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### Managing Iraq's Oil Revenues

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Management of Iraqi oil resources and revenues is emerging as one of the most sensitive issues in the run up to the June 30 transfer of sovereignty from the Coalition Provisional Authority (CPA) to Iraqi governing institutions. Ensuring that the Iraqi people become the primary beneficiaries of the country's oil will be critical not only to the credibility of efforts by the coalition but also to Iraq's future democracy and unity.

The United States Institute of Peace convened its Iraq Working Group on January 22, 2004, to discuss the contentious issue of [Iraq's oil revenues](#) and their management. The panel of presenters included: Fareed Mohamedi, senior director and chief economist at PFC Energy; [Jill Shankleman](#), Institute senior fellow; Vernon Smith, Nobel Prize winner and professor of economics and law at George Mason University; and Svetlana Tsalik, director of Revenue Watch at the Open Society Institute. Institute [Peace and Stability Operations](#) director Daniel Serwer chaired the meeting.

The views summarized below reflect the discussion at the meeting; they do not represent formal positions taken by the Institute, which does not advocate specific policies.

#### **Managing vast oil revenues and nurturing market democracy is a difficult task in any country...**

Few states that are heavily dependent on oil as their principal source of revenue manage to develop full-fledged market economies. Many stagnate economically and deteriorate politically, or even worse, become engulfed in vicious armed conflicts. The economic volatility that results from reliance on oil revenues inhibits good governance and encourages development of a dual-economy, with a small part of the population growing enormously rich, while the majority lives below the poverty line. Over-reliance by the government on natural resources and tight control over them discourage transparency, enabling regimes to subsidize their supporters and stay in power without accountability. Persistent corruption and mismanagement often follow, along with a vast military and security build up. Oil revenues too often end up being used to pay for wars, and the control of these revenues may even result in war.

#### **... and challenges in Iraq are even greater**

Management and distribution of oil revenues have been daunting tasks in many oil-rich countries, but Iraq faces additional challenges. No fiscal transparency has ever existed in the country—brutalized, mismanaged, and underdeveloped for decades by the Ba'ath regime. Twelve years of evading UN sanctions spurred rampant corruption, and neglect severely damaged the oil infrastructure.

Iraq's oil was a controversial subject on the eve of the U.S.-led war against Saddam Hussein's regime. Every future decision regarding oil management will be closely watched both inside and outside the country. With a rapid political transition underway, controversy is likely to reemerge and influence the discourse over the future of Iraq. Recent demands by the Kurdish minority to include the oil-rich city of Kirkuk under their control are only one indication of the sensitivity of the issue.

### **The key is to ensure that all Iraqis become beneficiaries of the country's resources**

While oil resources and revenues can complicate matters of Iraqi political transition, they can also assist the country's long-term stability and unity by giving all Iraqis a stake in the country's future and supporting the development of a middle class that transcends ethnic divisions. Oil revenues need to be removed from the hands of the few and put in the hands of many. The fundamental law, reform of the oil ministry along with its separation from the national oil companies, and the eventual constitution should take into consideration the following:

- The Iraqi people should be empowered with ownership of the oil resources; these resources belong to the people and not the government.
- When oil-related public assets are privatized, revenues should be deposited in a national investment fund.
- Oil revenues should not be allocated along ethnic lines.
- Political monopoly should be avoided and an oil sector that diffuses concentration of control should be designed.
- The Ministry of Oil should be separated from national oil companies and future parliamentary oversight should be ensured.
- The Ministry of Finance should manage revenues and the Ministry of Oil should do the long-term planning for the oil sector.
- Maximum transparency of revenues and transactions should be ensured.
- A strong legal framework that supports privatization and economic development outside of the oil sector should be developed.

With political transition imminent, some commentators have suggested that these decisions may best be left to future Iraqi governing structures. However, Iraq's future and the coalition's record will likely be better served if oil revenue management is treated as an integral part of the process of developing new structures.

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