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Iraq's Oil Smuggling

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WASHINGTON (UPI) -- Iraq faces increasing security problems and a growing petroleum smuggling racket that is draining chances of rebuilding after nearly four years of war.

Meanwhile Iraq's electricity and oil infrastructure -- which also depend on each other -- need at least \$80 billion to fix, U.S. and Iraqi officials said last week in Washington at the New-Fields 6th Rebuilding Iraq Conference & Expo.

With nearly its entire federal budget dependent on oil revenues, the \$700 million a month the Oil Ministry estimates is lost to oil and petroleum products smuggling is a major loss.

'From all reports it is significant,' Lyle Hendrick, president of Investigative Research Group Inc., a business intelligence and security consultant, told United Press International at the conference.

'It's a major bleeder and not only for the economy but also the potential for success in the future,' he said. 'Until the Oil Ministry and oil companies get a firm handle on protection of these assets, it's going to continue to be a major problem.'

An estimated 100,000 barrels of oil is smuggled from Iraq each day, according to Saad Rahim, manager of PFC Energy's Country Strategies Group.

'It's certainly an impact being felt throughout Iraq,' Rahim told UPI, as gasoline shortages, long lines at filling stations and a heavy gas subsidy have fueled a crude black market.

Lacking management, auditing and metering mechanisms in Iraq's oil industry, petroleum products such as gasoline are also being taken from the country in unknown quantities.

'You don't have the personnel or capacity to track these sorts of details,' Rahim said.

Iraq is producing about 2 million barrels per day, down from 2.6 million barrels before the war, despite having the third-largest reserves in the world. It exports about 1.7 million bpd.

Smugglers come in many forms, function and purpose in Iraq, all of which seem to be present in Basra, Iraq's second-largest city.

It's also home to the second-largest petroleum refinery in the country and the main port for legal and smuggled oil and oil products.

Some of the oil bounty is embezzled by industry insiders while, Rahim said, the most popular tact is redirecting or stealing trucks or tankers, be it by gangs and thugs or militia's loyal to political parties.

It's taken to ports like Basra, in Iraq's deep southeast, and sent to markets like Iran, Turkey and Syria and sold at market price (sometimes even back to Iraq).

While most of Iraq's oil reserves are in the south, controlled by the majority Shiites, regular attacks and irregular electricity have mostly brought northern production to a halt and hampered delivery of oil from the oil-rich and relatively violence-free Kurdistan region.

The south is starting to feel a change as security worsens and a fight for power escalates. Smuggling is a means for paying the bills or building a base.

'It's just politics,' Juan Cole, an Iraq expert at the University of Michigan, told UPI. 'The petroleum sector is a prized one for patronage.'

Basra's political parties -- almost all of which are Shiite factions -- battle for control over smuggling rights and other control. They must also align themselves or take on other groups like the Marsh Arabs or gangs looking for money or power.

'The security situation continues to be a challenge,' Kathy Johnson, director of reconstruction for the Gulf Region Division of the Army Corps of Engineers, told UPI at last week's conference.

During her presentation, she said Iraq's electrical system needs between \$50 billion and \$60 billion, not the \$20 billion the World Bank estimated in 2003.

Baghdad averages six to seven hours of electricity daily, more than half its capacity, because transmission lines are 'interdicted' -- government-speak for attacked. (That's on top of the gas shortage due to smuggling.)

Iraq's oil production and refining ability -- already punched by age, sanctions and war -- remains offline when it doesn't get the electricity it needs. It needs at least \$20 billion in investment.

The government is sitting on a \$15 billion budget surplus, partly because anti-corruption measures have scared Iraqi officials from approving reconstruction contracts, Johnson said, but also because of the security situation.

At the reconstruction conference, a frustrated American businessman asked Hamid al-Bayati, Iraq's U.N. ambassador, why Iraq isn't investing more in reconstruction.

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Bayati said the government must make a judgment call on doling out reconstruction money, given the very real chance the project may be attacked, possibly opting to wait until security is more under control.

'I think we need more Iraqi forces trained and equipped,' Bayati later told UPI when asked about securing the oil infrastructure, including stemming smuggling. 'Sectarian problems are part of the violence of the security situation, and should be dealt with in the full situation.'

When a joint British and Danish force launched a security raid last week in Basra, Iraq's second-largest city and home of the second-largest oil refinery, it also arrested alleged leaders linked to a petroleum smuggling ring.

Both smuggling and security are a growing problem in Iraq, not always mutually exclusive, but fueling the post-Saddam Iraq.

'It all ties together,' said Juan Cole, professor of Middle East and South Asian history at University of Michigan and an Iraq expert, who warns that if Basra spirals downward, the whole country will follow.

An estimated 100,000 barrels of oil is smuggled from Iraq each day, according to Saad Rahim, manager of PFC Energy's Country Strategies Group, and an unknown amount of petroleum products, like gasoline, is lifted as well.

Controlled by Shiites experiencing an increase in power struggles, Basra is Iraq's main legal oil export and smuggling port.

The Basra Provincial Council is mostly comprised of members of three Shiite parties that also compete on the national level: al-Fadila, Supreme Council for the Islamic Revolution in Iraq, and the Sadr Movement.

And they face off with Marsh Arabs, a long disenfranchised and sidelined people, not to be overlooked in either the smuggling or the fighting.

Living on stilts in the marshes outside Basra, Marsh Arabs had key access to the Persian Gulf and Iran. 'A lot of their activity was smuggling,' Cole said.

But then a drought sucked much of their water at the turn of the century, and Saddam Hussein finished it off, expelling them into area shanty towns and into Basra. This created tensions with the local Shiite factions, which are still playing out.

The estimated 500,000 Marsh Arabs, previously a mostly isolated community, live by their own rules still, Cole said, 'acting like a mafia family in Basra ... competing with party militias who are also engaged in the same type of smuggling.'

Some Marsh Arab factions have aligned with the Mahdi Army, the militia of Moqtada al-Sadr, leader of the Sadr Movement.

The Los Angeles Times reports the operation last week in Basra netted five leaders of various tribes or factions. There are more than 7,000 British troops in the province, who are having an increasingly difficult time as smuggling turf wars intensify.

Although none of the detainees' names were released, Sadr's top Basra official said the head of a Marsh Arab tribe was among them and vowed revenge.

The parties are all jockeying for control of Basra and the country, as well as its oil reserves, and are reported to have begun infiltrating oil companies.

The oil infrastructure isn't being attacked, though, like in the north, where militias of the Sunnis, who have little to no oil, are bent on hurting Kurds who have oil resources and are pushing for autonomy. They sabotage the main pipeline to Turkey as well as smuggle petroleum headed to cities like Baghdad.

Iraq produces about 2 million barrels per day and exports 1.7 million of that.

The competition in Basra has furthered security issues, either directly or indirectly. Oil revenues fund more than 96 percent of Iraq's budget; smuggling -- a \$700 million monthly toll, the Oil Ministry estimates -- weakens the central government and prevents it from funding both security and reconstruction projects.

'You can't do anything unless you get the security,' Cole said.

He said security can be maintained by strengthening the central government.

'Unless that happens nothing good is going to happen in Iraq,' he said.

'And you can't strengthen the central government if it's being denied petroleum,' he said. 'It's a political centrifugal force. It's chaos.'

It's a situation pegged on both political and economic developments, and the reactions of armed leaders alternately empowered or backed against a wall.

Seemingly no one knows where it will end up, John Pike, director of GlobalSecurity.org, told UPI.

'Anybody who thinks they do is in for a rude surprise along the way,' he said. 'All of the organizations there, all of the institutions are fragile because they're new.'

He said there are a mix of interests engaged in Basra that will play out in its future: militia factions and criminals -- and 'the interface between those two'; an eye on the outcome by both Shiite Iran and Sunni Saudi Arabia; the city, provincial and central governments; and the coalition troops on guard.

All this operates under the umbrella of 'shifting allegiances and uncertain alliances ... intensely competitive and playing for keeps' in the power vacuum created since 2003, after 'the system of violence that had been created under Saddam,' Pike said. 'Then it fell apart.'

The fight over oil -- between regions and the central government; among Shiites, Sunnis and Kurds; between rival smugglers -- 'highlights the insecurities that are ingrained in Iraqi society' after decades of corruption and oppression, Qubad Talabany, the Kurdistan Regional Government's representative to the United States, told UPI.

'Every community is insecure,' he said. 'Every community is mistrustful of each other.'

By Ben Lando

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