

On the Road to Damascus

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Oil in the next war will occupy the place of coal in the present war, or at least a parallel place to coal. The only big potential supply that we can get under British control is the Persian and Mesopotamian supply Control over these oil supplies becomes a first class British war aim - (Sir Maurice Hankey in 1918 and Britain's First Secretary of the War Cabinet)

So what's changed?

Anybody who has read William Engdahl's excellent book 'A Century of War - Anglo-American oil politics and the New World Order' ([reviewed here](#)), will not be surprised to learn that the convoluted machinations of those who rule empires, whether past or present, are intrinsic to the workings of the ruling class. History reveals that a mere handful relatively speaking of individuals are able to determine the fate of millions through the economic and political power they wield. The role of the political class that represents the interests of the owners of economic power is to maintain the rule of the owners of capital by making damn sure that opposition is neutralised and/or made to look ridiculous or ultimately 'removed'. Hence the 'loony left', 'fellow travellers', 'dinosaurs' et al are but a few of the pejoratives the corporate/state-run media use to marginalise the views of those who oppose such power.

But in times of crisis and failing propaganda and persuasion, more extreme measures need to be taken and such people and movements need to be re-labelled as 'extremists' or a 'danger to the state'. Laws are passed making such opposition illegal, such as those now being enacted, even thinking 'seditious' thoughts become the subject of the state's wrath.

A quick scan of the media reveals the tactics used; President Chavez is described as a 'leftist with authoritarian ambitions', Castro as a 'Marxist dictator', and anybody who opposes the rule of capital is invariably labelled as an 'opponent of the free market' or 'anti-privatisation'; a 'demagogue' and so on and so forth. Attempts are made to link 'leftists' to 'extremists' and even to 'terrorists'. Such terms, in use for so long, trigger conditioned reflexes in the reader, the associations are buried deep in the public's mind as 'received opinion'; all thinking ceases; we metaphorically salivate when we hear or read the terms and dismiss such people and ideas as beyond the pale or even dangerous to our health.

Critics of those of us who analyse the workings of our rulers are quick to dismiss us as 'conspiracists', nutty people who apparently have nothing else to do with our time but weave complex plots, spun out of what are, at least according to the pundits, accidents of time and place, mere serendipity. This is of course a tactic to relegate our opinions to 'Area 51', and obviously there are those who do spin complex webs, making connections where none exist.

But connections *do* exist between events, else there would be no cause and effect, no one with interests and objectives they'd rather not reveal to the world for what they are, vested interests and real criminal conspiracies. That it's governments or business doing the conspiring doesn't make them any the less conspiracies, indeed it makes them all the more dangerous because of the immense power they wield. Without connections the world would be one of chaos and happenstance, a world where as Margaret Thatcher said, "there is no such thing as society", an obviously loony idea but one that has a subversive appeal, as it implies that circumstances are ultimately beyond our control hence why bother as there is nothing we can do about it. The implication is that we are at the mercy of 'natural' forces, hence capitalism for example, is a 'force of nature'. The intended result of course is that we adopt a position of fatalism, very convenient for our rulers, they can get on with the business of ruling undisturbed by 'winters of discontent'.

The problem of course is that any investigation of events does reveal vested interests, possessing economic and political power is not an accident and rarely is its possession the result of good intentions or a social conscience. As Engdahl's book reveals, the past 100 years and more have been shaped by a small group of individuals who possess vast wealth intimately connected to an equally small group of people who possess enormous political power. The centres of their economic power are predictably energy, banking, weapons and communications and maintaining control of such enormous power inevitably connects directly into the comparable key areas of government; trade, investment, 'defence' and foreign policy. Those who sit on the boards of big corporations are also found in key government positions and they regularly make the trip back and forth between the two in a revolving door relationship. The examples are numerous, the most obvious being for example in the UK, the relationship between the Blair government and [British Petroleum](#) or in the US, between the Bush regime and Halliburton and the big oil companies.

Is identifying such connections an invention, a conspiracy or a reflection of the common interests of those who hold economic power and the political class that seeks to maintain an environment that preserves that power? Most importantly, to what lengths will they go in order to maintain their power? Considering what's at stake it is no surprise that there is virtually nothing they won't do in order to maintain the status quo including murdering their own citizens, attacking sovereign states, concocting 'threats' and fabricating entire 'histories' to justify their piratical ways. The apologists for such activities would have us believe that such actions belong to the past, the past being conveniently, well before the current crop of rulers inherited power.

St. Paul, on the road to Damascus is said to have gone through a major conversion, he proverbially 'saw the light' and in all likelihood there are many of us who experienced a comparable flash of illumination when the forces of Darkness invaded Iraq and came to rational and well-founded conclusions about the relationship between war and economics – the two go hand-in-hand, to pretend otherwise is either sheer ignorance or deliberate deception.

The mainstream media was (and still is) all too quick to condemn all those who cried 'it's all about oil' as 'conspiracists' and in their haste to condemn us they revealed much about their own ideological leanings, leanings that would have us believe that the invaders were actually operating out of concern for the Iraqi people. Indeed, the mainstream media was awash with apologists for the invaders. Most are now noticeable by their absence given the results of the invasion and occupation. Most noticeable is the absence of any alternative explanation for the invasion except the laughable "failure of intelligence", which only a

cretin would actually believe.

By 2010 we will need on the order of an additional fifty million barrels a day. So where is the oil going to come from? While many regions of the world offer great oil opportunities, the Middle East with two thirds of the world's oil and the lowest cost, is still where the prize ultimately lies - Dick Cheney in 1999, then CEO of oil services company Halliburton

So, is it all about oil? For over 100 years oil has been lifeblood of capitalism, two world wars have been waged over possession of it, but not merely its possession but because without it, the larger economic objectives of capitalism would be unrealisable, hence to say it's all about oil is only part of the answer. Oil fuels the armies, powers the factories and control of its production and distribution enables the West to exert control over the natural resources needed to make the entire shambolic enterprise lurch from crisis to crisis and of course, make profits for the shareholders. It is, when all's said and done, astounding simple, one might say juvenile were it all not so murderous of millions.

British officials believed that the area [the Middle East] was a "vital prize for any power interested in world or domination[2], while their US counterparts saw the oil resources of Saudi Arabia as a "stupendous source of strategic power and one of the greatest material prizes in world history".

A report, 'Crude Designs - The rip-off of Iraq's oil wealth', [available here](#), is a comprehensive analysis of the centrality of oil to the invasion of Iraq and for anyone who is really interested in the real motivations behind the invasion and occupation, it is required reading. I'll do my best to produce an overview of its findings as understanding what is really going on is central to countering all the nonsense surrounding the policies and actions of our governments and those who would condemn us as 'conspiracists' or defend the motivations of our rulers as 'humanitarian'.

Much has been made in the corporate/state-run media of Blair being some kind of 'restraining influence' on Bush and the 'neo-cons' but as the report makes abundantly clear, US-UK foreign and energy and military policies are 'joined at the hip' and have been so for the past century and in spite of the rivalries. As Jack Straw made clear in January 2003,

"...one of the Foreign Office's seven priorities was "to bolster the security of British and global energy supplies." The geography of such a strategy had been spelled out in the 1998 Strategic Defence Review White Paper:

Outside Europe our interests are most likely to be affected by events in the Gulf and Mediterranean. Instability in these areas also carries wider risks. We have particularly important national interests and close friendships in the Gulf. Oil supplies from the Gulf are crucial to the world economy."

And lest anyone think that the UK government's relationship with the major oil companies is not central, a later paper states that a key objective is to

"improve investment regimes and energy sector management in these regions [the Middle East, parts of Africa and the former Soviet Union], focusing on key links in the supply chain to the UK [emph. in the original]"

And, as the report demonstrates the US-UK relationship is no 'one-night-stand', but an on-going relationship a century-old. Moreover the label 'neo-con' is a total misnomer, for whilst it may well be true that Bush is some kind of weird Christian fundamentalist and his close associates are heavily involved with Israel's imperialist strategy, it is a big mistake to confuse the ideology of Bush or that of Israel with the fundamental strategic/economic interests of the US (and UK).

This is made abundantly clear by the 'parting of the ways' of the 'traditionalists' within the US ruling elite currently taking place as the Middle East strategy of the Bush regime goes pear-shaped, revealing the fact that as long as objectives can be realised, Bush's 'peculiar' ideas are neither here nor there in the larger scheme of things.

Importantly, the policies of America and Britain are coordinated. The US-UK Energy Dialogue - a bilateral initiative established during the April 2002 meeting of Prime Minister Blair and President Bush in Crawford, Texas,[3] and designed to "enhance coordination and cooperation on energy issues" - demonstrates the close convergence of Anglo-American views and interests on Middle Eastern oil.

The relationship between economics and politics is revealed by the following quote taken from the Executive Summary

The development model being promoted in Iraq, and supported by key figures in the [Iraqi] Oil Ministry, is based on contracts known as production sharing agreements (PSAs), which have existed in the oil industry since the late 1960s. Oil experts agree that their purpose is largely political; technically they keep legal ownership in state hands, while practically delivering oil companies the same results as the concession agreements they replaced.[1]

The report describes the background as well as the context leading up to the invasion and occupation; the key players and their interests and connections as well as supplying a detailed analysis of the effects of the Iraqi 'government' signing away not only its one and only natural resource, oil, but in doing so, also renouncing its sovereignty and democratic control over it.

As the report states, "PSAs are effectively immune from public scrutiny and lock governments into economic terms that cannot be altered for decades". The potential losses to the Iraqi people are staggering, the most conservative estimates puts it at **\$94 billion** over the usual (25 year length of a PSA contract) assuming oil at \$40 per barrel and **\$250 billion** if the cost is \$50 per barrel!

The degree of influence of both the US and UK governments over future Iraqi oil policy is revealed by the following

"We discuss with the Iraqi Ministries their priorities on a regular basis."[4]
Freedom of information requests on the nature of the discussions have been turned down because advice was "voluminous".[5]

So too with the US. When the Coalition Provisional Authority 'handed over power' to the Iraqi Interim Government, a senior US official said

“We’re still here. We’ll be paying a lot of attention and we’ll have a lot of influence. We’re going to have the world’s largest diplomatic mission with a significant amount of political weight.”[6]

An important aspect of the debate around Iraq’s oil has hinged on the issue of ‘privatisation’ which has, according to the report obscured the nature of the PSA, for as the report states, it’s “who gets the revenue and who controls the way in which oil is developed” that counts.

PSAs first appeared in Indonesia in the late 1960s (not surprisingly following the US-inspired and backed overthrow of Sukarno). PSAs are an “ingenious arrangement” as “PSAs shift the ownership of oil from companies to the state, and invert the flow of payments between state and company.”

Traditionally, the relationship between the foreign oil companies and the state was based on royalty payments (and still is in the major oil- producing countries of the world such as Kuwait, Saudi Arabia and Venezuela), with the oil company taking the investment risk. PSAs reverse this process. PSAs are an ingenious arrangement for although “... the oil is still legally in the hands of the state, foreign companies are compensated for their investment in oil production infrastructure and for the risks they take.” PSAs are

“A convenient marriage between the politically useful symbolism of the production-sharing contract (appearance of a service contract to the state company acting as master) and the material equivalence of this contract model with concession/licence regimes in all significant aspects...The government can be seen to be running the show - and the company can run it behind the camouflage of legal title symbolising the assertion of national sovereignty.”[7]

The report states the following facts about PSAs

1. **A right to oil reserves.** Companies want a deal that guarantees their right to extract the reserves for many years, thus ensuring their future growth and profits. Furthermore, they want a contract that allows them to ‘book’ these reserves - including them in their accounts - which increases their company value. Production sharing agreements, like concession contracts, permit companies to book reserves in their accounts.
2. **An opportunity to make large profits.** Generally, oil companies make their profits from investing and risking their capital. In some cases, they lose their capital, for example when they drill a ‘dry well’. But in some cases they will find large and hugely profitable fields. Oil companies are therefore very different from service companies like Halliburton, which make money from fixed fees on predictable contracts. Oil companies aim for deals which may be more speculative, but which give them a chance of making super-profits. Production sharing agreements are designed to allow companies to achieve very large profits if successful.
3. **Predictability of tax and regulation.** While companies can accept exploration risk (that they won’t find oil) or price risk (that the oil price falls), both being

beyond their control, they try to manage 'political risk' (that tax or regulatory demands will increase) by locking in governments. They thus seek to bind governments into long-term contracts that fix the terms of their investment. Production sharing agreements generally last for 25 to 40 years with terms protected from potential change by incoming governments.

PSAs are also incredibly complex legal documents that require an army of sophisticated legal eagles not only to draft but to understand.

PSAs generally consist of several hundred pages of legal and financial language (often treated as commercially confidential). It is their complexity, not their simplicity, which is advantageous to oil companies ... [O]il companies dislike royalties and prefer systems based in an assessment of profits, such as PSAs. The reason is that they want what they call 'upside' (i.e. opportunities for greater profits) - ways they can reduce their payments, rather than being subject to a fixed level of payment for oil extracted ... The more complicated the system, the more opportunities there are for a company to maximise their share of the revenue by sophisticated use of accountancy techniques.

What we call 'creative accounting' of the kind Enron was so adept at. And the potential profits are "staggering", as much 178 per cent compared to an average 12 per cent return on investment, assuming oil at \$40 a barrel, not very likely in the near term. With current price at around \$60 per barrel, the oil execs are salivating at the thought of getting their hands on the biggest oil reserves on the planet (from 100-200 billion barrels).

"Production-sharing deals allow oil companies a favourable profit margin and, unlike royalty schemes, insulate them from losses incurred when the oil price drops. For years, big oil companies have been fighting for such agreements in countries such as Kuwait and Saudi Arabia." [8]

The corporate lobby group ITIC (the International Tax & Investment Centre) with most of its 110 listed sponsors large corporations a quarter of which are oil companies is perhaps the best example of the role of big capital in ripping off Iraq and it advocates the use of PSAs. Yet the report's assessment is that it is

... difficult to overstate how radical a departure PSAs would be from normal practice, both in Iraq and in other comparable countries of the region ... Iraq's neighbours Kuwait, Iran and Saudi Arabia, foreign control of oil is ruled out by constitution or by national law.

But the interim constitution forced on the Iraqi people made quite sure that the terms over which Iraq's oil would be extracted would not be subject to oversight or control by the Iraqi people,

"Pre-empting both the Iraqi elections and the drafting of a new constitution, Allawi's guidelines specified that while Iraq's currently producing fields should be developed by the Iraq National Oil Company (INOC), all other fields should be developed by private companies, through the contractual mechanism of production sharing agreements (PSAs)." [9]

The meshing of state and business objectives is made clear by the report and the key role of PSAs play in the policies of both the US and the UK. If the US-UK oil companies and their political/military capos get their way Iraq

“along with much of its future income, could be surrendering its democracy as soon as it achieves it.”

That’s assuming it ever gets a democratic government.

Notes

[1] The terminology of PSAs labels the private companies as “contractors”. This report illustrates that this label is misleading because PSAs give companies control over oil development and access to extensive profits.

[2] Introductory paper on the Middle East by the UK, undated [1947], FRUS, 1947, Vol. V, p. 569, cited in Mark Curtis, *The Ambiguities of Power* (Zed Books, London, 1995), p. 21

[3] US Department of Commerce, Memorandum for the President, Transmittal of the Report on the US-UK Energy Dialogue, 30 July 2003

[4] Dr Kim Howells MP, answer to Parliamentary Question by Harry Cohen MP, 12 July 2005, Hansard column 878W

[5] James McLaughlin (Iraq Policy Unit, Foreign & Commonwealth Office), letter to Lorne Stockman (PLATFORM), response to request under the Code of Practice on Access to Government Information, 9 December 2004

[6] Jim Krane, “US will retain sovereign power in Iraq,” Associated Press, 21 March, 2004

[7] Professor Thomas W Wälde, an expert in oil law at the University of Dundee, ‘The current status of international petroleum investment: regulating, licensing, taxing and contracting’, in CEPMLP Journal, Vol 1, no.5, July 1995 (pub. University of Dundee)

[8] Carola Hoyos, ‘Exiles Call for Iraq to Let in Oil Companies’, Financial Times, 7 April 2003

[9] Energy Compass, ‘Iraq: Puzzling over the future’, 1 October 2005

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