oil law, providing “legal and regulatory advice in drafting the framework of petroleum and other energy-related legislation, including foreign investment.”

The U.S. campaign on the fledgling Iraqi government has been successful. Following his appointment in May, new Oil Minister Husayn al-Shahristani announced that one of his top priorities would be the writing of an oil law to allow Iraq to sign contracts with “the largest companies.”

This would be the first time in more than thirty years that foreign companies would receive a major stake in Iraq's oil. Oil was brought into public ownership and control back in 1975.

But with the ink not yet on the paper, the U.S. has maintained its pressure. On his visit to Baghdad in July 2006, U.S. Energy Secretary Bodman insisted that the Iraqi government must “pass a hydrocarbon law under which foreign companies can invest.” But the work to make this case had already been done: “We got every indication that they were

willing and also felt a necessity to open the sector,” he commented, after meeting with the Oil Minister and Iraqi officials.

Mr. Bodman did not stop at reviewing the draft law himself in Baghdad: he also arranged for Dr. Al-Shahristani to meet with nine major oil companies - including Shell, BP, ExxonMobil, ChevronTexaco and ConocoPhillips—for them to comment on the draft as well, during the Minister's trip to Washington DC the following week.

Given the pressures involved, perhaps the Minister felt he did not have much choice. His promise to pass the law through parliament by the end of 2006 was set in Iraq's agreement with the International Monetary Fund last December. According to that agreement, IMF officials would also review and comment on a draft in September.

And still, the draft law has not been seen by the Iraqi parliament.

Meanwhile, an official from the Oil Ministry has stated that Iraqi civil society and the general public will not be consulted at all.

The issues could hardly be more important for Iraq. Oil accounts for more than 90% of government revenue, and is the main driver of Iraq's economy. And decisions made in the coming months will not be reversible—once contracts are signed, they will have a major bearing on Iraq's economy and politics for decades to come.

No wonder a recent poll showed that when asked what Iraqis thought were the three main reasons why the United States invaded Iraq, 76% gave “to control Iraqi oil” as their first choice.

Attempting to reverse this perception and change U.S. policy, lawmakers in the House and Senate

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have passed legislation stating that the United States should not exert “control over any oil resource of Iraq.” But usurping democracy here at home, Republicans stripped this language out of the bill’s final version. Hoping for better luck the second time around, Senator Joe Biden successfully led the charge to add this language to another bill currently awaiting final passage.

In an ideal world, this legislation wouldn’t be needed after Bush promised that, “The oil belongs to the Iraqi people.” But actions speak louder than words. If democracy is to be upheld in Iraq and the constitution is to be protected, it should be the Iraqi people who decide how oil is managed, not the U.S. administration and Big Oil.

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