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Is the widely expected war on Iraq an oil war?

by Robert Mabro

Many commentators, columnists, politicians and almost all those who oppose the war answer this question with a resounding yes. The question, as put in these general terms, is not very helpful. It fails to distinguish between motives that are responsible for a decision, factors that are taken into consideration by policy-makers but do not determine the decision, and the implications of the actions that implement the decision. A better understanding of the 'war and oil' issue would be gained if we split the question into three. First, did the US and the UK decide to move onto the warpath because of oil? Secondly, does oil add to the political or strategic benefits that the US hopes to obtain from the war? Thirdly, does the war have implications for the oil market and industry and the geopolitics of energy?

For reasons presented here below, my answer to the first question is 'no'; to the second, that the issue is more a matter of perceptions than hard realities; and to the third, a 'yes' burdened with qualifications.

The decision to threaten Iraq with war, and to launch a military invasion if the threats fail to cause a regime change, was made in the context of broad strategic objectives to respond to the dreadful 9/11 events. The 9/11 outrage is construed in America as an act of war to which the proper response cannot be but war. It opened deep wounds, and the US government was compelled to undertake some actions that may help or hasten the healing process. The American psyché is wounded because nineteen civilians, apparently armed with nothing more than knives, succeeded in destroying the symbols of America's financial might and in damaging part of the Pentagon, the nerve centre of the military behemoth. The US fought major wars during the XXth century and suffered indeed considerable casualties but nobody was hurt at home: no bombs fell on American cities, no battle was fought in the homeland, no enemy was ever able to invade any part of the country. Thanks to this historical experience the Americans developed a solid sense of security which was shattered when the horrors of 9/11 sank in.

Furthermore, the consciousness, and indeed the pride, of being a superpower without any rival, suffered from the aggression of people whose only power derives from a willingness to commit suicide in the name of a cause. The superpower found itself vulnerable, and had therefore to act to restore the image it had of itself and by the same token its image in the world.

The most immediate option was to launch a war against terrorism. This is certainly necessary to improve security in the short run and build it on solid foundations in the long run. Wars on terrorism, however, cannot by themselves heal the wounds. They have many weaknesses being essentially police and intelligence services affairs that drag on for long decades. They do not involve victories that catch the eyes of television viewers. They become quickly entangled in long drawn processes of law.

There was of course the war in Afghanistan, but this also did not fit the bill because the Taliban proved to be a pathetically weak enemy, and the US was robbed from the expected reward of victory: Bin Laden and Mullah 'Omar 'dead or alive'.

Hence the decision to launch a real war against a more substantial enemy than Afghanistan, a decision taken almost certainly at an early date notwithstanding several and oft repeated denials. Iraq, one of the three members of the axis of evil, was singled out as the most suitable candidate for a host of important political reasons specific to Iraq. Not because of weapons of mass destruction (North Korea, even Iran score higher on this count); not because of oil (Iran is also a major oil country); not because it is a danger to Israel (more concerned about Iran than Iraq). The main reasons are that Iraq is militarily an easier target than North Korea or Iran; its regime, and for good cause, is universally detested; has invaded neighbours, then flouted UN resolutions. And as the 9/11 hijackers were Arab it makes more sense to attack an Arab country than North Korea or Iran.

The US also need to remind Russia, China, Europe and Japan, and indeed all and sundry in the rest of the world, that we have recently entered an era where she is the sole Superpower. Remember Suez in 1956 when the US forced Britain and France to end their war against Egypt and to withdraw immediately their troops. This action was not undertaken out of love for Nasser, or sympathy for his revolutionary ideas, but to remind Britain and France that they were no longer the colonial superpowers of pre-World War II days.

Furthermore, the idea that the US should build its military might and re-establish its pre-eminence in the world, as President Reagan endeavoured in the 1980s, was expressed with vigour by senior members of the current administration years before they came to power in January 2001. The threatened war on Iraq is better understood in this strategic/geopolitical context.

Paradoxically, the realisation by both Britain and France of this same fact led these two countries to react in opposite ways to the US call for war. Britain recognising that the US is affirming its status as sole superpower, a status that it will almost certainly retain for decades to come, decided to side with her. France recognising that the US wants to affirm its pre-eminence as sole superpower decided to remind her that the world is not an empty desert but inhabited by other countries with views, interests, some power, a will of their own and above all some dignity.

Oil is not the *motive* of a decision to go to war against Iraq even if it figures as a parameter in an equation dominated by two major factors (9/11 and the affirmation by the superpower of its identity). Those who believe that 'it is all about oil' may be drawing misleading parallels between the current events and the 1990/1 Gulf war. The latter was about both oil and the security of Israel, both threatened by Saddam's invasion of Kuwait. Saddam is not threatening oil supplies today as he is only too happy to supply the world and particularly the US (the purchaser of the highest proportion of Iraq's oil exports) with up to 2 million barrels a day of crude; too happy also to negotiate production-sharing agreements with any foreign oil company willing to invest in Iraq after the lifting of sanctions.

But Iraq is an oil country with large reserves awaiting further exploration and development. A war in Iraq and the events that will follow the war have, of course, *implications* for oil.

The war will cause an immediate interruption of Iraqi oil production and exports, even if the first military move of the invading force is to occupy the Iraqi oilfields. It will not be possible to secure within a few days all the relevant installations – from oilfields, pipelines, pumping stations, storage tanks to export terminals – that enable oil to be extracted, to flow and to be lifted by importers. While the hostilities are taking place, the world market will be deprived of about 2.0 million barrels a day. Prices will inevitably rise. This would not matter very much if the war is short as some analysts believe.

The extent of the price rise depends on the following factors:
(a) The war begins while Venezuelan production is short by 1.5 million barrels a day or more.
(b) The war begins while the levels of US commercial oil stocks are low as they happen to be at present.
(c) The Iraqis succeed in blowing up oil wells as they did in 1991 in Kuwait.
(d) The US does not release immediately oil from its strategic reserves relying on production increases in Saudi Arabia which do not materialise very quickly.
(e) Iraq succeeds in launching missiles on oil installations in Kuwait and/or Saudi Arabia.
(f) Arab countries decide to impose an oil embargo on the US.

The probability attached to (f) is close to nil*, and that related to (e) is extremely small. The probability of (a) and (b) is higher the earlier the start of the war (say, end of February/ beginning of March). Event (c) should not be heavily discounted as the probability of its occurrence may be as high as 50%. Finally, it is difficult to imagine that the US will fail to announce measures relating to stocks or safety nets as soon as the war begins in order to calm the petroleum market. These measures, unless supplemented by similar moves by the International Energy Agency, will not be sufficient to calm nerves in Japan, Europe and anywhere outside the US. Sadly, the IEA's track record in previous oil crises does not inspire confidence in its ability to agree the implementation of its well-designed emergency supply plans.

Let us now consider the medium- and long-term oil implications of the war.
The first task of a new Iraqi government will be to repair the damages caused to the oilfields and other oil installations by lack of investment funds, imported spare parts and equipment and insufficient maintenance. The war itself, even if the wells are not set ablaze, will destroy or damage some plant. If sabotage occurs dousing fires and repairing wellheads will take several months and perhaps longer than a year.

The second task will be to negotiate with foreign oil companies the terms of production-sharing agreements for investments and operations in both new and old oilfields (and in some cases to re-negotiate deals already discussed or signed by the current Iraqi government). Some commentators want us to believe that the new regime under the influence of the US will offer companies contracts with very favourable terms. This is very unlikely for three reasons. First, Iraq will be in dire need of revenues and will not be in a position to throw money away to foreign investors unnecessarily. Secondly, companies will be eagerly competing against each other for gaining access to Iraqi oil resources. Thirdly, oil production-sharing agreements have a long history and there are wellestablished criteria and conventions about terms and conditions. Furthermore, it will be difficult for a new regime to concede terms more favourable to the companies than those previously agreed by the present government. The terms of these agreements, although negotiated under duress because of the sanction regime, were not particularly lenient.

Would the ownership of Iraq's oil resources be transferred to the US? This is hardly credible. Will the US and UK oil companies get the lion's share of new production-sharing agreements in the new Iraq? Most probably yes but only to the extent of their willingness to bid against more eager companies from other countries. Will Iraq leave OPEC causing the oil price to collapse? A new government may well believe that abandoning OPEC is a rational policy but will quickly try to re-establish a relationship if a price fall deprives Iraq from billions of dollars of badly needed revenues.

Will the reliance on an increased volume of oil imports from Iraq free the US from its dependence on Saudi Arabia? To answer correctly this question it is essential to recall that US imports from Iraq ran at the rate of 1.2 million barrels per day in January 2003. Iraq therefore will have to export an additional 1.6 million barrels a day should the US wish to cease importing from Saudi Arabia. This will not be possible before a minimum of three years. Furthermore, this scenario implies a transfer of an increase in dependence on Saudi Arabia from the US to Europe and Japan.

To conclude. In contrast with the 1990/91Gulf War the 2003 war on Iraq, should it take place, is not an oil war. The political and security benefits, which the US expects to derive from the war, do not involve oil in any major way. Some lobbies and commentators are indulging in wishful thinking, hoping that Iraq will bring about the demise of OPEC and a long era of low oil prices. They conveniently forget that, with or without OPEC, the coalition of interests which is badly affected when oil prices fall to $10 per barrel and which derives comfort form prices hovering in the $20-25 per barrel zone is both wide and powerful. Moreover, it does not consist of oil exporters exclusively. The war and its aftermath will initially cause the oil price to rise and then become an additional cause of volatility. US and UK oil companies will be able to explore for, and develop oil resources in Iraq, and the US will increase its oil imports from that country. All that will not change significantly the structure or the familiar behaviour of the oil industry or the world petroleum market.

The expected prize derives from the fact that Iraq is strategically located in a region where it borders Iran, Saudi Arabia and Kuwait, three major oil countries. It also borders Syria and Jordan, two Arab countries relevant to any solution of the Palestinian-Israeli conflict. Moreover, the region is one where Russia and China would like to exercise some political influence, if not now, but perhaps in the future. Oil is part of the region and therefore part of the equation. But the assessment of its significance to the issues at hand has been suffering too much from insufficient knowledge, wishful thinking, and political prejudices.