IRAQ

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No question, 2002 was not a great year for most Iraqis. In mid-March the US administration signalled its intention to lance the boil that President Hussein's regime was perceived to be. Starting almost exactly a year later, the main operation took just 27 days. Intense international diplomacy in the meantime had failed to persuade the US-led Coalition that military action was unnecessary and did nothing to halt the erosion of local living standards.

The oil industry's exports have been and will remain the prime determinant of Iraq's economic performance. The peak production rate achieved before the invasion of Kuwait was around 3.5 Mbbl/d but output fell sharply as a result of that war. As the UN allowed gradual purchase of at least some of the equipment needed for repairs, the production rate increased, reaching 2.52 Mbbl/d in 2000. With prices also rising GDP grew by 12% in 1999 and 11% in 2000. Estimated average oil production and GDP growth in 2001 fell back to 2.31 Mbbl/d and 3.2% respectively because shipments were politically restrained for a time.

Output recovered to 2.5 Mbbl/d early in 2002 and is thought to have averaged 2.45 Mbbl/d through 2002 while GDP is thought to have grown at 3-3.5%. Although UN-controlled trading is estimated to have helped achieve a surplus of US$5.2 billion in 2002, unemployment remained high and inflation was probably about 25%. Per capita annual income, recorded as US$4,000 in 1980, is said to have fallen to US$150 in 2002, leaving 60% of the population dependent on food aid.

Post-war the overriding need must be to restore and then increase the rate of oil exports. At present the state of the world economy and the oil supply/demand balance are positive for Iraq, albeit partly to ensure oil market prices are held down, but UN controls on export volumes need to be lifted. Although the Coalition forces took care to protect the oilfields from more damage, the further cost of oil production and export facilities rehabilitation may be in the order of US$5 billion. If Halliburton and other contracted firms are able to carry out this work effectively, the US administration expects output to reach 2.8-2.9 Mbbl/d, possibly by the end of 2003. With the country's mineral-based industries being government-owned, information concerning production, equipment purchases etc has been restricted. It seems likely that non-oil operations have also been working in survival mode.

The US Energy Information Administration (EIA) estimates Iraq's proven oil reserves at 112 MMb, probable and possible at 220 MMb. In addition natural gas reserves total an estimated 110 MMMft^3. The EIA believes that the lack of modern exploration activity could mean there is a further 100 MMb of oil reserves still to be located. The Administration says the cost of exploiting these resources is toward the lower end of the world spectrum. The Iraqi oil ministry had long-term plans to raise production to 6 Mbbl/d and during 2001 had adopted a new basis for further post-embargo developments that would not change agreements already signed. Intending partner organizations from countries including China, India and Russia were involved. Fertiliser mineral resources might also be further developed and cheap energy used for metal smelting, for instance at the long planned Nassiraya aluminium smelter.

Clearly, Iraq has a sufficient mineral production and resource base to earn a substantial amount of foreign exchange – probably in the region US$10-12 billion annually given a stable oil market, according to analysts. But, as if the political refashioning of this ethnically and religiously diverse nation of 25 million plus was not difficult enough, there are financial issues too. Not only is the cost of reconstruction likely to be massive – possibly US$20 billion for electricity supply alone, maybe US$100 billion in total – but the departed regime had accrued considerable debt: possibly as much as US$142 billion legally enforceable, US$300 billion of outstanding reparations for the invasion of Kuwait, and US$57 billion in government contracts. Even assuming the US administration can secure the level of debt relief it is seeking from the parties involved, oil revenues will have difficulty in matching the costs of humanitarian supplies, reconstruction and debt repayments. So significant amounts of aid and inward private sector investment are likely to be necessary, with Iraq's neighbours being probable candidates.

Reportedly, the US administration favours Iraqi state ownership of the oil resources with foreign firms making production sharing agreements but it is unclear whether the officials have a medium- or long-term target production level in mind. Most commentators expect the US to want Iraq to leave OPEC, an issue that may well test the administration's commitment to a new regime's freedom.