Restarting the Flow: Restoring Iraqi Oil Production

Ariel Cohen, Ph.D.

The Iraqi people desperately need to have their oil flowing again to the global market. Restarting the flow of Iraqi oil would be a win-win proposition, as not only the Iraqis, but also consumers around the world would benefit from bringing the Iraqi oil supply back on line.

The main impediment to increasing Iraqi oil production at this point is lack of security—terrorist sabotage and looting. The recent attacks on pipelines and power stations are disrupting the flow of Iraqi oil and are clearly aimed at further impoverishing the Iraqis and even further disrupting their lives.

Since the end of major hostilities, saboteurs have bombed Iraqi pipelines more than eight times, causing \$7 million per day in lost revenue. The culprits, including the remnants of Saddam Hussein's Ba'ath party and Islamic radicals, are following the old Leninist adage, "the worse, the better." They are betting on an upsurge in resistance to the U.S. presence in Iraq if they can severely disrupt the country's gasoline, electricity, and cooking gas supply. Saddam loyalists, local Islamist militants, and foreign *jihadis* who come to Iraq to fight the "infidels" believe that by

Radio Free Europe/Radio Liberty, "Iraq: Pipeline Fire Costing \$7 Million a Day," August 18, 2003, at www.rferl.org/nca/features/2003/08/18082003075830.asp. See also Walter Rodgers, Nic Robertson, and Jason Bellini, "3 U.S. soldiers killed in ambush near Tikrit," CNN.com, September 18, 2003, at www.cnn.com/2003/WORLD/meast/09/18/sprj.irq.main. The most recent explosions occurred on September 8 and 18.

To restore the oil supply to the global market and the cash flow to the Iraqi people, the Bush Administration and Iraqi officials should:

- Conduct an assessment of security needs to protect the infrastructure.
- Increase the number of infrastructure security guards, using coalition forces and Iraqi security forces.
- Hire an international security company to administer pipeline security and provide training to Iraqi security forces.
- Develop and conduct a public information campaign explaining the importance of pipeline security and the resultant oil revenue to the Iragis.
- Design a technical package to enhance infrastructure security, using satellite imaging, unmanned aerial vehicles/ drones, video cameras, and sensors.
- Provide funding to repair the oil infrastructure.
- Intensify the purge of former Ba'ath officials from the oil ministry and the oil industry.

This paper, in its entirety, can be found at: www.heritage.org/research/middleeast/bg1693.cfm

Produced by the Kathryn and Shelby Cullom Davis Institute for International Studies

Published by The Heritage Foundation 214 Massachusetts Ave., NE Washington, DC 20002–4999 (202) 546-4400 heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.



escalating Iraq's suffering they can drive the Americans back across the ocean.

It is also true that the lack of security, the scarcity of gasoline and other fuels, and the intermittent supply of electricity are impeding the post-war reconstruction. Today, Iraq is producing less than half as much oil as it pumped before the war.

Saving Iraqi Oil Production

The attacks on the oil infrastructure are part of a premeditated campaign by the remnants of Saddam's regime and radical Islamist *mujahideen* organizations to stop the flow of Iraqi oil, harm the people of Iraq, and disrupt global oil markets. A secret memo dated January 23, 2003, reportedly issued by Saddam's security services, found in Iraq after the war, and published in the London-based Saudi daily *Al-Hayat*, directs pro-regime elements to destroy power generating stations and the water supply.² It is likely that Saddam supporters and other terrorists are applying the same tactics to the oil industry.

Iraq is pumping 900,000 barrels per day—considerably less than the pre-war production level of 2.2 million–2.4 million barrels per day. The target of achieving pre-war production by the end of 2003 is in jeopardy, with further increases also in question. While Halliburton subsidiary Kellog, Brown and Root (KBR) and the U.S. Army Corps of Engineers are rehabilitating the Iraqi oil infrastructure, their mandate does not include providing pipeline security.³

The Iraqi oil ministry has begun paying tribal leaders in the south to keep saboteurs and thieves

away from the pipelines.⁴ However, in at least one case, Sheikh Hatem Al Obeidi, an influential tribal leader who was on the government payroll to prevent attacks, instead abetted sabotage and was arrested by U.S. troops.⁵ Without security, neither the U.S. nor the Iraqis can repair the damage caused to Iraq's oil industry by the war or rehabilitate Iraq's infrastructure, which had fallen into a state of grave disrepair under Saddam.⁶

Meanwhile, the continued attacks are hurting both the Iraqi and Western economies. The West is still suffering from relatively high oil prices, as the economic recovery remains tenuous, and the Organization of Petroleum Exporting Countries has cut production by 900,000 barrels a day. As a result of the drop in Iraqi oil production and the Iraqi fiscal shortfall, U.S. taxpayers will need to subsidize 50 percent of the \$6 billion Iraqi budget for fiscal year (FY) 2004.

On September 7, President Bush announced that he would request \$87 billion for assistance to Iraq and Afghanistan for FY 2004, with the lion's share going to Iraq. A boost in oil production would remedy the Iraqi economic crisis, give the Iraqi people hope, and decrease levels of needed U.S. assistance funding.

Sabotage and Looting. The key impediments to reconstructing the Iraqi oil industry and raising its oil revenues are attacks on the 4,350-mile-long pipeline system and the 11,184-mile-long electric grid.⁹ The northern pipeline, which runs from Kirkuk to the Turkish port of Ceyhan, was attacked twice in June, ¹⁰ twice in August, and twice again in

^{8.} George W. Bush, "President Addresses the Nation," September 7, 2003, at www.whitehouse.gov/news/releases/2003/09/20030907-1.html.



^{2.} This document was translated by the Middle East Media Research Institute in its Special Dispatch Series No. 538, July 17, 2003. Available at http://memri.org/bin/articles.cgi?Page=archives&Area=sd&ID=SP53803

^{3.} Energy Intelligence Group, "Oil Flows at Kirkuk as KBR Begins Damage Assessment," *Eye on Iraq*, May 1, 2003, at www.energy-intel.com/EyeOnIraq.asp (subscription required).

^{4.} Bassem Mroue, "Oil Ministry and U.S. Troops Take Measures to Protect Iraq's Main Pipeline from Thieves and Saboteurs," Associated Press, July 4, 2003, at www.enn.com/news/2003-07-04/s_6207.asp.

^{5. &}quot;Iraq Tribal Sheikh Arrested Over Oil Blasts," Agence France–Presse, August 31, 2003, at www.ptd.net/webnews/wed/cs/Qiraq-oil-blast-sheikh.RMbd_DaU.html.

^{6.} Energy Intelligence Group, "Oil Flows at Kirkuk as KBR Begins Damage Assessment." War damage included the bombing of the K3 pumping station at Haditha and a number of pipelines that crossed the Tigris around Tikrit.

^{7.} John W. Schoen, "OPEC Cuts May Crimp Economy," MSNBC, September 24, 2003, at www.msnbc.com/news/971120.asp?0sl=-23.

Backgrounder-

September. After an attack on August 16, the pipeline burned for more than 48 hours. The pipeline from the giant Rumeila field in the south has also been bombed twice.

Security analysts divide these attacks into two distinct categories. The first is looting and plunder of the oil infrastructure, including fields, pumping stations, pipelines, and refineries. Organized crime is also raising its head, as demonstrated by the recent interception of a barge with 1,000 tons of stolen Iraqi oil. Smugglers usually ship oil to Iran, which reflags and re-exports it.

A much more serious threat, however, comes from groups opposing the U.S. and coalition presence, U.N. involvement, and the elements of Iraqi society participating in the Governing Council.

Thus far, senior U.S. officials, the Coalition Provisional Authority (CPA), and the the U.S. military have not publicly identified the main culprits in the pipeline attacks, which suggests that intelligence is insufficient. The ferocious terrorist bombings against personnel and the infrastructure continue.

The main threat comes from three types of groups:

 Networks of the old regime operating underground, such as Ba'ath party officials, Iraqi intelligence officers, and Fedayeen Saddam militia.

- Radical Sunni groups, such as the predominantly Kurdish Ansar al-Islam; Vanguard of Muhammad's Army; and others whom President Bush has characterized as "Al-Qaeda type fighters" and who are part of the international jihad movement. ¹³ In his September 7 address to the nation, President Bush called Iraq "the central front of the war against terrorism." ¹⁴ Anti-Western fighters are crossing into Iraq from Syria and the adjacent Gulf states, including Saudi Arabia. ¹⁵ Funding for their movements comes from rich individuals and foundations in these same Gulf states and from the global radical Islamic community.
- Extremist Shi'a groups, affiliated with Mullah Muqtada Sadr, suspected of attacks on leading Shi'a clerics. 16 As the result of the assassinations, a militia called the Badr Brigade—the armed wing of the Supreme Council for the Islamic Revolution in Iraq—was allowed to operate after attempts to ban it by the coalition. Elements of the Lebanon-based Hizballah, an organization on the U.S. terrorism list, and other radical pro-Iranian groups and agents are also present in Iraq.

Key Iraqi pipelines have been paralyzed repeatedly by terrorism. On August 13, the day Iraq started pumping oil to the Turkish port of Ceyhan, terrorists attacked the Northern Kirkuk–Ceyhan

^{9.} Pamela Hess, "CPA Speeding Police Training in Iraq," *The Washington Times*, September 2, 2003, at www.washtimes.com/upi-breaking/20030902-012831-9370r.htm.

^{10.} Lamia Radi, "Fires Blaze on Iraq Oil Pipeline After Twin Bomb Attacks: Residents," Agence France–Presse, June 13, 2003, at iafrica.com/news/worldnews/244870.htm.

^{11.} Pacific Disaster Management Information Network, "Iraq Humanitarian Assistance Report," August 11, 2003, p. 3, at www.who.int/disasters/repo/10470.pdf.

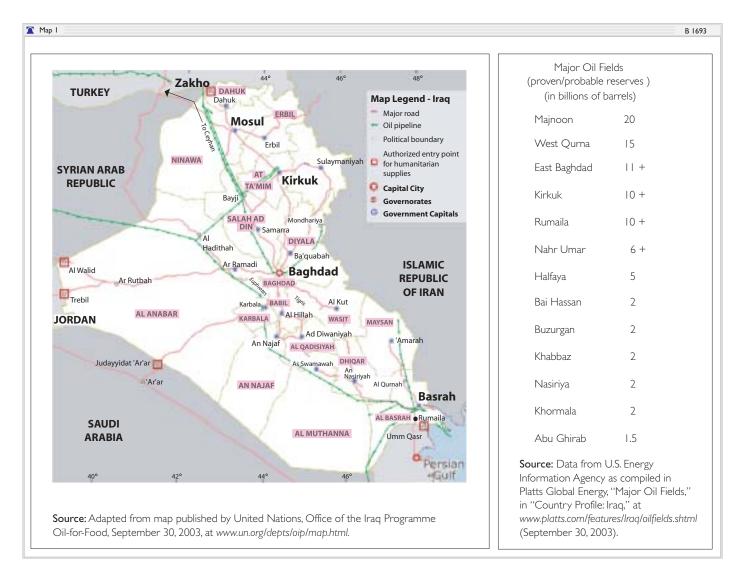
^{12.} Douglas Jehl and Dexter Filkins, "Rumsfeld Eager for More Iraqis to Keep Peace," *The New York Times*, September 5, 2003, at www.nytimes.com/2003/09/05/international/middleeast/05RUMS.html.

^{13.} See also Genaro C. Armas, "Troops Called Not an Answer," Associated Press, August 25, 2003.

^{14.} George W. Bush, "President Addresses the Nation."

^{15.} Secretary Donald H. Rumsfeld and General John Abizaid, "DoD News Briefing," August 21, 2003, at www.defenselink.mil/transcripts/2003, /tr20030821-secdef0604.html. See also Stephen Schwartz, "Reading Najaf," The Weekly Standard, September 3, 2003.

^{16.} Aparisim Ghosh, "Terror at a Shrine," *Time*, September 8, 2003, p. 30. See also Tarek Al-Issawi, "Previously Banned Militia Patrols Iraqi Holy City, with Coalition's Blessing," Canadian Press, September 6, 2003, at www.canada.com/news/world/story.asp?id=517B3E75-E27D-42A2-BD33-E47782C941A6. The Badr Brigade was previously disbanded by the coalition, but after the murder of Ayatollah Muhammad Bakr al-Hakim and an earlier attack on his uncle, it is now being allowed to function again.



pipeline. The same pipeline was attacked again on August 30.¹⁷ The pipeline, with a throughput capacity of 1 million barrels of crude per day, was attacked four times between May and September.¹⁸ Attacks occurred near the towns of Haditha and Hawja, which are close to the largest Iraqi oil refinery at Bayji.

Iraqi oil production is also suffering from years of centralized, state-run management of the oil sector, long-term lack of investment, and inadequate technical maintenance of the oil fields under Saddam. The absence of hard currency reserves to repair and restart the oil industry is slowing production. However, no investment and expansion are possible unless the physical security of the vast Iraqi oil infrastructure can be assured.

Pipeline Security: Planning and Execution. The military component of seizing Iraq's oil infrastructure during the war was brilliantly planned and executed. Unlike during the Gulf War, when Saddam succeeded in setting hundreds of Kuwaiti oil wells on fire, fewer than 10 wells were ignited in Iraq.

^{18. &}quot;Iraqi Oil Pipeline Sabotaged," Agence France–Press, August 13, 2003; see also Joseph Logan, "Bomb, Tech Problems Hit Iraq Pipeline," Reuters, August 16, 2003, and Celcan Hacaoglu and Bruce Stanley, "Iraq Resumes Pumping Oil from Northern Oil Fields through Turkish Pipeline," Canadian Press, August 13, 2003, at www.canada.com.



^{17. &}quot;Iraqi Oil Pipeline Ablaze," News24, at www.news24.com/News24/World/Iraq/0,,2-10-1460_1409548,00.html, and "Iraq Council Makes Security Demands," MSNBC News, August 30, 2003, at www.msnbcnews.com/news/959639.asp?cp1=1.

Backgrounder

U.S. and British troops seized and secured the oil fields, refineries, and pipeline infrastructure with minimal casualties and material damage. The final draft of an internal post-war report for the Joint Chiefs of Staff gave high marks for pre-war gaming and combined operations during the time of combat.

However, the post-war planning received the lowest grade, with "capabilities that fell short of expectations or needs, and need to be readdressed through new initiatives." CPA Administrator Paul Bremer has admitted that the U.S. forces are "stretched thin." Securing the oil infrastructure was an important part of post-war objectives, but the plans for post-war occupation of Iraq were not ready when the war started, and the Pentagon was forced to alter its original plan as the post-war violence escalated. Thus, it is not surprising that 80 percent of the damage to Iraq's oil infrastructure occurred after the war ended. 22

Five months after the war, the U.S.-led coalition force in Iraq consists of 140,000 American troops and 20,000 international troops, including one British division and one Polish-led division. They are aided by over 54,000 Iraqi security personnel, including 37,000 police, 12,000 facility guards, and 5,000 border police and civil defense corps.

On September 4, in Baghdad, Secretary of Defense Donald Rumsfeld called for putting up to 75,000–100,000 former Iraqi officers and soldiers back in uniform to protect their country and fight its enemies. He also criticized Saudi Arabia and Syria for not doing enough to seal Iraq's borders. ²³

Faced with attacks on oil pipelines, the CPA is working to expand the Iraqi force charged with infrastructure protection. During this past summer, it discussed the provision of training to this security force with Kroll Associates and other private U.S. companies. ²⁴ With more international troops coming to Iraq, they can also assume responsibility for guarding the pipelines and infrastructure and training the Iraqi security forces, which will be tasked with protecting the pipelines in the future. As long as security is not restored, however, the American taxpayer will pay for this security force.

Criticism on the Hill and Beyond. Senators and Representatives, including prominent Republicans, as well as retired senior military officers have criticized the planning, numbers, and troop deployments in Iraq. Senator Richard Lugar (R–IN), chairman of the Senate Foreign Relations Committee, stressed his criticism of the planning done for post-war deployment but called on his colleagues to "rejoice" that the plan has been corrected. Representative Curt Weldon (R–PA), vice chairman of the House Armed Services Committee, expressed reservations about the planning for the war last winter. ²⁵

Senator Kay Bailey Hutchison (R–TX), Senator John McCain (R–AZ), columnist George Will, and Weekly Standard editor William Kristol—all outspoken proponents of Saddam's removal—have criticized the Administration for post-war mishaps. ²⁶ It is less surprising that Democrats, including Senators Joseph Biden (D–DE), ranking Democrat on the Senate Foreign Relations Committee, and Jack Reed (D–RI), a West Point graduate who served with the 82nd Airborne, are also criticizing the

^{19.} Rowan Scarborough, "Joint Chiefs Report: U.S. Rushed Post-Saddam Planning," *The Washington Times*, September 3, 2003, p. 1.

^{20.} Armas, "Troops Called Not an Answer."

^{21.} Ibid.

^{22.} Bruce Stanley, "Security the Top Priority for Iraqi Oil Industry As Looting Continues," *Oil and Gas Reporter*, May 27, 2003, at www.oilandgasreporter.com/stories/052703/ind_20030527006.shtml.

^{23.} Douglas Jehl and Dexter Filkins, "Rumsfeld Eager for More Iraqis to Keep Peace," The New York Times, September 5, 2003.

^{24.} Douglas Jehl, "U.S. Considers Private Iraqi Force to Guard Sites," *The New York Times*, July 18, 2003, at *query.nytimes.com/gst/abstract.html*?res=F30C17FC3B580C7B8DDDAE0894DB404482.

^{25.} Amy Fagan and Rowan Scarborough, "Post-Saddam Planning Failures 'Unforgivable,' Democrats Say," *The Washington Times*, September 4, 2003, at washingtontimes.com/national/20030903-115853-1572r.htm.

^{26.} Sig Chrstenson, "Some Republicans Doubt Progress on Iraq," *San Antonio Express–News*, August 31, 2003, at news.mysanantonio.com/story.cfm?xla=saen&xlb=180&xlc=1048090.

Administration for mistakes in post-war planning and deployment.

Among senior generals critical of the post-war performance in Iraq is General Anthony Zinni, the former head of the U.S. Central Command who has extensive experience in the Middle East and serves as a consultant to the U.S. State Department.²⁷ The most prominent proponent of a bigger Army and a greater deployment in Iraq is General Eric Shinseki, the recently retired Army Chief of Staff, who called for "several hundreds of thousands of soldiers on the ground" and warned against a "twelve division strategy for the ten division army."

Even if the actual size of the U.S. Iraqi deployment is not increased, it has to be refocused on intelligence and training of the Iraqi forces, while the number of coalition troops from other countries must go up, according to General John Abizaid, the current head of Central Command. This is also the opinion of the pre-eminent British military historian, John Keegan. Increased intelligence collection, anti-terrorist operations, and training should become the focus of the U.S.-led force in Iraq.

Protecting Iraqi Oil Revenue. The Bush Administration has issued an executive order barring claims in U.S. courts against Iraqi oil or proceeds from it. It has also coordinated with other permanent U.S. Security Council members—the United Kingdom, France, China, and Russia—on the imposition of a moratorium on Iraq's national debt.

The U.S. should further coordinate its actions with companies and sovereign claimants (states) to delay reparations for Gulf War damages and other claims. Iraq needs breathing space in order to restart its cash flow and get its oil industry up and running again.

Providing Security for the Iraqi Oil Infrastructure

Iraq's oil reserves are the third largest in the world after Russia and Saudi Arabia. However, only 15 of its 73 discovered giant and large fields have been developed. ³² Vast parts of the country remain unexplored.

According to current estimates, the investment needed to bring Iraqi production to about 3 million barrels a day will exceed \$3 billion over the next two to three years. Over the next 10 years, \$35 billion—\$40 billion will be needed to boost production from the current 1.2 million—1.4 million barrels per day (MBD) to the pre-1979 production level of 5–6 MBD.

Before serious reconstruction work can begin, however, the physical security of the infrastructure needs to be achieved. To this end, the Bush Administration, including the CPA, and the Iraqi Cabinet should:

- Conduct an assessment of security needs to provide for infrastructure protection in conjunction with the Iraqi oil ministry. Before serious reconstruction of the oil industry can begin, the coalition and the Iraqi cabinet must be able to assure physical security of Iraqi energy infrastructure.
- Increase the number of Iraqi guards as needed to provide security. However, the rank-and-file and all officers must be adequately screened to root out Saddam's hard-core supporters and Islamic radicals.
- **Utilize** coalition forces, especially the British, to train Iraqi security forces, including pipeline security units. British instructors have earned high marks the world over providing security and military training.

^{32.} Emma Clark, "Iraq 'Needs Foreign Oil Companies," BBC News, July 24, 2003, at news.bbc.co.uk/2/hi/business/3075521.stm.



^{27.} Thomas E. Ricks, "Ex-Envoy Criticizes Bush's Postwar Policy," *The Washington Post*, September 4, 2003, at www.washingtonpost.com/wp-dyn/articles/A27846-2003Sep4.html.

^{28.} Mark Thompson and Michael Duffy, "Is the Army Stretched Too Thin?" *Time*, August 24, 2003, at www.time.com/time/magazine/printout/0,8816,477891,00.html.

^{29.} Rumsfeld and Abizaid, "DoD News Briefing."

^{30.} Jack Kelley, "Troop Strength Debate Ranging," *Pittsburgh Post–Gazette*, August 23, 2003, at www.post-gazette.com/pg/03235/214252.stm.

^{31.} George W. Bush, "Executive Order Protecting the Development Fund for Iraq and Certain Other Property in Which Iraq Has an Interest," May 22, 2003, at www.whitehouse.gov/news/releases/2003/05/20030522-15.html.

- **Hire** an international security company to administer pipeline security and train the Iraqi security forces tasked with protecting the pipelines to complement military training.
- **Train** the guards for the task at hand; deployment without training is self-defeating. The CPA has cut the training time for Iraqi police from 12 weeks to eight, and the quality of this force leaves much to be desired. Similar shortcuts in training for pipeline protection forces could lead to undesirable results.
- **Develop** and conduct a public information campaign explaining to the Iraqis the importance of pipeline security and the resultant oil revenue. Such a campaign should emphasize the direct link between oil revenue and the provision of basic services and the growth in living standards.
- Design a technological package to enhance infrastructure security, using satellite imaging, unmanned aerial vehicles/drones, video cameras, and sensors. This package would be integrated with the security provider (state or private).
- **Provide** additional funding to repair the oil infrastructure. The rundown state of the oil infrastructure will require significant investment: up to \$3 billion per year to get it up and running again. These funds can be provided on

- credit to the Iraqi Governing Council or the oil ministry, to be repaid from future oil revenues.
- Work with the Iraqi oil ministry leadership appointed by the Coalition Provisional Authority and the Council to intensify the purge of former Ba'ath officials from the oil ministry and the oil industry.

Conclusion

Without adequate security, Iraqi oil will not reach global markets. Rebuilding the Iraqi oil sector through Western investment will not work as long as terrorists and looters are able to target technical personnel, pipelines, power lines, and other assets necessary for restarting oil production.

By liberating Iraq, the U.S. undertook an immense responsibility. Without Iraqi oil, the U.S. taxpayer will have to foot the bill for the occupation and reconstruction of Iraq. U.S. consumers will pay higher prices at the pump, and the U.S. and global economies will endure an indirect tax by paying higher energy prices. The alternative to restoring Iraqi oil production—misery for the Iraqi people and victory for the terrorists—is not an option.

—Ariel Cohen, Ph.D., is Research Fellow in Russian and Eurasian Studies in the Kathryn and Shelby Cullom Davis Institute for International Studies at The Heritage Foundation.³⁴

^{34.} The author would like to thank William Schirano, Research Assistant in the Kathryn and Shelby Cullom Davis Institute for International Studies, and Anita Greco and Irene Gorelik, interns at The Heritage Foundation, for their assistance with researching this paper. The author also wishes to thank Heritage Foundation colleagues Peter Brookes, James Phillips, and Jack Spencer, as well as Ed Badolato, Executive Vice President of the Shaw Group, and Dr. Gal Luft, Director of the Institute for Analysis of Global Security, for discussing concepts contained herein and commenting on the paper.



^{33.} Pamela Hess, "CPA Speeding Police Training in Iraq," *The Washington Times*, September 3, 2003, at www.washtimes.com/upi-breaking/20030902-012831-9370r.htm.