

Major Anglo-American International Oil Companies and Iraq: Big Oil's 'Promised Land' or Reality Check?

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Introduction

The focus of this paper is the contemporary conditions for major international oil companies' (IOCs) investment in oil producing states, with particular focus on their current and future potential for success in Iraq. The main argument is that major Anglo-American IOCs will not be able to establish a firm foothold in Iraq, a country with the world's third largest oil reserves, although many analysts predicted this to take place. In the first part of this paper, I argue that major IOCs are in crisis, as they face difficulties replacing their oil reserves, and are struggling to compete with national oil companies (NOCs). In order to improve their overall situation, many analysts point to Iraq as the IOCs' 'Promised Land'. They also argue that due to government-business vested interests, Anglo-American IOCs are helped by the US and UK governments in getting the best possible oil exploration and production deals with the Iraqi government. The February 2007 draft Iraqi Oil Law is an oft cited example. However, the historical record indicates that there are no vested interests between Big Oil and their home governments. Thus, the new legislation drafted by the Iraqi government, which is very attractive for foreign investors and IOCs in particular, was not influenced by Anglo-American corporate and government pressure, but simply by the Iraqi government's inability to secure sufficient investment funds to increase oil production capacity. Moreover, building on Alhajji's seminal 2003 analysis, I argue that even if this law passes the Iraqi parliament, this will not automatically imply long-term success for the IOCs due to various political and security factors, legal uncertainty, competition from NOCs, and the likely 'obsolescing bargain'. Thus, in reality, the future of Anglo-American IOCs in Iraq does not look promising, and rather than 'Promised Land', Iraq should be considered their reality check.

Big Oil in Trouble

Big Oil has a big problem. However, at first glance, this proposition appears doubtful. Exxon Mobil has been reporting the largest earnings in the history of business, notching up US\$8.4 billion in its first quarterly report of 2006. The combined 2006 profits of Exxon Mobil, BP, Royal Dutch/Shell, Chevron, ConocoPhillips and Total amount to US\$135.4 billion, a sum greater than the GDP of the Czech Republic or Israel.¹ Why would one need to be concerned about their future?

Currently, the major IOCs are in a particularly challenging situation. The oil industry faces challenges that could ultimately wipe out some, or most of major IOCs, once venerated as the Seven Sisters.² The biggest companies and remnants of the original Seven Sisters, Exxon Mobil, Royal Dutch/Shell, BP and Chevron, may be running out of good ways to invest their money. Examples of these weaknesses are as follows: Royal Dutch/Shell claims its reserves fell in 2004 and 2005 because it only found enough oil to replace 19% of what the company produced in 2004 and 67% of production in 2005.³ BP told the US stock exchange that it replaced only 89% of its production in 2004, and 95% in 2005.⁴ Even the mighty Exxon Mobil failed to replace all of its reserves in 2005, and Chevron's reserves also shriveled compared to a year earlier (see Table 1).⁵ In the oil industry, "reserve replacement is the best guide to whether a company will be able to maintain – or grow – production in the future."⁶ According to PFC Energy Chairman J. Robinson West, "it is becoming increasingly difficult to find attractive ways to reinvest today's profits," and it will not get easier since drilling prospects are finite.⁷ A healthy reserve replacement ratio is over 100%. However, ratios for most of the six major IOCs have been below that level (see Table 1), and will likely remain there over the next five years.⁸ Although cash-rich due to today's surge in the oil price (see Table 2), these companies are opportunity-poor as their aging reserve base badly needs topping up,⁹ and they will all begin seeing production declines by 2009.¹⁰ Buried beneath their record profit figures for 2004, 2005, and 2006 are worrying signs of a business in decline. Analysts from McKinsey and Company consultancy have suggested that the "Big Oil confronts its most far reaching test in decades," as "the top five companies – Exxon

Mobil, BP, Royal Dutch/Shell, Chevron and Total – face increasingly tough challenges finding new sources of oil and natural gas to replace existing reserves.”¹¹

Table 1: Major IOCs’ Crude Oil and Natural Gas Liquids (NGL) Reserves (2002-2005)

	2002	2003	2004	2005
Exxon Mobil	12,623	12,856	11,651	11,229
BP	7,762	7,449	7,550	7,161
Total	7,231	7,323	7,003	6,592
Chevron	6,494	6,280	5,511	3,626
Royal Dutch/Shell	5,782	5,009	3,745	3,466
Total Majors	39,892	38,917	35,460	32,074

Source: Organization of the Petroleum Exporting Countries, *OPEC Annual Statistical Bulletin 2005*, Vienna, Austria: Ueberreuter, 2006, p. 129.

Table 2: World’s Largest Public Oil and Gas Companies by Profits (2006)

R	Company	Profits (US\$ billion)	Headquarters Location
1	Exxon Mobil	39.5	US
2	Royal Dutch/Shell	25.4	Netherlands/UK
3	BP	22.3	UK
8	Chevron	17.1	US
10	PetroChina	16.5	China
11	ConocoPhillips	15.6	US
12	Total	15.5	France
17	Petrobras	12.1	Brazil
16	ENI	12.2	Italy
24	Gazprom	10.8	Russia

Source: 'The Forbes Global 2000: The World’s Biggest Public Companies', *Forbes*, 16 April 2007. Notes:

R – world ranking if in top 25; majority private companies in **bold**.

Furthermore, despite high profits IOCs’ returns on capital were flat between 2000 and 2006. According to Goldman Sachs the average integrated Western oil company will earn a 19% return on capital employed in 2006, up only about 2% since 2000.¹² In the supremely capital-intensive oil industry, return on capital is a key measure because it

reflects not just how much profit a company has made, but the cost of earning it. The bottom line is that value creation by oil companies is stagnating. While IOCs are making more than ever before, they are also spending unprecedented amounts to generate those profits. Overall production by the oil majors is struggling to keep up with demand, and the reserve replacement ratio, the measurement of how well they are replenishing their supplies, is slipping.

The biggest obstacle the majors face in replacing their reserves is the ultimate peculiarity of the oil business. Oil is the only industry in which the cheapest to produce oil reserves and largest assets, those located in Russia and OPEC countries, are not in the hands of the most efficient and best-capitalised firms.¹³ These reserves are controlled by NOCs where, in most cases, the government owns and self-finances the entire operation from reserves to pipelines – the “Saudi Aramco model.”¹⁴ In numerous countries, foreign investment in energy exploration and production (‘upstream’) activities is banned or saddled with strong disincentives.¹⁵ Although some have suggested that resource nationalism is moribund,¹⁶ this is clearly not the case in the oil industry, when one considers that oil producing and exporting states own and control *at the very least* three-quarters, if not 90% of total proven world oil reserves.¹⁷

Thus the problem for major IOCs, according to Fatih Birol of the IEA, is not that there is not enough oil but that there are not enough opportunities to find oil.¹⁸ For example, two-thirds of the wells drilled worldwide from 1997 to 2003 were in North America, where production is falling, while the Middle East, which holds the bulk of the world’s proven reserves of conventional oil, accounted for only 2% of global investments, and remains off limits to international investors. Much of the majors’ production today comes from large fields in places such as Alaska, the Gulf of Mexico and the North Sea, which are now entering the phase of rapid decline.¹⁹ Desperate IOCs are now looking for growth in such places as West Africa, the Caspian, Venezuela, Russia, Canada’s tar sands and the ultra-deep waters off Brazil. Nevertheless, this new wave of oil exploration is proving tricky and dangerous due to some countries’ complex oil formations and unforgiving

environments that require costly up-front capital expenditure, and mostly due to unreliable legal frameworks and political risks in many of these countries.²⁰

Major IOCs also face increasing competition. NOCs have grand ambitions: they are competing with the majors by developing new oil reserves overseas and investing in international refining and retail activities. The lack of technology, capital and markets, often seen as reasons for NOC privatisation, are now easily available through NOCs from oil importing (China, India, Brazil) and exporting countries (Malaysia's Petronas, Norway's Statoil) who are expanding internationally. Independent operators like BHP Billiton, Talisman Energy and Apache as well as oil-service companies such as Halliburton and Schlumberger also offer these services. About two-thirds of the world's oil reserves are found in the Middle East, where foreign firms are mostly unwelcome ever since the nationalisations that took place three decades ago. In world's list of top twenty oil companies by reserves (see Table 3), the top nine companies are fully state-owned and Exxon Mobil, the top ranked major, is fifteenth.²¹

Table 3: Top 20 Oil Companies, by Reserves (2005)

Company	Based In	State Ownership (%)	Reserves (Billion Barrels)
Saudi Aramco	Saudi Arabia	100	262.7
NIOC	Iran	100	132.5
INOC	Iraq	100	115.0
KPC	Kuwait	100	99.0
ADNOC	UAE	100	97.8
PdVSA	Venezuela	100	77.2
Libya NOC	Libya	100	39.1
NNPC	Nigeria	100	35.3
Gazprom	Russia	73	18.4
Lukoil	Russia	8	16.0
Qatar Petroleum	Qatar	100	15.2
Rosneft	Russia	100	15.0

Major Anglo-American International Oil Companies and Iraq – Vlado Vivoda

Pemex	Mexico	100	14.8
Sonatrach	Algeria	100	11.8
Exxon Mobil	US	-	11.2
Petrobras	Brazil	32	11.2
PetroChina	China	90	11.0
BP	UK	-	7.1
Total	France	-	6.6
Chevron^	US	-	5.3

Sources: *The Economist*, 30 April 2005; *OPEC Annual Statistical Bulletin 2005*, p. 129. ^Including 1.7 billion barrels of recently acquired UNOCAL.

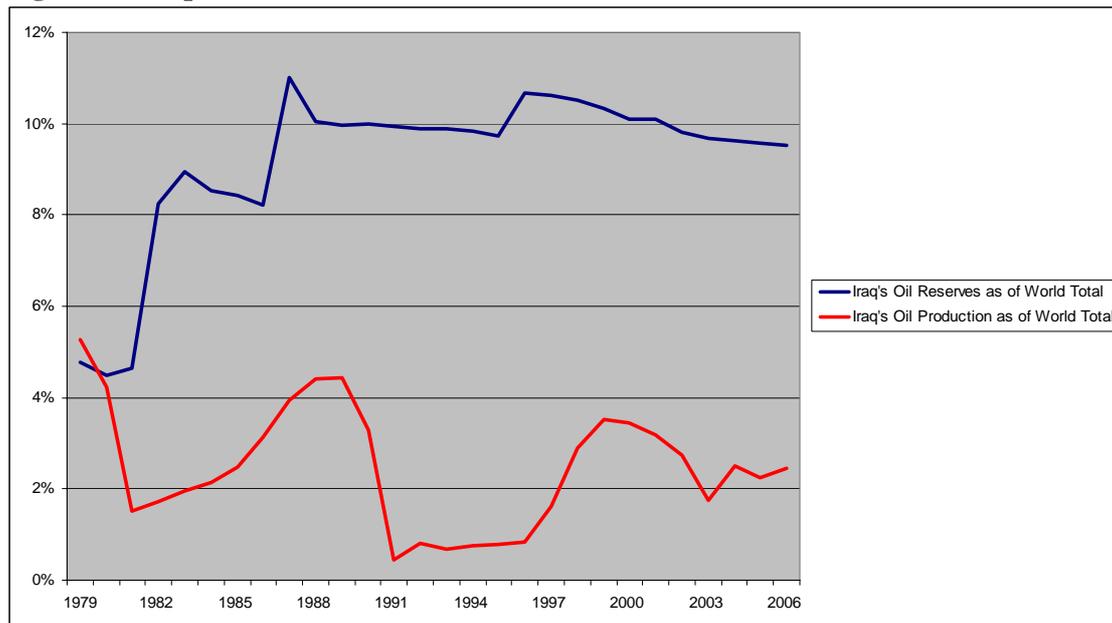
Besides low reserve ownership of 2.7% of the world total, the majors in 2005 produced only 39% of their sales volume,²² and just 13-15% of global oil production.²³ Major Western IOCs as a whole have full access to countries with only 6% of the globe's known reserves, mainly in North America and Europe, and can also invest in countries that own an additional 11% of reserves through joint ventures (JVs) or production-sharing agreements (PSAs).²⁴ It is worth mentioning that as late as 1972, the Seven Sisters controlled 91% of Middle Eastern production and 77% of the non-communist world's oil reserves outside the United States.²⁵ According to Øystein Noreng, until about 1970, integrated trading represented perhaps 85-90% of international oil trade.²⁶ In the past, major IOCs – with their leading-edge technology, unrivalled expertise in managing complex projects, and deep pockets had a clear edge in negotiations with the national governments in control of energy resources. However, these advantages have evidently become less pronounced, thereby weakening their position at the negotiating table. In addition, the loss of supply base following nationalisations subsequently reduced the volume and significance of integrated trading. Nowadays competition from NOCs in unexpected places, such as the middle of the Sahara which was the exclusive preserve of the Big Oil, is a major challenge facing IOCs.

Iraq: Big Oil's 'Promised Land'?

When considering the difficulties that the major IOCs are facing, the possibility of establishing a presence in Iraq is something that many of them have long desired. Oil in

Iraq is particularly attractive to major IOCs for three reasons. Firstly, Iraq possesses the world's third largest proven oil reserves, as of 2006 estimated at 115 billion barrels, or 9.5% of world total.²⁷ Many experts believe that Iraq has additional undiscovered oil reserves, which may double or triple the total when serious prospecting resumes, and thus, Iraq may turn out to have reserves larger than Saudi Arabia.²⁸ Moreover, as world oil demand increases and as oil reserves in other areas are depleted, Iraq's share of global proven reserves will increase because it has been producing below capacity from decades.²⁹ Since its peak in 1979, Iraq's oil production consistently stood at below 5% of world's total oil production, and in recent years it dropped to as low as 2% (see Figure 1).³⁰ In 2006, Iraq produced 2.5%, and yet it controlled close to 10% of world's oil. If Iraq's proven reserves meet high-end estimates in the 300-400 billion barrel range, these reserves could reach 30% of global oil reserves by mid-century or earlier.³¹

Figure 1: Iraq's Oil Production and Reserves as of World Total (1979-2006)



Source: British Petroleum, *BP Statistical Review of World Energy 2007*, June 2007.

Secondly, Iraq's oil is generally of high quality because it has attractive chemical properties, notably high carbon content, lightness and low sulphur content, that make it particularly suitable for refining into value-added products. For these reasons, Iraqi oil commands a premium on the world market.³² Finally, Iraq's oil production costs are

amongst the lowest in the world, making it highly attractive for potential investors. Costs are extremely low because Iraq's oil is deposited in enormous fields that can be tapped by relatively shallow wells, producing a high 'flow rate'. In 2002, Western IOCs estimated that they could produce a barrel of Iraqi oil for less than US\$1.50 and possibly as low as US\$1.00, including all exploration, oilfield development and production costs, while still receiving a 15% return. According to a 2004 Energy Intelligence study, it cost US\$2.50 a barrel to develop oil in Iraq, compared with US\$4.00 a barrel in Saudi Arabia, US\$4.50 a barrel in Iran and US\$7.00 a barrel in Russia. Thus, the cost of oil production in Iraq is lower than in virtually any other country.³³ Since major IOCs are facing enormous difficulties in replacing their reserves, the vast Iraqi oil fields, with little prospecting required, offer nearly free acquisition. Given Iraq's appeal and the IOC's need for reserve replenishment, their interest is self-evident.

Prior to the 2003 US-led invasion of Iraq, and subsequent regime change, Iraq has been closed to Anglo-American IOCs due to economic sanctions and Saddam Hussein's preference for investors from other countries, such as Russia, France, Germany, and China. Thus, many analysts argue that unlike Saddam's regime, a new 'friendly' government would favour US and UK firms at the expense of Russian, French, Chinese, and other companies, which signed oil exploration and production contracts between 1991 and 2003 with Saddam Hussein's regime.³⁴ The starting point of these analysts is that the US and UK governments' interests are closely related to those of major IOCs with headquarters in these two countries. In recent years, many have suggested that there exists a close relationship between the Bush Administration and the oil companies. This is because many high profile politicians in this administration, in past worked for, and are still closely related to the energy industry.³⁵ Some more far-fetched analyses suggest that the major American IOCs hijacked the current administration, and have been using it to further their interests.³⁶ At minimum, the Bush Administration is closely aligned and acting in concert with the IOCs. Arguably as a result of these vested interests the new Iraqi regime, under American and British pressure, opened up Iraqi oil industry to foreign investment which favours Anglo-American IOCs.³⁷ The 2007 draft Iraqi Oil Law was, according to one analyst, "drafted, behind locked doors, by a US consulting firm

hired by the Bush administration and then carefully retouched by Big Oil”. Therefore, it will be highly favourable to Anglo-American IOCs, as they are to gain access to at least 64% of Iraq’s major fields and enjoy profit rates of up to 75%. Iraq’s oil wealth will go through “no less than institutionalised raping and pillaging.”³⁸ Big Oil has been described as “ecstatic” as it was set to “profit handsomely and long-term, 30 years minimum, with fabulous rates of return.”³⁹

Back to Reality

While major Anglo-American IOCs would certainly have no objections to the above scenario, it is far from reality for a variety of reasons. To begin with, and as will be illustrated below, there is no evidence to suggest vested government-business interests in general and in particular regarding Iraqi oil between the US/UK governments and Anglo-American IOCs. Furthermore, the Iraqi government does not seek to open up its oil industry to foreign investment because of Anglo-American corporate-government pressure, but due to the fact that after decades of war and sanctions Iraqi oil industry is in dire need of investment and reconstruction. Below, after discussing these propositions, I highlight the various difficulties that major Anglo-American IOCs are likely to face before and after establishing their presence in Iraq.

The IOCs are very large and politically powerful private actors,⁴⁰ whose primary objective is profit maximisation.⁴¹ This objective often differs from primary objectives of the IOCs’ home state governments. The activities of Multinational Corporations (MNCs) in general create a variety of problems for home countries or states in which a foreign MNC has its headquarters.⁴² Conflict between MNCs and their home states often arises over various issues, such as taxation, trade policies, security issues, and economic sanctions, where MNCs often disagree with and/or do not want to follow policies pursued by their home governments.⁴³ Moreover, Western governments do not necessarily benefit from the foreign activities of their MNCs, and this is primarily due to differing interests between the government and the MNC. Lack of national identity within MNCs plays a role too, since MNCs in general appear to be losing their national identities and loyalties as they increasingly view markets from a global and not local perspective.⁴⁴ Raymond

Vernon has shown that even in the early 1970s, although US-based MNCs were 90% or more American by equity ownership, they were just 25% American by sources of funds, less than 1% American by the identity of employees, and practically 100% foreign by the identity of the governments that receive their taxes.⁴⁵ Thus, foreign sources of funds, foreign employees, taxes paid in foreign countries, and the very fact that these companies function in many different countries result in differing interests to those of their home governments.

When considering such background, some have suggested that although it depends on private companies to develop reserves and supply the nation with oil at a profit, the US government does little to support its private oil companies both home and abroad, and the only edge the US oil companies have over NOCs is their superior technology.⁴⁶ According to Joe Barnes, “history provides countless examples of Washington sacrificing the interests of US oil companies to broader goals.”⁴⁷ For example, according to Stephen Krasner, in the early 1970s US oil companies wanted political support from the state against the threat of nationalisation of their assets that was being placed on them by Saudi Arabia, Iran, and other Middle Eastern oil producers. However, American oil companies received no serious support from the US government. Without state support, the oil companies could not resist pressure from even weak states and thus they failed to prevent nationalisation of their assets and subsequent oil price increases. Thus, by the mid-1970s the oil industry had to move to accommodate itself to OPEC.⁴⁸ US policy-makers were in this instance more concerned with keeping a lid on the political situation, and maintaining the authority of conservative governments, such as that of Shah in Iran and the Saudi monarch, than they were with the prerogatives of the oil companies.⁴⁹ Similar development, as shown by Krasner, occurred when American central decision-makers turned a deaf ear to oil company entreaties for more vigorous official backing in Peru and Mexico before World War Two.⁵⁰

Moreover, American IOCs were the primary losers after voluntary, and later mandatory, oil import quotas were established in the US in the 1950s, as they could import very limited quantities of internationally produced oil.⁵¹ Historically, it was against American

IOCs' interests to go to Iran after Mossadeq was overthrown in 1953. However, they agreed to do so, but only after the government anti-trust suit against them was downgraded by executive order from a criminal to a civil action, and after heavy pressure from the US security concerns about Iran potentially falling to the Communist bloc if oil production did not resume.⁵² In an unrelated incident, the United States was impotent in using Gulf Oil, an American oil company, to further its own interests in the 1976 civil war in Angola. After only a brief hesitation, Gulf Oil turned over several hundred million dollars to the winning, communist side, even though the US government had backed their enemies and had not yet recognised the victor.⁵³

In another example, American IOCs involved in a number of Middle Eastern states clearly did not support the US tilt towards Israel during the 1973 Yom Kippur War.⁵⁴ In yet another example, Vernon argues that the 1970s oil crisis provided evidence that governmental use of IOCs as arms of public power had its limits. In the oil crisis, these limits were swiftly reached, as none of the developed countries succeeded in obtaining greatly preferred treatment from the oil companies it thought of as its own, though a number of governments tried.⁵⁵ Some have even suggested that during the oil crisis the US government threatened to nationalise Exxon, along with other IOCs, based on a belief that they caused a severe increase in oil prices.⁵⁶ Thus, Vernon argued that the realisation that IOCs cannot be used simply as an extended arm of government was a lesson half-learned by the governments involved in the oil crisis of the 1970s.⁵⁷ Home governments should have learnt this lesson in the 1940s, when oil companies successfully used their advantage in the Congress to block government's efforts to use them to further security of Middle East oil supplies during World War Two.⁵⁸

In recent years, major US IOCs have been vehemently opposed to official US policy on Iran, Sudan or Libya (until recently) and Iraq, which prohibited them from investing in these oil rich countries.⁵⁹ The bottom line is that "whenever national governments use multinational enterprises as an executive arm carrying out national policies, they must recognise that the enterprises on which they rely have interests that extend beyond the borders of any single country."⁶⁰ Thus, after considering plentiful historical evidence,

which indicates a lack of common interests between Big Oil and home governments, it is clear that suggestions that the US and UK governments occupied Iraq primarily to enable their IOCs to gain access to lucrative oil deals is unjustified. For example, to illustrate this divergence of interests in the case of Iraq, according to A. F. Alhajji, fearing the consequences, “the oil companies never supported the invasion.”⁶¹ The fact that Iraq was subject to comprehensive trade sanctions in accordance with UNSCR 687 of March 1991 as well as other Security Council resolutions basically meant that Anglo-American companies were legally locked out of Iraq. Meanwhile, despite the UN sanctions, Russian, French, and Chinese oil companies, backed by their respective national governments, were prepared to negotiate with the Iraqi regime under the ‘oil-for-food’ program established under UNSCR 986, and were thus not bound by sanctions.⁶² If the US and UK governments’ interests regarding Iraq converged with those of Anglo-American IOCs, they would have lifted sanctions imposed on Iraq. Such a move would have allowed Anglo-American oil companies to compete with other companies, and invest in Iraq without the US and UK having to go to war, and that was certainly in the companies’ interests.⁶³

In late February 2007 the Iraqi cabinet approved a draft law favourable to IOCs because its oil industry desperately needs investment due to decades of destruction and negligence, not because of ‘orders’ from American and British governments in collaboration with their IOCs. The US Government stated that it “did not provide any drafting input to the recent hydrocarbon law; the Iraqis have not asked for that kind of assistance on that law or on the revenue sharing law.”⁶⁴ Iraq is unable to independently finance the increase of its oil production capacity to a modest 3 million barrels per day (bpd), and let alone more optimistic targets of 4.5 to 12 million bpd.⁶⁵ Capacity expansion requires tens of billions of dollars to develop the Iraqi oil fields and build infrastructure.⁶⁶ A part of the reason why Iraq cannot finance capacity expansion may be the fact that approximately US\$12 billion of Iraqi oil revenue appropriated by the post-Saddam regime has disappeared in the form of bribery, over-charging, embezzlement, product substitution, bid rigging and false claims.⁶⁷ The lack of financial resources has forced the Iraqi government to finance capacity expansion by either borrowing from international

lenders or by sharing the fields with IOCs. However, Alhajji notes that Iraq cannot obtain loans from international financial houses, international institutions, and other governments since none of the conditions that financial institutions use as criteria to determine loan eligibility exist in Iraq.⁶⁸ Iraq is one of the most indebted countries in the world, and it cannot pay its current debt or even service it.⁶⁹ If banks agree to provide loans, they will demand collateral and loan guarantees, usually in the form of future oil-export revenues. However, Iraqi oil revenues have already been slated to pay debt and Gulf War damages and to rebuild Iraq. Thus, Iraqi authorities have little money to invest in the oil sector, given pressing humanitarian and reconstruction needs.⁷⁰ The US and its allies can play a crucial role in building Iraq's oil production capacity by providing grants, loan guarantees and free technical assistance. However, local politics in the US and UK prevent their governments from providing any considerable grants and loan guarantees.⁷¹ Arguably, the only remaining option for Iraq is to finance the expansion of oil production capacity through investment by IOCs, which are to be lured by the recently drafted investment law.⁷² This law, very favourable for IOCs, aims at inviting the necessary foreign investment Iraq needs to jump-start its economy.

Although this law appears extremely promising for IOCs, numerous factors may prevent them from fulfilling this promise. PSAs and other favourable types of contracts are the most practical way to revamp the Iraqi oil industry and increase production capacity, but results will take time. The Iraqi government faces serious problems, which ought to be solved in order to become an attractive and safe destination for foreign investment. The harsh reality of Iraq today is that solving these problems will require a long time. Moreover, besides the likelihood of some future Iraqi government renegotiating contracts with foreign investors, IOCs are also not the only companies interested in Iraqi oil, as Chinese NOCs are likely to offer some staunch competition. This challenge is analysed below.

The Anglo-American occupation of Iraq must *end* to enable Anglo-American IOCs to sign long-term contracts, and Iraqi PSAs or other model contracts would be valid for thirty years, thus, long-term. The 1949 Fourth Geneva Convention prohibits a belligerent

occupier from signing long-term contracts, but allows the occupier to sign short-term contracts to provide services to the occupied population.⁷³ Even if the US and the UK violate and disregard international law and allow for long-term contracts, since long-term contracts would be signed while Iraq is under occupation, they would not be legally binding. In the early 1950s, when Mossadeq nationalised Iranian oil industry, British lawyers for the Anglo-Persian Oil Company (now BP) contested the action in the International Court in The Hague and lost despite Britain's superpower status. Similarly, in the future, Iraqi lawyers could argue that any oil deal signed while Iraq was occupied was done under duress and thus was invalid.⁷⁴ International law is unlikely to bind the new Iraqi government to the contracts awarded by the occupying power to foreign parties during occupation. After the occupation, the new Iraqi government will have the sole discretion to uphold or reject these contracts, whether partially or in whole.⁷⁵

Legal uncertainty, political instability and fears about the safety of personnel have forced major oil companies to delay sending their representatives to Baghdad, which shows that their pre-invasion fears materialised. Sir Philip Watts, chairman of Royal Dutch/Shell amplified these concerns in July 2003 by saying

The safety of our people is paramount. There has to be proper security, legitimate authority and legitimate process . . . by which we will be able to negotiate agreements that would be longstanding for decades. We would not go into that situation unless these conditions were satisfied because we are a long-term business doing long-term projects and we need the framework in which we can make this sort of investment decision.⁷⁶

Thierry Desmarest, Total's chief executive, indicated that Total will participate in the development of Iraqi oil fields once Iraq is *stable*. "We need a stabilised legal framework, which means a recognised government defining very clearly the contractual regime under which the contracts can be signed for 20 to 30 years."⁷⁷ Additionally, US Energy Secretary Samuel Bodman said in July 2006 that US companies are not interested in investing in the country before the security situation improves.⁷⁸

Furthermore, according to Alhajji, political stability, an appropriate institutional framework, and policies that promote and protect foreign investment will not emerge

overnight. Realisation of these preconditions for long-term investment will take time that is measured in years, if not decades.⁷⁹ Once a legal government, political stability, and an appropriate institutional framework are established, additional time is needed to build infrastructure that can help attract foreign investment. Historical evidence from Kuwait, Iran, and Iraq indicates that even with the availability of capital, building infrastructure after a war requires a long period of time.⁸⁰ Current Iraqi infrastructure cannot handle much more than 2 million bpd, and building infrastructure to allow handling of modest 3 million bpd, let alone anything over that level, will take political and legal stability, and security, which is something that Iraq is far from achieving.

Since Iraq is almost land-locked (only 58 km of coastline on the already crowded Gulf), time will be needed to negotiate international agreements with bordering countries in order to transport Iraqi oil via pipelines. Alhajji argues that negotiations with these countries may take years to conclude, and hostile attitude of one or more neighbouring countries would limit the expansion of Iraq's oil export capacity.⁸¹ In addition, negotiations to finalise the oil contracts and memorandums of understanding (MOUs) that the deposed Iraqi government signed between 1991 and 2003 will take time. Before the invasion, there were 27 companies operating or signed contracts worth US\$38 billion with Iraq.⁸² These contracts must be evaluated and re-approved by the Federal Oil and Gas Council. Some of these contracts, especially the large and lucrative ones, if not re-approved, may end up in international courts. Legal action would likely delay development of Iraqi fields for a few years, as IOCs are generally reluctant to develop any disputed fields.

Moreover, time is needed to reach an agreement among various Iraqi political groups on the allocation of oil proceeds. Even if they reach an agreement, implementation will be difficult and may create tension, political turmoil, and possibly a halt in oil production.⁸³ Moreover, one of the main problems that will confront future Iraqi governments is how to resolve the dispute with Kuwait over the shared oil fields that played a main role in the invasion of Kuwait in 1990. For example, the al-Retqa oil field in Kuwait overlaps with the al-Rumailah field in Iraq. Developing these fields requires an agreement between both

countries, and such agreements require lengthy negotiations over political, economic, and technical issues. Ratification by the parliaments of both countries would cause further delays. The output from these shared fields will fall below their optimal level in the absence of agreement between the two countries.⁸⁴

Although Iraq's cabinet approved the new PSA law, the nation's 275-member parliament is yet to approve the draft. Some have suggested that this is far from certain since the draft framework legislation is highly contentious. In particular, there is pressure from the powerful Oil Workers Union of Basra, which in 2005 staged strikes objecting to America's plan to privatise Iraq's oil industry. Political opponents include the Iraqi National Slate Party; a reviving Communist Party; and much of the Iraqi press.⁸⁵ Thus, rather than promote reconciliation, the new law may "contribute to deeper political tension."⁸⁶ Moreover, even *if* the law passes Iraqi parliament, it may not last. Since the Iraqi government's bargaining power vis-à-vis IOCs and foreign governments is currently low, they proposed a law, which aims at attracting foreign investment, rather than a law similar to Iranian 'buyback' contracts, which is often criticised by IOCs for not enabling them to book reserves. Proposed Iraqi PSAs completely break from normal practice in the region where all major oil-producing industries are in the public sector, and thus Iraq would be the only major Middle Eastern producing nation where production is controlled by foreign companies. Issues over terms of cooperative contracts between host states and MNCs arise quite often due to "the inherent instability of any negotiated settlement."⁸⁷ For example, according to Matthew Bell, large-scale infrastructure concessions-contracts that are typically designed to last 15-30 years are renegotiated on average after only 2.1 years.⁸⁸ In 1972, Iraq nationalised its oil industry,⁸⁹ and as Iraq rebuilds and gains bargaining power, very little will stand on some future Iraqi government's way in changing investment laws. An Iraq no longer occupied will seek better terms for any deal reached under the proposed law.

Theoretically, Raymond Vernon's obsolescing bargain model (OBM) is useful in explaining MNC-host government bargaining power dynamics,⁹⁰ and is thus useful for understanding future bargaining power dynamics between Iraqi government and IOCs.

OBM explains the changing nature of bargaining relations between an MNC and host country government as a function of goals, resources and constraints on both parties, and numerous authors from a wide ideological spectrum have endorsed this argument.⁹¹ In OBM, which is seen as a positive-sum game in which the goals of the MNC and host state are assumed conflicting, the initial bargain favours the MNC, but as MNC assets are transformed into hostages, relative bargaining power rapidly shifts to the host state over time. Once bargaining power shifts to the host state, its government imposes more conditions, such as higher taxes or asset expropriation, on the MNC. The original bargain obsolesces, giving OBM its name. Moreover, it is important to note that IOCs suffer from a major structural vulnerability, what Theodore Moran refers to as the “hostage effect,” which is associated with large sunk capital.⁹² Thus, after investing heavily in a particular host country’s oil industry, IOCs, unlike manufacturing investors, cannot easily threaten to exit due to capital-intensive nature of oil extraction, which imposes high barriers to exit, even if the host state revises the bargain.⁹³ Hence, this option will usually be the one of last resort, and in the future, as IOCs’ bargaining power vis-à-vis the Iraqi government obsolesces, they would have to settle for considerably worse conditions in order to maintain their presence in Iraq.⁹⁴

A further factor which limits the potential for future IOC success in Iraq is that the improvement of security situation in Iraq, which IOCs regard as crucial for investing in the country, is far from reality considering that civil war is ravaging the country. Moreover, the continuous sabotage campaign against oil production and transportation facilities enhances inhospitable investment climate for IOCs.⁹⁵ For example, between April 2003 and October 2005, there were 282 documented attacks against existing oil infrastructure in Iraq by those opposed to the US occupation or seeking to destabilise the new Iraqi regime.⁹⁶ The lack of adequate security poses a major challenge for the government in the oil sector. Persistent political instability and violence, and sabotage of oil facilities, continuously impede IOC entry into Iraq, and the British decision to withdraw most of its troops from the south, where the largest oilfields are located, has raised additional security concerns.⁹⁷

Enter China

Finally, IOCs are not the only companies interested in Iraq's oil. NOCs from oil importing countries, and particularly from China, which as argued above provide staunch competition to IOCs, are just as interested in establishing their presence in Iraq. Chinese NOCs—CNPC, Sinopec, and CNOOC—are spending billions of dollars on a global scramble for oil to feed China's booming economy. They have the ability to obtain government loans at little or no interest. Driven by the government's energy security policy, which is aimed at developing multiple import sources and route diversification and building up reserves to avoid unexpected interruption,⁹⁸ China's NOCs have acquired growing equity oil stakes and long-term crude oil contracts, and have signed 'strategic' alliances in many regions of the world.⁹⁹ In doing so, they have repeatedly emerged victorious vis-à-vis major Anglo-American IOCs in bidding and negotiations and have thus provided IOCs with unwanted competition in many oil-producing and exporting countries.¹⁰⁰

Chinese NOCs' success is exacerbated by the fact that in general, oil importing countries' NOCs are favoured by host governments since, according to John Mitchell and Glada Lahn, they "carry less 'imperialist' baggage than Western governments or companies".¹⁰¹ Thus, investment from foreign NOCs, rather than IOCs, is politically more palatable for the host government. In relation, due to "cultural proximity between NOCs and host countries," NOCs can better understand how to work through a bureaucratic system of a host country than IOCs.¹⁰² Moreover, many host governments, such as those in Sudan, Myanmar, Iran, and others, are attracted by the fact that China's government agencies and financial institutions do not apply conditions, such as the UN Global Compact, regarding transparency and external monitoring of operations affecting human rights and ethical issues to loans and aid packages associated with oil deals.¹⁰³ Therefore, oil importing countries' NOCs are clearly advantaged vis-à-vis major IOCs in their dealings with many non-Western host governments, and likely with Iraq in the future.

Thus, when considering their recent success and aggressiveness, Chinese NOCs will offer much competition to Anglo-American IOCs in Iraq, and may even be preferred by the

Iraqi government. Moreover, they may not be deterred by the lack of security in the country, as they are already heavily involved in Sudan, despite of the civil war. Unsurprisingly, a Chinese company is considering sending Chinese oil workers into Iraq, despite of the security risks.¹⁰⁴ This shows that Chinese NOCs are much more willing to take considerable risk than IOCs. Indicative of Chinese willingness to establish a foothold in Iraq, is that in October 2006, CNPC began renegotiating a US\$1.2 billion contract signed in 1997 with Saddam Hussein's government to develop the large al-Ahdab field, in an area where Shiite militias hold sway. As a result of these negotiations, in June 2007, Iraqi Oil Minister Hussein al Shahrstani stated that this contract "is still valid" and that the current Iraqi government "will honor it".¹⁰⁵

Conclusion

This article did not seek to evaluate policy options or propose recommendations for the Iraqi government regarding investment in Iraq's oil industry. Rather, the focus here was on major Anglo-American IOCs' investment opportunities in host countries, with particular focus on their prospects in Iraq, after taking into account recent developments in that Middle Eastern country. In their global operations, major Anglo-American IOCs are facing problems with booking reserves, and are struggling to respond to increasing competition from NOCs. Similar to the situation in other major oil-producing countries, their future looks bleak in Iraq despite initial optimism. Besides continuous and, very likely, indefinite insecurity and political and legal uncertainty, which at present all inhibit their entry into Iraq, *if* the situation improves and they establish their presence there, Anglo-American IOCs are likely to face staunch competition from Chinese NOCs, which have already triumphed over major IOCs in bidding with many oil-producing governments. Moreover, they are likely to face an almost certain 'obsolescing bargain' with a future Iraqi government. In practice, this 'obsolescing bargain' would be similar to the scenario, which in recent years has been taking place in Venezuela, as President Hugo Chávez unilaterally renegotiated Venezuela's contracts with IOCs present in the country. Due to the 'hostage effect' of their investments and the lack of alternative investment opportunities, IOCs had no choice but to remain loyal to Chávez and not to voice their concerns. In summary, the problems, which major Anglo-American IOCs are facing, and

which are evident in Venezuela, Russia and elsewhere, are unlikely to be solved in Iraq. Rather, in reality, the situation in Iraq is likely to exacerbate the IOCs' weaknesses.

Notes

¹ 'Why You Should Worry About Big Oil', *Business Week*, 15 May 2006; 'The Forbes Global 2000: The World's Biggest Public Companies', *Forbes*, 16 April 2007.

² 'A Survey of Oil,' *The Economist*, 30 April 2005, p. 8. The Seven Sisters originally included Esso, Gulf, Texaco, Mobil, Chevron, BP and Shell. For a study of history of the Seven Sisters and comprehensive history of oil in general, see Sampson, Anthony, *The Seven Sisters: The Great Oil Companies and the World They Shaped*, London: Coronet Books, 1980.

³ Bozon, Ivo J. H., Stephen J. D. Hall, and Svein Harald Øygard, 'What's Next for Big Oil?', *The McKinsey Quarterly*, no. 2, 2005; and Schwartz, Nelson D., 'A Shell of Itself', *Fortune*, 6 March 2006, p. 12.

⁴ John Vidal, 'The Beginning of the End', *The Guardian*, 21 April 2005; Schwartz, 'A Shell of Itself'.

⁵ 'A Survey of Oil', p. 10.

⁶ Schwartz, 'A Shell of Itself'.

⁷ Cited in 'Why You Should Worry About Big Oil'

⁸ 'Why You Should Worry About Big Oil'.

⁹ 'A Survey of Oil', p. 8. That is particularly true in North America and the North Sea, which account for about 60% of the majors' current oil and natural gas production and where more than 50% of the reserves have been extracted. In those areas, production costs continue to climb, and every new investment to extend the life of the reservoirs becomes more marginal, as fixed costs are covered by shrinking volumes. In the North Sea, for instance, the average extraction cost for a barrel of oil rose 42% from 2000 to 2005. Bozon, *et al.*, 'What's Next for Big Oil?'

¹⁰ Vidal, 'The Beginning of the End'.

¹¹ Bozon, *et al.*, 'What's Next for Big Oil?'

¹² Foroohar, Rana, 'Big Oil's Big Problem', *Newsweek*, 9 October 2006, p. 40.

¹³ No major oil companies in top 50 companies in the world by assets in 2006. 'The Forbes Global 2000: The World's Biggest Public Companies', *Forbes*, 16 April 2007. See also 'Survey of Oil', p. 10.

¹⁴ As opposed to the 'Azerbaijan model' in which the state-owned assets are operated, managed, funded and equipped almost entirely by the oil MNCs under production-sharing agreements (PSAs), in exchange for a percentage of sales receipt. Palast, Greg, 'OPEC on the March', *Harper's Magazine*, April 2005, p. 76.

¹⁵ Klare, Michael T., *Blood and Oil*, New York: Metropolitan Books, 2004, p. 123. The Middle Eastern countries serve as a typical example.

¹⁶ Morse, Edward L., 'A New Political Economy of Oil?', *Journal of International Affairs*, vol. 53, no. 1, Fall 1999, p. 18.

¹⁷ PFC Energy, an industry consulting firm in Washington, puts this figure at 77-78%. See Blum, Justin, 'National Oil Firms Take Bigger Role', *The Washington Post*, 3 August 2005; 'Open Season on Big Oil', *Business Week*, 26 September 2005, p. 41; 'Oil's Dark Secret', *The Economist*, 12 August 2006, p. 56. Valérie Marcel puts the figure at 90%. See Marcel, Valérie, *Oil Titans: National Oil Companies in the Middle East*, London: Chatham House, 2006, p. 1. Another report put the figure for 2005 at 77%, with additional 6% controlled by partially privatised Russian oil companies. See 'The Changing Role of National Oil Companies in International Energy Markets', Baker Institute Policy Report, Published by the James A. Baker III Institute for Public Policy of Rice University, no. 35, March 2007, p. 1.

¹⁸ Cited in Mouawad, Jad, 'Big Oil's Burden of Too Much Cash', *The New York Times*, 12 February 2005.

¹⁹ 'A Survey of Oil', p. 8.

²⁰ For example, Royal Dutch/Shell's Sakhalin-2 project and BP's Thunder Horse platform are extremely expensive to build and dangerous to maintain. See 'A Survey of Oil', p. 8.

²¹ *Petroleum Intelligence Weekly*.

²² Organization of the Petroleum Exporting Countries, *OPEC Annual Statistical Bulletin 2005*, Vienna, Austria: Ueberreuter, 2006, p. 129.

²³ Bozon, *et al*, 'What's Next for Big Oil?'; Schwartz, Nelson D., and Jon Birger, 'Slick Operators', *Fortune*, 18 May 2006; and *OPEC Annual Statistical Bulletin 2005*, p. 129.

²⁴ Data from PFC Energy, a Washington-based consulting firm, consulted in Mouawad, Jad, 'Western Firms Feel a Pinch from Oil Nationalism', *International Herald Tribune*, 7 May 2006.

²⁵ Bromley, Simon, 'The United States and the Control of World Oil', *Government and Opposition*, vol. 40, no. 2, Spring 2005, p. 230; and Bromley, 'The United States, Hegemonic Strategies and World Oil', *St Antony's International Review: The International Politics of Oil*, vol. 2, no. 1, May 2006, p. 59.

²⁶ Noreng, Øystein, *Crude Power: Politics and the Oil Market*, London: I.B. Tauris, 2002, p. 164.

²⁷ British Petroleum, *BP Statistical Review of World Energy 2007*, June 2007, p. 6.

²⁸ Only 10% of the country has been explored. With little exploration since the nationalisation of the industry in 1972 and particularly since the beginning of a series of wars in 1980, many promising areas remain unexplored. Experts believe that Iraq has potential reserves substantially above 200 billion barrels. The Energy Information Administration of the US Department of Energy has estimated that Iraqi reserves could possibly total over 400 billion barrels. See Energy Information Administration, 'Iraq Country Analysis Brief', August 2003, <http://www.eia.doe.gov/emeu/cabs/iraq.html>, [cited 7 October 2003]; Paul, James A., 'Oil in Iraq: The Heart of the Crisis', *Global Policy Forum*, UN Security Council, December 2002, <http://www.globalpolicy.org/security/oil/2002/12heart.htm>, [cited 7 October 2003]; and Moran, Michael, 'The Saudis: Between Iraq and...', *MSNBC News*, 12 November 2002, <http://www.msnbc.com/news/823987.asp?Ocb=-415114700>, [cited 7 October 2003].

²⁹ Daniel Yergin categorised "the asymmetry between oil consumption [in the OECD world] and its reserve base [in the Middle East]" as the "political geology" of oil, and argued that in the end it will not be denied, as rising dependence on Middle Eastern imports will emerge as a future problem for the OECD countries. See Yergin, 'The Political Geology of the Energy Problem', in Dorothy S. Zinberg (ed.), *Uncertain Power: The Struggle for a National Energy Policy*, New York: Pergamon Press, 1983, p. 235.

³⁰ British Petroleum, *BP Statistical Review of World Energy 2006*.

³¹ Paul, 'Oil in Iraq'; and Alnasrauri, Abbas, 'Sanctions and the Iraqi Economy', in Shams C. Inati (ed.), *Iraq: Its History, People, and Politics*, New York: Humanity Books, 2003, p. 229.

³² Paul, 'Oil in Iraq'.

³³ Fotuhi, Vahid (ed.), *Understanding the Oil and Gas Industries*, New York: Energy Intelligence Group Inc.: 2004, p. 3. Also, see Paul, 'Oil in Iraq'. Iraq's oil rises rapidly to the surface, because of high pressure on the oil reservoir from water and from associated natural gas deposits. More than a third of Iraq's current reserves lie just 600 meters below the surface and some of Iraq's fields are among the world's largest.

³⁴ Gendzier, Irene, 'Oil, Iraq and US Foreign Policy in the Middle East', *Situation Analysis*, no. 2, Spring 2003, p. 25; Klare, Michael T., 'For Oil and Empire? Rethinking War with Iraq', *Current History*, vol. 102, no. 662, March 2003; Wingrove, Martyn, 'Non-US Oil Interests at Risk Says Iraqi Opposition', *Lloyd's List*, 18 October 2002; and 'Iraqi Opposition Prepared to Revise Oil Contracts with Foreign Companies', *Kommersant*, Moscow, 21 October 2002.

³⁵ The first and second Bush administrations have had many oil and energy industry connections: President Bush is a former director of Harken Energy Corporation; Vice President Cheney is the CEO of Halliburton; and Secretary of State Condoleezza Rice is a board member of Chevron, one supertanker of which was named after her. Moreover, financial disclosure forms reviewed by the Center for Public Integrity, a non-partisan watchdog group, reported that top 100 officials in the first Bush Administration have the majority of their personal investments, almost \$150 million, in the traditional energy and natural resource sectors. Moran, Michael, and Alex Johnson, 'Oil After Saddam: All Bets Are In', *MSNBC News*, 7 November 2002, <http://www.msnbc.com/news/823985.asp?Ocb=-115114700>, [cited 7 October 2003].

³⁶ Bill Minutaglio, the Bush bibliographer, said, "Bush really does believe that what is best for Big Oil is best for America. His whole formative world view was formed by being hip-deep in the oil patch." Cited in Gordon, Michael R., 'Iraq Said to Plan Tangling US in Street Fighting', *New York Times*, 20 August 2002. For more, see Stern, Andy, *Who Won the Oil Wars? Why Governments Wage War for Oil Rights*, London: Collins & Brown, 2005, pp. 145 and 159-60; Briody, Dan, *The Halliburton Agenda: The Politics of Oil and Money*, Hoboken, NJ: John Wiley & Sons, 2004; and Vidal, Gore, *Dreaming War: Blood for Oil and the Cheney-Bush Junta*, New York: Nation Books, 2002.

³⁷ See Escobar, Pepe, 'The Roving Eye: US's Iraq Oil Grab is a Done Deal', *Asia Times*, 28 February 2007; Muttitt, Greg, 'Production Sharing Agreements: Mortgaging Iraq's Oil Wealth', *Arab Studies Quarterly*, 22 June 2006; Muttitt, 'Production Sharing Agreements: Oil Privatisation by another Name?', paper presented to the General Union of Oil Employees' conference on privatisation, Basra, Iraq, 26 May 2005, p. 10; Muttitt, 'Crude Designs: The Rip-Off of Iraq's Oil Wealth', *Global Policy Forum*, published by PLATFORM with Global Policy Forum, Institute for Policy Studies (New Internationalism Project), New Economics Foundation, Oil Change International and War on Want, November 2005; Rutledge, Ian, *Addicted to Oil: America's Relentless Drive for Energy Security*, London: I.B. Tauris, 2005, p. 177; and William Engdahl, *A Century of War: Anglo-American Oil Politics and the New World Order*, London: Pluto Press, 2004, pp. 257-8.

³⁸ Escobar, 'The Roving Eye'.

³⁹ Escobar, 'The Roving Eye'.

⁴⁰ Krasner, Stephen D., *Defending the National Interest: Raw Materials and US Foreign Policy*, Princeton: Princeton University Press, 1978, p. 7.

⁴¹ Miyoshi, M., 'A Borderless World? From Colonialism to Transnationalism and the Decline of the Nation State', *Critical Theory*, vol. 19, no. 4, 1993, p. 746

⁴² See Carnoy, M., 'Multinationals in a Changing World Economy: Whither the Nation-State', in Carnoy *et al.* (eds.), *The New Global Economy in the Information Age*, University Park: Pennsylvania State University Press, 1993, pp. 61-66; and Clark, C., and S. Chan, 'MNCs and Developmentalism: Domestic Structure as an Explanation for East Asian Dynamism', in Thomas Risse Kappan (ed.), *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions*, Cambridge: Cambridge University Press, 1995, p. 144.

⁴³ Raymond Vernon studies conflicts between MNCs and their home governments in *Storm over the Multinationals: The Real Issues*, Cambridge: Harvard University Press, 1977. In particular, see pp. 103-138.

⁴⁴ See Vernon, Raymond, *In the Hurricane's Eye*, Cambridge: Harvard University Press, 1998.

⁴⁵ Vernon, Raymond, *Sovereignty at Bay: The Multinational Spread of US Enterprise*, New York: Basic Books, 1971, p. 264.

⁴⁶ Day, James M., 'Can US Petroleum Companies Compete With National Oil Companies?', *Business Law Brief*, Fall 2005, p. 57; Vernon, *Storm over the Multinationals*, p. 190.

⁴⁷ Barnes, Joe, 'NOCs and US Foreign Policy', paper prepared in conjunction with an energy study sponsored by Japan Petroleum Energy Center and the James A. Baker III Institute for Public Policy, Rice University, March 2007, p. 10.

⁴⁸ Krasner, *Defending the National Interest*, p. 254. The US government did not want to resist nationalisations in many developing countries in the 1970s due to its fear that in such scenario they may have tilted towards the Soviet Union. See Barnes, 'NOCs and US Foreign Policy', p. 20.

⁴⁹ Krasner, *Defending the National Interest*, pp. 256, 259-60 and 262.

⁵⁰ Krasner, *Defending the National Interest*, p. 332; and Barnes, 'NOCs and US Foreign Policy', p. 20. When US oil companies' interests were nationalised by Mexico in 1937, while the nationalisation roiled relations between Mexico City and Washington, it never led to a break. The reason is clear: increasingly worried about the Nazi menace in Europe, the Roosevelt Administration wanted at all cost to avoid a restive neighbour to the South or, worse, one aligned with Hitler's Germany.

⁵¹ Isser, Steve, *The Economics and Politics of the United States Oil Industry, 1920-1990*, New York: Garland Publishing, 1996, p. 98.

⁵² For more on this fascinating topic see Yergin, Daniel, *The Prize: The Epic Quest for Oil, Money & Power*, New York: Free Press, 1992, pp. 471-2; and Krasner, *Defending the National Interest*, pp. 119-128.

⁵³ 'Socialist Angola's Main Economic Prop: Gulf Oil', *The New York Times*, 30 May 1976.

⁵⁴ Barnes, 'NOCs and US Foreign Policy', pp. 10 and 21. It is unquestionable that US support for Israel, and the price for which the US paid for it in the Arab and, indeed, Muslim world, has not been based upon narrow US energy interests.

⁵⁵ Vernon, Raymond, 'The Distribution of Power', in Vernon (ed.), *The Oil Crisis*, New York: W. W. Norton & Company, 1976, p. 254.

⁵⁶ Falola, Toyin, and Ann Genova, *The Politics of the Global Oil Industry: An Introduction*, Westport, Connecticut: Praeger, 2005, pp. 38 and 78.

⁵⁷ Vernon, 'The Distribution of Power', p. 254.

⁵⁸ See Krasner, *Defending the National Interest*, p. 213.

⁵⁹ Barnes, 'NOCs and US Foreign Policy', p. 10.

⁶⁰ Vernon, *Storm over the Multinationals*, p. 135.

⁶¹ Cited in Francis, David R., 'Why Iraq's New Oil Law Won't Last', *The Christian Science Monitor*, 5 March 2007.

⁶² Boon von Ochssée, Timothy A., 'Oil Regime Change in Iraq: Possible Strategic Implications for OPEC', Clingendael International Energy Programme, CIEP 03/2006, 2006, p. 26. Also, see Traynor, John J., Adam Sieminski, Caroline Cook and Michael Urban, 'Baghdad Bazaar: Big Oil in Iraq', Global Equity Research, Deutsche Bank, 21 October 2002.

⁶³ See Alhajji, A.F., 'The US Energy Policy and the Invasion of Iraq: Does Oil Matter?', paper presented at the 30th Annual Energy Conference, Center for Energy and Development, Boulder, CO, April 2003, p. 8; and Richards, Catherine, 'IOCs Play the Waiting Game', *Middle East Economic Digest*, 23 March 2001.

⁶⁴ Blanchard, Christopher M., 'Iraq: Oil and Gas Legislation, Revenue Sharing, and US Policy', *CRS Report for Congress*, RL34064, 26 June 2007, p. 17.

⁶⁵ See 'Iraq Country Analysis Brief'; Yergin, Daniel, 'A Crude View of the Crisis in Iraq', *The Washington Post*, 8 December 2002; and the former Iraqi Oil Minister Issam Chalabi, cited in 'Oil Giants Expect Iraq to Deal Only on Toughest Terms', *Alexander's Gas & Oil Connections, Company News: Middle East*, vol. 8, no. 6, 20 March 2003. Iraqi leaders and US analysts and politicians have claimed that Iraq will be able to increase its production capacity to 8 million bpd by 2010. See Alhajji, 'The US Energy Policy and the Invasion of Iraq', p. 3; former Iraqi Undersecretary of Oil Fadhil Chalabi, cited in Banerjee, Neela, 'Stable Oil Prices Are Likely to Become a War Casualty, Experts Say', *New York Times*, 2 October 2002; Chalabi, Fadhil, 'Iraq and the Future of World Oil', *Middle East Policy*, vol. 7, no. 4, October 2000; and Kawach, Nadim, 'CC vs Iraq: Who Benefits after the War?', *Gulf News*, 6 December 2002. For more on difficulties facing Iraq in increasing its oil production, see Alhajji, A.F., 'The Expansion of Iraq's Oil Production Capacity: Challenges Ahead', *Middle East Economic Survey*, vol. 46, no. 27, May 2003; and Myers Jaffe, Amy, 'Iraq's Oil Sector: Issues and Opportunities', The James A. Baker III Institute for Public Policy, Rice University, December 2006, pp. 3-4. Former Vice-President and Executive Director of the Iraq National Oil Company (INOC) Tariq Shafiq, estimated after the war that Iraq's present proven reserves could support a production rate of 10 to 12 million bpd. Shafiq, Tariq, 'Iraq Oil Development Policy Options: In Search and Balance', *Middle East Economic Survey*, vol. 46, no. 50, 15 December 2003.

⁶⁶ Pre-war estimates for the cost of restoring production to levels of 3 to 3.5 million bpd ran as high as US\$5 billion to \$7 billion, while the cost of further expanding production capacity to a total of 6 million bpd had been put at US\$30-40 billion. See 'Guiding Principles for US Post-Conflict Policy in Iraq', Report of an Independent Working Group Cosponsored by the Council on Foreign Relations and the James A. Baker III Institute for Public Policy of Rice University, December 2002, p. 18; Yergin, 'A Crude View of the Crisis in Iraq'; Yergin, 'Oil Prices Won't Depend on Iraq, but on Its Neighbors', *New York Times*, 25 August 2002; and Gongloff, Mark, 'Playing for Iraq's Jackpot', *CNN Money*, 15 April 2002. One can assume that current estimates for the cost of achieving anything over 3 million bpd, would be much higher, considering the security situation in the country. For example, Amy Myers Jaffe argues that it is likely to take between US\$5bn and \$10bn to get Iraq's production capacity back to pre-war levels of 2.5 million bpd and an additional US\$15-25bn to raise output to the 5 million bpd range. See Myers Jaffe, 'Iraq's Oil Sector: Past, Present, and Future', paper prepared in conjunction with an energy study sponsored by Japan Petroleum Energy Center and the James A. Baker III Institute for Public Policy, Rice University, March 2007, p. 48.

⁶⁷ Dave Whyte, 'The Crimes of Neo-Liberal Rule in Occupied Iraq', *British Journal of Criminology*, vol. 47, no. 2, 2007, pp. 177-95.

⁶⁸ Alhajji, 'The US Energy Policy and the Invasion of Iraq', p. 17.

⁶⁹ Ghalib, Sharif, 'Iraq's External Financial Obligations', ICEED 30th Annual International Energy Conference, Boulder, Colorado, April 2003; 'Iraq Debt Could Add Up To Trouble', *Los Angeles Times*, 4 April 2003; and 'The Cost of War and Reconstruction, Iraq Debt', *Middle East Economic Survey*, vol. 46, no. 10, 10 March 2003.

⁷⁰ 'Guiding Principles for US Post-Conflict Policy in Iraq', p. 18.

⁷¹ Alhajji, 'The US Energy Policy and the Invasion of Iraq', pp. 17-8.

⁷² In 2003, Fadhil Chalabi, former Iraqi Undersecretary of Oil, argued, "in order to secure capital, good management, and good market outlets, Iraq would have to allow the participation of foreign oil

companies...and allow at least partial privatisation.” See Chalabi, ‘Post-Saddam Iraq’, *Middle East Economic Survey*, vol. 46, no. 12, 24 March 2003. For more on the new law, see ‘Iraqi Law Opposed, Worries about Security and a Petrol Mystery’, *Oil and Energy Trends*, vol. 32, no. 3, March 2007, p. 6; and Blanchard, ‘Iraq: Oil and Gas Legislation, Revenue Sharing, and US Policy’.

⁷³ For more on the status of oil contracts in Iraq, see Wälde, Thomas W., ‘The Iraqi Scenario: The Impact of Fundamental Regime Change in Iraq on Acquired and New Contractual Titles in Iraq Oil Industry’, *Oil, Gas, and Energy Law*, vol. 1, no 1, January 2003.

⁷⁴ Francis, ‘Why Iraq’s New Oil Law Won’t Last’.

⁷⁵ Bekker, Pieter, ‘The Legal Status of Foreign Economic Interests in Occupied Iraq’, *American Society of International Law*, Newsletter, September/October 2003, p. 9.

⁷⁶ Cited in ‘Oil Groups Snub US on Iraq Deals’, *The Financial Times*, 24 July 2003.

⁷⁷ Cited in ‘Total to Take Part in Iraq Oil Redevelopment Once Nation’s Stable’, *Dow Jones Financial News*, 16 June 2003.

⁷⁸ ‘News in Brief’, *Petroleum Economist*, no. 1, 2006, p. 11.

⁷⁹ Alhajji, ‘The US Energy Policy and the Invasion of Iraq’, p. 19.

⁸⁰ For empirical evidence, see Alhajji, A.F., ‘Oil Production Capacity Rebuilding Experience has Implications for Iraq’, *Oil and Gas Journal*, 3 November 2003, pp. 20-22.

⁸¹ Alhajji, ‘The US Energy Policy and the Invasion of Iraq’, pp. 19-20.

⁸² Duffield, John S., ‘Oil and the Iraq War: How the United States Could Have Expected to Benefit, and Might Still’, *Middle East Review of International Affairs*, vol. 9, no. 2, June 2005, p. 126. For more detail on these presumptive contracts, see Morgan, Dan, and David Ottaway, ‘In Iraqi War Scenario, Oil is Key Issue’, *Washington Post*, 15 September, 2002.

⁸³ As of 2007 there is no firm agreement on how Iraq’s oil revenues are to be shared between the various provinces. See ‘Iraqi Law Opposed, Worries about Security and a Petrol Mystery’, p. 6.

⁸⁴ Alhajji, ‘The US Energy Policy and the Invasion of Iraq’, p. 21. For continuing issues between Iraq and Kuwait, see ‘Iraqi Law Opposed, Worries about Security and a Petrol Mystery’, p. 6.

⁸⁵ See Francis, ‘Why Iraq’s New Oil Law Won’t Last’. Also see Blanchard, ‘Iraq: Oil and Gas Legislation, Revenue Sharing, and US Policy’.

⁸⁶ Blanchard, ‘Iraq: Oil and Gas Legislation, Revenue Sharing, and US Policy’.

⁸⁷ Philip, George, ‘The Limitations of Bargaining Theory: A Case Study of the International Petroleum Company in Peru’, *World Development*, vol. 4, no. 3, March 1976, p. 235.

⁸⁸ Bell, Mathew, ‘Regulation in Developing Countries is Different: Avoiding Negotiation, Renegotiation and Frustration’, *Energy Policy*, vol. 31, 2003, p. 299.

⁸⁹ For more on this episode, see Brown, Michael E., ‘The Nationalization of the Iraqi Petroleum Company’, *International Journal of Middle East Studies*, vol. 10, no. 1, February 1979.

⁹⁰ OBM was first developed by Raymond Vernon in *Sovereignty at Bay*, see particularly pp. 47-53.

⁹¹ Besides *Sovereignty at Bay*, also see Vernon, *Storm over the Multinationals*; Vernon, ‘Sovereignty at Bay Ten Years After’, *International Organization*, vol. 35, Summer 1981, pp. 517-530; Vernon, ‘Sovereignty at Bay: Twenty Years After’, *Millennium*, vol. 20, no. 2, 1991; Moran, Theodore H. (ed.), *Multinational Corporations: The Political Economy of Foreign Direct Investment*, Lexington: Lexington Books, 1985; Moran, ‘Multinational Corporations and Dependency: A Dialogue for Dependents and Non-Dependents’, *International Organization*, vol. 32, Winter 1978, pp. 79-100; Moran, *Multinational Corporations and the Politics of Dependence: Copper in Chile*, Princeton: Princeton University Press, 1974; Fagre, N., and Louis T. Wells, Jr., ‘Bargaining Power of Multinationals and Host Governments’, *Journal of International Business Studies*, Fall 1982, pp. 9-24; Penrose, Edith T., *The Large International Firm in Developing Countries: The International Petroleum Industry*, London: Allen and Unwin, 1968; Kobrin, Stephen, ‘Testing the Bargaining Hypothesis in the Manufacturing Sector in Developing Countries’, *International Organization*, vol. 41, 1987, pp. 609-38; Mikesell, Raymond F., *Foreign Investment in Copper Mining: Case Studies of Mines in Peru and Papua New Guinea*, Baltimore: Johns Hopkins University Press, 1975; and many more.

⁹² See Moran, Theodore H., *Foreign Direct Investment and Development: The New Policy Agenda for Developing Countries and Economies in Transition*, Washington, D.C.: Institute for International Economics, December 1998, chapter 9.

⁹³ Eden, Lorraine, Stefanie Lenway and Douglas A. Schuler, ‘From the Obsolescing Bargain to the Political Bargaining Model’, *Bush School Working Paper*, no. 403, The Bush School of Government & Public

Service, Texas A&M University, January 2004, p. 6; and Imle, Jr., John F., 'Multinationals and the New World of Energy Development: A Corporate Perspective', *Journal of International Affairs*, vol. 53, no. 1, Fall 1999, p. 267.

⁹⁴ A possible technique for managing the problem of the 'obsolescing bargain' for IOCs, are Bilateral Investment Treaties (BITs), which provide for external arbitration. However, by withdrawing from the International Center for the Settlement of International Dispute (ICSID), which is the arbitration body in charge of BITs, a future Iraqi government could vitiate the protection BITs offer to IOCs. For similar scenario involving Venezuela, IOCs, and BITs, see Campbell, Oliver L., 'Arbitration under a Bilateral Investment Treaty', *Petroleum World*, 17 July 2007; and De By, Robert A., and Amy L. Rudd, 'Venezuela: Foreign Investors on the Road to Arbitration', *Petroleum World*, 11 July 2007.

⁹⁵ See Timmons, Heather, and James Glanz, 'Iraq Is Soliciting Bids to Determine How Much Oil It Has', *New York Times*, 4 August 2004; and Macalister, Terry, 'Petrel's Iraqi Oilfield Plan', *The Guardian*, 29 July 2004.

⁹⁶ Jaffe, 'Iraq's Oil Sector: Past, Present, and Future', p. 6. For a detailed list, see 'Iraq Pipeline Watch', maintained by the Institute for the Analysis of Global Security at <http://www.iags.org/iraqpipelinewatch.htm>; also, see Isenberg, David, 'Protecting Iraq's Precarious Pipelines', *Asia Times*, 24 September 2004; and Claes, Dag Harald, 'The United States and Iraq: Making Sense of the Oil Factor', *Middle East Policy*, vol. 12, no. 4, Winter 2005, p. 52.

⁹⁷ 'China Ready to Step into Iraq as Fearful West Holds Back', *The Weekend Australian*, 14-15 April 2007.

⁹⁸ See Xu Yi-chong, 'China's Energy Security', *Australian Journal of International Affairs*, vol. 60, no. 2, June 2006; and Development Research Centre of the State Council, 'China's Energy Strategy and Policy 2000-2020', November 2003, <http://www.efchina.org>, [cited 15 March 2005].

⁹⁹ In my best knowledge, by mid-2007, China, through its three NOCs, had signed oil and gas deals, or had oil and gas assets or interests in (or with) not less than 63 countries.

¹⁰⁰ For example, CNPC outbid Amoco (now owned by BP), Chevron and Exxon Mobil for interest in the second-largest oil field in Kazakhstan in 1997. See Ottaway, David B., and Dan Morgan, 'China Pursues Ambitious Role In Oil Market', *The Washington Post*, 26 December 1997; Downs, Erica Strecker, *China's Quest for Energy Security*, Santa Monica: RAND Corporation, 2000, p. 15; 'China Takes Control of Kazakhstan's Aktubinsk', *East European Energy Report*, no. 69, 24 June 1997, p. 16. Sinopec has won the right to explore for hydrocarbons in Saudi Arabia's al-Khali Basin outbidding Chevron. Moreover, Chinese officials locked up long-term contracts for Alberta's oil sands in Canada, while outbidding western IOCs Collier, Robert, 'Battle for Canada's Underground Resources', *San Francisco Chronicle*, 30 March 2005. Sinopec has been successful in outbidding many Western IOCs in Angola in May 2006 by winning a 40% stake in an area off the coast of Angola, after proposing a record-breaking US\$1.1 billion government signature bonus. Reed, Stanley, 'A Bidding Frenzy for Angola's Oil', *Business Week*, 8 June 2006; and Lawler, Alex, 'Oil Firms Open Wallets for Reserves Access', *Reuters News*, 9 June 2006. In August 2005 we witnessed China's (through CNPC) largest ever cross-border takeover, of PetroKazakhstan, a Canadian-based firm with a market value of US\$3.5 billion, with energy assets in the Central Asian country, for US\$4.2 billion. Western IOCs came nowhere close to winning the bid. Walker, Martin, 'New Great Asian Oil Game', *World Peace Herald*, 17 August 2005; 'The World This Week', *The Economist*, 27 August 2005, p. 7. In addition, Chinese NOCs provide unwanted competition to IOCs in much of Latin America, former Soviet Union, and the Middle East.

¹⁰¹ Mitchell, John V., and Glada Lahn, 'Oil for Asia', Chatham House, Energy, Environment and Development Programme, Briefing Paper 07/01, March 2007, p. 9.

¹⁰² Marcel, Valérie, 'Investment in Middle East Oil: Who Needs Whom?', *Chatham House Report*, February 2006, pp. 11-3; and Marcel, *Oil Titans*, p. 71.

¹⁰³ Mitchell and Lahn, 'Oil for Asia', p. 9.

¹⁰⁴ 'China Ready to Step into Iraq as Fearful West Holds Back'.

¹⁰⁵ Cited in Anderlini, Jamil, and Steve Negus, 'Iraq Revives Saddam Oil Deal with China', *Financial Times*, 23 June 2007.