

# IRAQ AND THE CURSE OF OIL

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The Persian Gulf countries are cursed with tremendous wealth based on oil. At today's prices, the oil in this region is worth more than \$61 trillion. That compares with the world's total economic output! For a century, world powers have attempted to seize this wealth, most recently Saddam Hussein through Iraq's invasions of Kuwait and Iran.

Together Saudi Arabia, Iran, Iraq, Kuwait, and the other Persian Gulf countries have 55% of the world's oil resources. The geology of this region, in addition, makes the extraction of this oil relatively inexpensive. It costs less than \$5 to extract a barrel of oil in Saudi Arabia and ship it to Japan, Europe, or the U.S. The comparable figure for the North Sea and current Alaskan oil fields is about \$20 per barrel, and perhaps \$25 plus if new oil is taken from ANWR -- the Arctic National Wildlife Refuge. The U.S. consumes a quarter of the world's annual supply of petroleum but domestic production has steadily declined since the early 1970s. As demand increases, net imports are approaching 60% of our oil consumption. Production in ANWR would create no more than a blip in this overall downward trend.

Thus, the economic rationale for world dependence on Persian Gulf oil is obvious: the world's most abundant oil fields also have the lowest extraction costs.

For the past two decades, a tacit international arrangement has ensured a steady supply of oil from the Persian Gulf at prices generally agreeable to producers and consumers. Persian Gulf oil producers maintain prices within a target range that is crucial to the economic health of their U.S. and European allies. This arrangement was brokered in 1986 by then Vice President George H. Bush and the Saudi King. The current target price range is \$23-30 per barrel, the inflation adjusted equivalent of the

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original price band of \$15-20 per barrel. By providing oil at prices below monopoly prices but high enough to support the domestic U.S. oil industry, they ensure military support of their Western allies as a quid pro quo.

Juxtaposed with the global oil economy is the global weapons economy. According to the C.I.A., more than half the world's conventional weapons exports originate in the U.S., with Britain a distant second. Saudi Arabia is the single largest recipient of these weapons, receiving almost five times as much as Israel. In total, the Persian Gulf governments imported more than \$152 billion, or a quarter of the world's export of conventional weapons, between 1989 and 1999. The trade relationship between conventional weapons and crude oil is fairly close.

In the Southern Persian Gulf, all six countries are monarchies that manage oil exports as a family business (Qatar is an exception). In the Northern Persian Gulf, Iraq has been successively a British-installed monarchy, a Russian-supported dictatorship, and a dictatorship first allied with the U.S. and then hostile to us. Iran's political history is similar. Throughout the Gulf this complicated system of dictatorship, weapons trade, U.S. support, and oil export is breaking down. Al Qaeda and anti-Americanism are both more active now than 18 months ago. We expect both increased terrorism and unstable oil markets to follow from the Iraqi occupation.

Can the situation in Iraq be fixed? Probably, but not by the U.S. alone. Iraq, and the Persian Gulf, and oil: they are global problems. These global problems require global solutions. The solution may lie with the U.N. Security Council, or a new international approach. The next step must yield greater democracy and significant economic development.

In the latest developments, the Bush Administration's major prewar source of false intelligence on Iraq's nuclear, biological, and chemical weapons, Ahmed Chalabi, is accused of working with Iranian intelligence. Thursday, George Tenet resigned as the Director of the C.I.A. The original rationale for the occupation is disintegrating and the proponents of that rationale see their reputations being tarnished.

Now is the time to face the truth. American military power cannot stabilize oil and gasoline prices, cannot create democracy and security in Iraq and in the Persian Gulf. However painful, we must recognize that the solution is international.