

Iraq's Ruptured Pipeline to Peace

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ABOUT THE AUTHORS



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The attacks against the United Nations headquarters yesterday and against Iraq's oil pipeline to Turkey last weekend illustrate how political and economic security are closely entwined. Ba'athist diehards know that the continuing hardships stemming from economic collapse is what will raise the political temperature among ordinary Iraqis. The lack of basic services, poverty and unemployment angers even the least restive Iraqis and further provokes the tribes of the Sunni triangle. Iraqis expected their economic situation to improve rapidly after a coalition victory. Who can blame them when coalition psychological operations told them that, like the Afghans liberated from Taliban rule, their standard of living would "drastically improve" after the fall of Saddam Hussein?

Iraqis were not the only ones to have unrealistic expectations about the country's economic recovery. Dick Cheney, the US vice-president, suggested that Iraqi oil production could be quickly increased to 3m barrels per day by December 2003. Production is currently just over 1m b/d and is unlikely to rise any time soon because of war damage, looting, and technical problems. The Coalition Provisional Authority has been forced to revise its oil production forecasts with dizzying regularity and at some cost to the credibility of the organisation.

In its latest six-month budget, the CPA should have warned that the Iraqi economy was probably not going to revive as quickly as expected, owing to stubborn bottlenecks in the oil industry and the limited capacity of the country to absorb reconstruction funds. Instead, it once again over-estimated oil production levels, which account for 88 per cent of Iraqi government revenues. According to the plan developed by the Restore Iraqi Oil group at the CPA, the country will have to raise sustainable production to 2m b/d by December 2003, and rapidly increase it to 2.8m b/d by April 2004.

Maintaining this level of production will be challenging. Even if serious acts of sabotage cease, it is not certain that the important oilfields in the south can maintain, let alone expand production. Lengthy pauses in extraction may be required later this year to undertake vital above-ground repairs. Furthermore, even if production levels were to increase beyond the current 1m b/d, there are many limitations on export capacity. The southern fields export oil via the northern Gulf port of Mina Al Bakr, which will not be easy to expand. Northern oilfields largely service the domestic market. The 180,000 b/d Syrian pipeline remains closed following damage in the war and because Washington has no desire to reward Syria with the return of oil transit revenues. Iraq could not start to export from

the north without much higher pipeline security.

According to the US Army Corps of Engineers and industry estimates, increasing Iraq's oil export potential would require Dollars 1.6bn (Pounds 10bn) investment by December 2003, up to Dollars 2.5bn in 2004 and a further Dollars 4.5bn by December 2005. But foreign direct investment on this scale is unlikely to come until a new constitution and investment laws are enacted in 2005.

Beyond these technical and legal limitations, the mechanisms of supply and demand dictate that increases in Iraqi production may be offset by a fall in oil prices. Iraq is unlikely, therefore, to generate either the Dollars 3.4bn in oil revenues projected for July-December 2003, or the Dollars 14bn that the CPA tentatively forecast for 2004. The CPA's budget deficits will probably exceed its projected Dollars 2.2bn for 2003 and Dollars 4bn for 2004.

While Iraq could earn income by securitising future oil production or from contributions at the UN donor conference this autumn, the country will not begin to show signs of economic recovery until well into next year. The lack of security throughout the country, and the need to keep a large number of paramilitaries on the payroll, have imposed unforeseen costs on the interim administration. Furthermore, the experience of recent post-conflict situations, particularly Afghanistan, suggests that even pledges of immediate aid cannot kick-start a rapid economic recovery. Development agencies will not disburse funds quickly while security is poor. Investors will wait or go elsewhere.

As long as attacks against US forces and international facilities continue, there is little prospect of economic recovery in the short term. But many Iraqis still harbour unrealistically high expectations of an economic recovery. So to avoid building further resentment, the CPA must bring expectations in line with reality. It should amend its budget and growth forecasts to reflect the bottlenecks that limit Iraq's ability to generate and absorb funding. Its 2004 budget must be more prudent in its projections about oil exports and more cautious about Iraq's ability to use oil revenues for reconstruction.

The US-led coalition cannot deliver an economic recovery while guerrilla activity, looting, sabotage and the tapping of oil pipelines continue. As part of a broader communications strategy the coalition needs to persuade ordinary Iraqis that it is self-inflicted damage and not the failures of the occupying powers that is holding back the country's recovery. ❖

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