

The Role of Nationalised Oil Industry to the Economic Developments in Iraq: What is learnt from history?

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Abstract

Oil and gas as the essential primary sources of energy have been critical factors in the lives of states in the past and modern times. Some oil-producing states had left part of their oil companies privatised, while some others nationalised them. Iraq as one of the global crude oil producers had nationalised its oil industry in the early 1970s. The research issue stems from the historical consideration of whether oil industry could support Iraq's economy if it was not nationalized. The research addresses the question why the oil industry was nationalised in Iraq, and what were the advantages and disadvantages of this nationalization to the coutry in general. The research objectives are to examine whether it depended on political or economic reasons, and what is learnt from the nationalisation outcome. The research outline starts with the literature on the historical perspective of why was the oil industry nationalised in Iraq. This will be followed by examining the concept of nationalization and the reasons behind them. The research then addresses the benefits and drawbacks of state ownership, which will be the subject of two separate sections. The research comes to conclusions that the nationalisation of oil industry in Iraq in early 1970s brought advantages to the country and its population, but was not problem free.

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پوخته

رۆلی پیشه‌سازی نهوتی به‌خۆمألیکراو له پهره‌سه‌ندنه ئابوورییه‌کانی عێراقدا:

چی له میژوو فیرووین؟

نهوت و گاز وهک سه‌رچاوه سه‌ره‌تاییه بانه‌رتییه‌کانی وزه هۆکاری گرنگ بوون له ژبانی ده‌وله‌تان له رابردوو و سه‌رده‌می نوێشدا. هه‌ندیک ده‌وله‌تی به‌ره‌مه‌په‌نهری نهوت به‌شیک له کۆمپانیا نهوتییه‌کانیان بۆ که‌رتی تاییه‌ت به‌جێهێشتوو، هه‌ندیکی دیکه‌یان به‌نیشتمانی و خۆمألیان کردوو. عێراق وهک یه‌کیک له به‌ره‌مه‌په‌نهرانی جیهانی نهوتی خاوه‌ له سه‌ره‌تای حه‌فتا‌کانی سه‌ده‌ی رابردوو دا پیشه‌سازی نهوتی خۆی به‌خۆمألیکردوو. پرسی ئهم توێژینه‌وه‌یه له دیدکی میژووویه‌وه سه‌رچاوه‌ی گرتوو که ئایا پیشه‌سازی نهوت ده‌توانی‌ت پالپشتی ئابووری عێراق بکات ئه‌گه‌ر به‌ نیشتیمانی نه‌کرایه. توێژینه‌وه‌که هه‌ول بۆ وه‌لامدانه‌وه‌ی ئه‌و پرسیاره ده‌دات که بۆچی پیشه‌سازی نهوت له عێراقدا به‌ نیشتیمانی کرا؟ و سوود و زیانه‌کانی ئهم به‌ نیشتمانیکردنه بۆ ولات به‌ گشتی چین؟ ئاماژه‌کانی توێژینه‌وه‌که بریتین له لیکۆلینه‌وه له‌وه‌ی که ئایا به‌نیشتمانیکردنه‌که وابه‌سته‌ی هۆکاری سیاسی یان ئابووری بووه؟ چی له ده‌رئه‌نجامی ئه‌و به‌نیشتمانیکردنه فیروین؟ هیلکاری توێژینه‌وه‌که له ئه‌ده‌بیاته‌وه ده‌ست پێده‌کات، به‌پێی دیدگای میژوووی، که بۆچی پیشه‌سازی نهوت له عێراقدا به‌ نیشتیمانی کرا. دواتر به‌دواداچوون بۆ چه‌مکی به‌ نیشتمانیکردن یان به‌خۆمألیکردن و هۆکاره‌کانی پشت ئه‌وانه ده‌بیت. پاشان توێژینه‌وه‌که باس له سوود و که‌موکۆپه‌کانی خاوه‌نداریتی ده‌وله‌ت ده‌کات که بابه‌تی دوو به‌شی جیاواز ده‌بیت. توێژینه‌وه‌که ده‌گاته ئه‌و ئه‌نجامه‌ی که به‌خۆمألیکردن یان به‌نیشتمانیکردنی پیشه‌سازی نهوت له عێراق له سه‌ره‌تای حه‌فتا‌کانی سه‌ده‌ی رابردوو دا سوودی بۆ ولات و دانیشته‌وانه‌که‌ی هینا، به‌لام بۆ کیشه‌ش نه‌بوو.

ملخص

دور صناعة النفط المؤممة في التطورات الاقتصادية في العراق: ما الذي تعلمناه من التاريخ؟

كان النفط والغاز بوصفهما موارد أولية أساسية للطاقة من العوامل الحاسمة في حياة الدول في الماضي والحديث. تركت بعض الدول المنتجة للنفط جزءاً من شركاتها النفطية مخصصة ، بينما قام البعض الآخر بتأميمها. كان العراق كأحد منتجي النفط الخام العالميين قد أمم صناعته النفطية في أوائل السبعينيات. تنبع قضية البحث من الاعتبار التاريخي لما إذا كانت صناعة النفط يمكن أن تدعم الاقتصاد العراقي إذا لم يتم تأميمها. ويتناول البحث التساؤل عن سبب تأميم صناعة النفط في العراق ، وما هي مزايا وعيوب هذا التأميم للدولة بشكل عام. تتمثل أهداف البحث في فحص ما إذا كان يعتمد على أسباب سياسية أو اقتصادية ، وما تم تعلمه من نتيجة التأميم. يبدأ مخطط البحث بأدبيات حول المنظور التاريخي لسبب تأميم صناعة النفط في العراق. ويبي ذلك دراسة مفهوم التأميم والأسباب الكامنة وراءه. ثم يتناول البحث مزايا وعيوب ملكية الدولة ، والتي ستكون موضوع قسمين منفصلين. توصل البحث إلى استنتاجات مفادها أن تأميم صناعة النفط في العراق في أوائل السبعينيات جلب مزايا للبلاد وسكانه ، لكنه لم يكن خالياً من المشاكل.

1. Introduction

Oil and gas as the primary sources of energy have always been a crucial factor in production ever since the Industrial Revolution, and recent history has proven this to be the case as well. (Stevens, 2018). At global level, after Saudi Arabia, Iraq is OPEC's second-largest crude oil producer. With 145 billion barrels, it has the fifth-largest proved crude oil reserves in the world, accounting for 17% of Middle Eastern proved reserves and 8% of global reserves. The majority of Iraq's major known fields, all of which are onshore, are either producing or developing. (The U.S. EIA, 2022). From an economic point of view and at the national level, one can see that oil has been a major contributor to Iraq's economy throughout its modern history. Oil is responsible for approximately 70% of the country's GDP and nearly 90% of the revenue generated by the government. The state's reserves and oil production has been governed under the public sector since the 1970s, and yet interestingly most Iraqis strongly believed that it should stay nationalised, ("The Iraqi Oil industry, 14 June 2007) which is still the case.

The research issue stems from the historical considerations of whether oil industry could support Iraq's economy nowadays if it was not nationalized in the 1970s. The research's main question, thus, is: why the oil industry was nationalised in Iraq? In line with this question, the research addresses the questions; what were the reasons, benefits and detriments of such nationalisation in Iraq?

The research objectives are to find the reasons behind nationalising the oil industry in Iraq in 1970, whether it depended on political decisions on economic strategy. Secondly, to address what can be learnt from the nationalisation outcome.

The research significance is to examine what the concept of "nationalisation in the oil industry" for an oil-rich state like Iraq, really means. The methodology employed in this research is historical analysis throughout the research. It begins with historical facts given, mainly from 1970 and afterwards, followed by analysing those facts with the key concepts of nationalisation and its benefits to states.

The research outline starts with the literature on the historical perspective of why was the oil industry nationalised in Iraq. the concept of nationalization and the reasons behind them will then be examined. The research then addresses the benefits and drawbacks of state ownership, which will be the subject of two separate sections. The research comes to conclusions and findings when these two final sections are completed.

2. Nationalisation of Iraq's Oil industry: Historical Perspective

Calls for the nationalisation of the oil industry in Iraq started in the early 1950s after Mohammed Musaddaq nationalised the neighbouring Iran's oil industry in March 1951. Despite tremendous public pressure, subsequent Iraqi governments resisted the pressures to nationalise the sector, highlighting the failure of nationalisation process in Iran. (Alhajji, 2003, p.133). When Nasser nationalized the Suez Canal in 1956, nationalisation of oil had become a popular demand in the Arab World. (Office of the Historian, 2022). It is sound to state that Nasir's move became another compelling factor to nationalise Iraq's oil industry. However, this process did not take place immediately, it rather took place gradually. It started from the Revolution of 1958, when the Monarchy in Iraq was overturned, followed by the Iraqi government change in its positions towards the Western states in such a way that it seemed, by all accounts, to be attempting to close the entryway on the western financial institutions in particular, who were supporting the operations of oil companies in Iraq. (Kandell, 2003)

This situation gave a strong push to the Baath party in Iraq that had subsequently repeatedly emphasised its intentions to nationalise the oil industry, (Calpernia, 27 April 2006) and for the first time was clearly demonstrated by the ruling Socialist Baath Party in the early 1970s accusing them of being pro-western and extorting national assets. (Sornarajah, 1994, pp. 12-13). The Government used such protestations as excuses to nationalise most of the major enterprises. The most important one was the oil industry, by virtue of. "Law No. 69, of 1972'. which provides for the nationalisation of the operations of the Iraqi Oil Company Limited (that provides nationalizing the Operations of the Iraqi Oil Company Limited, in which Article 1 provides that the operations of the Iraq Oil Company (ICOO) Limited in the areas delimited for it in accordance with law of 1961 shall be nationalised.

At last, Iraq chose to completely nationalize its oil industry in 1972, as Alhajji (2003, p13) expressed, because of critical changes in the international affairs of the world's oil and geopolitics, the ascent of Arab nationalism and the development of favourable to USSR socialism in the region developed. One can see that this the nationalised oil industry in Iraq had been in place since then, during which time the entire oil industry was owned by the State.

It is essential to remember that the Iraqi oil industry's so-called golden age regarding controlling, creating, and exchanging its oil incomes happened between the mid-1975s and early 1980. (States Studies, 2012). In other words, it did not keep going long because of the Iraq-Iranian war outbreak in 1980, which was followed by the Second Gulf war and economic sanctions, the US-led invasion of Iraq in 2003, the ISIS war, the Covid-19 pandemic, and a change in the federal government cabinet in 2020, followed by snap elections in October 2021. Notwithstanding these critical events in Iraq, no matter what their tendencies, it can be seen that the successive Iraqi governments kept their nationalist attitude toward its oil industry and its related companies in general. Considering this viewpoint, this research will next analyze the idea of nationalization as a general rule, as well as its relationship to Iraq's oil industry.

3. The Concept of Nationalisation: Literature Review

To begin with the definitions of nationalisation, different literal meanings can be found. For example, the Oxford Dictionary defines nationalisation as the transfer of something from private ownership to the control of the State, (Online Oxford Dictionary) whereas Suliman adds that such a transfer is to the State or to the representative of the people, in other words to the government of the day.(Suliman, 1980, p.80). However, the Collins Coubuild English Dictionary provides a more comprehensive definition, stating that when a company or the oil industry is nationalized, its ownership shifts to that of a state-owned and government-controlled entity. (Collins Coubuild English Language Dictionary, 1998) This definition is important as it produces three main participants in the nationalisation process, namely the private owner, the State itself as a separate entity, and the government of the day, which operates, runs and controls the operation of that State. The mechanism for all these processes is legislation.

Clegg and Chester suggested that nationalisation is generally a central feature of socialist programmes and is not public ownership per se, because public ownership includes ownership by local authorities whereas industries, when taken over, would have to be subject to the authority of the national government, at least in their major decisions. (Chester, 1953, p.5) Accordingly, for both abovementioned writers, the profit-motive theory has no place in the theory of nationalisation, and any profit

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made by the nationalised oil industry should go to the nation. (Chester, 1953, *ibid*).

From the law point of view, nationalisation can be legal or illegal. Primarily, it is recognised by international law that States have the sovereign right to nationalise their natural resources (A, 1996, pp.16-17). provided that the nationalising State will make a payment of adequate compensation (Mugharby, 1996, p.15) to the party or the private company whose property or services have been taken over by the government, and as Sornarajah argued, providing that the nationalisation process is conducted in a *bona fide* manner. (Sornarajah, n.d, P.253). According to Sornarajah, it will be illegal when nationalization elicits discriminatory action by the State rather on the basis of honestly held ideological or policy grounds. However, he further said that discrimination might be difficult to establish in circumstances where there is an ostensible economic reason for nationalisation as the State could argue the economic was the predominant reason behind the nationalisation.

There are various objectives of nationalisation that each rely on the nature of the oil industry or the sector itself. For example, the sector that is in charge of national defence should be under public control for national security reasons, (Rolph 1997, p.2). As national security cannot be commercialised, otherwise the government lose its legitimacy to be a government. Last but not least is the fear of private company's monopoly, (S, 1997, p.2). and when it was realised, governments went for establishing public enterprises to take over or at least to compete with the private company.

In this context, nationalising private international oil companies, in normal circumstances and in general terms, can have advantages to the government and the people, as national oil companies (hereinafter the 'NOCs') can demonstrate significant advantages to the State. For example, in Iraq, it was opined that nationalising oil industry in Iraq was aimed to reduce the government's dependence on the multinational oil companies, (Grayson, 1981, p.7) and to secure its oil supply both at national and international. Besides that, to enable the Iraqi government developing its own understanding of the oil industry for proper governance, trades with multinational oil companies and to assure inexpensive and reliable crude supplies to its domestic needs. For example according to Grayson, European states have needed meaningful information about the oil industry ever since World War II. The need became paramount after 1973 when oil became sometimes scarce and always more expensive than it had been prior to the early seventies (Grayson, 1981,

pp. 9-10). This was considered an advantageous point for the Iraqi government at that time.

These factors were considered as imperative for the Iraqi government to establish the above mentioned *bona fide* nationalisation. Needless to mention that oil industry was and still is of a strategic economic importance, as is the case with many other Gulf states. Based on the two sections discussed above, three factors that lead to nationalisation of oil industries are necessary to examine, they are: economic, political and combination of factors as focused by Sornarajah (1994), which will be discussed below:

3.1 Nationalisation motivated by economic factors

When economic factors are mentioned, an important question arises, whether or not oil industry does actually serve the economic development of the states when it is under private control. Such a judgement can only be made after careful and specific analysis of the individual situation, since the economic background of one state is different from all others, as are the level of oil reserves. For example, in early 2000s, Andrew-Speed figured that south eastern Asian states are about to run out of oil, and thus they have a choice to shift the administration and of their oil industry to multinational oil companies, and thus they may reduce government costs to the oil industry. (Andrews-Speed, 2004, pp. 146-147). Now, we are about 19 years after Andrews-Speed's analysis, and it can clearly be seen that nowadays these states rely on other industries to support their economies such as manufacturing and agriculture. Malaysia and South Korea are good examples for this case. This situation is different as in the Middle East, particularly Iraq and other Gulf states. These states possess supergiant oilfields and their economies are linked to it. In the future some of them will become major oil supplier to the world. Thus the governments of these states have a heavy intervention on their oil industries to secure their interest and economy.

It is also important to consider that the level of competition between private companies and the level of State involvement differs from one State to another. However, if private ownership in oil industry does not serve the economic goals of the host states, then the second question is how much the states might benefit by comparison if the said sector was under government control. If the answer encompasses better micro and macroeconomic outcomes for the State by having the

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oil industry under public control, the State opts to nationalise the sector and take the control of it. This type of nationalisation could be a pure and *bona fide* one, and it is hard for the private companies to defeat the new State policy on the grounds of political favouritism, except appealing for compensation. The justification is that, prior to the economic concern, nationalisation is neither in the mind of the legislator nor politicians, but the economic circumstances push the politicians to think about such nationalisation. Hence, nationalisation is a result of fact and can be named as 'Factual Nationalisation'. (Perotti, 2004,p.11). In Iraq, there was no much chance for the private international oil companies to question the *bona fide* status of the way Iraq nationalised its oil industry due to the military strength and centrally commanded government as well as the lack of proper and independent judicial body in the states. Therefore, it was wise for them to accept compensation with no further due, although they initially tried to challenge it. Otherwise, their companies were subject to confiscation without compensation.

3.2 Nationalisation motivated by political factors

As far as political matters are concerned, many developing economies have attempted to restrict foreign direct investment because of nationalist sentiment and concerns about foreign economic and political influence. One reason for this sentiment is that many developing states have operated as colonies of the more developed economies. This colonial experience has created a legacy that foreign direct investment in a shape of modern form of economic colonialism that exploits the resources of the host states. ((Economic Resource Centre , 2006).

For Middle East oil exporting states, this phenomenon came about in the second half of twentieth century, or the post-colonial era. As a result of the above said colonial legacy, governments implemented hostile policy to the west and their economic policies. (Sornarajah, 1994,p.18). Furthermore, this action was accompanied by strong political antagonism towards international oil companies, (Mikesell, 1984, p. 24) because of the belief that these oil companies were exploiting the oil resources in order to prevent the formerly colonised nations from getting stronger than them. Needless to mention that, the Arab-Israeli conflicts had a considerable input to this increasing hostility trend. As a result, these states nationalised their oil industries from upstream to downstream levels.

Some believed that this attribute would return profits to their States and

disadvantage the western investment in the region. They used economic issues as the main instrument to justify their nationalisation motives, even sometimes they referred to the religious beliefs and juristic reasoning to convince the local populations. (Alhajji, 2003,p.19). In this case, it is clear that the political motive becomes triumphant over economic issues, and this type of nationalisation can be named as 'conceptual nationalisation' because it is based on concept and political debate rather than the true facts of economic concern. Conceptual nationalisation can neither guarantee credibility internationally nor guarantee proving *bona fide* certificate, because it emerges out of political reactions against certain states that are governed by different ideologies or, in other words, it rejects the idea of liberal market and private ownerships in the most profitable sectors for the government. Iraq's case can arguably fall under this category as mentioned in the previous section.

3.3 Combination of facts

Governments may face some internal economic pressure on one side and political nationalist pressure on the other. At this point, the government is unsure as to whether or not to nationalise a profitable private sector, especially if it is operated by foreign investors. On the contrary, the challenges to calm down the nationalist groups are greater. This requires governments to make endless efforts to balance between both instances. Once a great event happens at the international level, the government will use a double-edged sword to nationalise the important oil industry, or to limit the foreigner's operation and to persuade them that they are no longer helpful. Such action serves the economy on the one hand, and at the same time comforts and satisfies the nationalist movements at the local level. The case of Petrobras serves as a good example.

The popular ideological bias against foreign oil companies was so great that even the military government that assumed power in 1964 was reluctant to permit foreign oil company operations in Brazil for more than eleven years. As a result of oil price increases following the OPEC crises of 1973-1974, Brazil's import bill rose to over \$3 billion per year and put a severe strain on the states's balance of payments. Finally, in 1975, President Ernesto Geisel announced that foreign companies would be invited to explore in Brazil on the basis of a service contract with a risk clause. (Mikesell, 1984, p.100). This case was not applicable to Iraq since the government was

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centralised and ruled by a dictator regime. Up to this point, this research has considered the factors that lead to nationalisation. It will now examine whether State ownership can deliver a net benefit, as follows.

4. The advantages of the oil industry while under state control

If the conclusion brought by Vickers (1977, pp. 44-45) is considered, it can generally be said that public ownership is one of the main solutions to the problems of market failure occurs in industries where competition is impossible or undesirable, or where major externalities exist. Nevertheless this concept does not mean that every state can successfully use this solution. Similarly, failure by one or more States to undergo a successful nationalisation process does not signify the inefficiency of nationalisation in every case. During 1950s, the idea was that the advantages of nationalisation, in fact, would not be immediately obvious, since it would take some time to get the new organisation into successful working order, as thought by Chester (1953, pp.11-12). If this is considered, one can say that those who failed in their nationalisation programme may yet have the opportunity to succeed, depending on reformation of policy and regulations. However, that Chester's view could not be true for all ages and times, as we can see that there were numerous potential advantages from nationalisation and state ownerships during 1970s and afterwards, some of which are detailed below:

Firstly, stable employment rate, as the sizes of public enterprises sectors vary widely from states to states. In developing states, for example, the contribution of public enterprises output to GDP averaged about 10 percent in 1980, and a similar average can be seen in the State owned companies' share of employment. (Cook, 2002, p.252). A stable employment rate is something that most people want, as it is seen as the most important benefit to the public is arguably meaning that future generations will have employment opportunities in their respective areas.

Secondly, social welfare was always seen one crucial objective of the state enterprises, namely to ensure the provision of inexpensive and reliable domestic supplies, like oil, to the home states. (Grayson, 1981, p.7). As mentioned earlier, the concept of socialism provides for no profit for the government from public enterprises. Instead, the price provided by public enterprise is to offer its populace will be cheaper compared to the international price. This means that the government

can maximize social welfare. Thus, keeping the oil sector under the government's control has an obvious benefit to the Iraqis. The major one is the low price of hydrocarbon and petrochemical products. While this was to some extent achieved by the previous Iraqi government even at the time of undergoing three devastating wars, and UNSC economic sanctions within a period of just 23 years. After the invasion day-by-day distractions took place, and people needed to restore their daily basics and they needed support from the new government. The government used its oil revenue for reconstruction plans and to increase employment and keeping the price of goods and service lower. In this way, the nationalised oil company was good for the Iraqis.

Thirdly, control of the oil industry by the government. When nationalisation takes place, the intention is to reduce the government's dependence on foreign private multinational companies, as mentioned earlier. (Grayson, 198, pp.8-9). Hence, two benefits can be seen; the government was able to exert a greater control on the oil industry, which means that the government is now depending on its national oil company and will be in a stronger position in relation to the foreign companies. Next, as Grayson (1981, p.9) points out, the government will be enabled through administrating its oil industry to develop the specific understanding of the oil industry, and the role of the oil industry in progressing and developing each sub-sector and aspects of the states that needs government involvement. Besides that, the local employees will develop their experiences vis-à-vis activities in the oil industry.

5. What were the problems of state ownership?

The benefits of state ownership discussed above would tend to suggest that nationalisation and public ownership is a wholly advantageous path to take. However, it is not easy for every government to meet all the elements at one time, notwithstanding the fact that one or more elements might be applicable in one states but not in another. Therefore, it is also important to identify the problems inherent in State ownership, such as corruption, administrative frustration, and sovereign and legal risk, as will be discussed below.

As to the corruption, in the developing states, it was hoped that the nationalisation of the oil industries would bring profits to the States, and that the people would become the beneficiaries of this blessing. Laudable though, such motive

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led to the tendency of corruption that undermines the achievement of this objective in many states. (Sornarajah, 1994, p.54). Philip concluded that the major oil exporting states were among the most conspicuously guilty of the statist-nationalist period. The sharp rises in the world oil price during the 1970s created expectations of economic progress which were not met. Developments failure in these states was generally explained in terms of a combination of Dutch disease, bad public investments and inappropriate macroeconomic policies, though excessive confidence in the constructive role of the public sector was often an underlying consideration which contributed to the more specific errors. (Cook, 2002,p.1).

In the Middle East states, the oil industry as a whole confirms this fact. This was a Statement by the Iraqi oil ministry after several months of collapse of Baghdad in 2003. There is further understanding that even before the war the corruption was still existed. (Hafidh, 2012) The profits were made, but the work which represents the benefits of these profits was still missing. In Iraq, most of the oil revenues was utilised for warfare for over two decades, in which people not only did not receive benefits from the oil industry, but even the states fell under a huge debt to the other states. In deed mere cheap oil price is not the only benefit for the nation.

Iraq is a multiracial states, and consists of many political parties and groups from different backgrounds and ideologies, many of whom are involved in the Government, especially after the collapse of Baath regime in 2003. It is, therefore, feared that this Government, or any future Government, may still heavily interfere with the Ministry of Oil under the premise of it being a crucial and strategic Ministry for the State. The Iraqi oil industry will again become a focus point for many political groups to get into the ministry in order to serve their own interests as much as they can. Consequently, these groups may recruit their personnel from within the oil industry, and the voice of the normal people will be drowned out as a result. This could lead to continuous corruption, (Hafidh, 2012) and a slowing down in the progress of the oil industry, with the benefits felt only by certain groups. Also, extreme bureaucracy is often not far away from this application, which creates problems of delaying procedures between and within the oil industry within the administrative government.

It has been mentioned that one of the advantages of the public sector is that it preserves social welfare by maintaining employment and providing goods and

services at a lower price. This is good for the people, but may not be resourceful for the government itself. The government is burdened with the expense of developing and administrating the states. The Iraqi Government has an additional burden, namely that of rebuilding and infrastructure reconstruction. Thus, the Government needs extra funds and budgets to proceed. So, if the oil industry remains under public control, the Government will have less revenue to allocate for reconstruction. This may result in the government having to borrow money or depend on international organisations for help. In such cases, it may be better for the government to relinquish control of the oil industry. To lessen their burden, allowing them to concentrate time and money on development and reconstruction especially when is political stability.

It is worth mentioning, that in the thirteen-month rule of the Coalition Provisional Administration, Ambassador Paul Bremer avoided proposing new oil policies or introducing any structural changes to the oil industry. The fact that the oil industry was left to operate on its own, with very little change in senior personnel, was due to the strong tradition in the states of retaining the oil industry under state-ownership. Yet, after seven years of the invasion, it is feared that if the oil industry remains under public control, then the issue of overstaffing, with the consequence of less efficient productivity, could continuously delay any progressive development of the oil industry compared to neighbouring states' developments.

Last but not least, it is true that public ownership can solve the problems of market failure where competition is impossible. (Vichers, 1997, pp.44-45). However, there is a big concern that this situation will lead to natural monopoly in industries such as the oil oil industry, where the danger is that competitive forces become neglected, and may be assumed to be irrelevant, where in fact they have a useful role to play. Competition can lead to greater consciousness of potential efficiency through improved structures of ownership, and governance. Also the general tendency has been at work to promote the move away from state holdings no matter how many its specifics are in individual economic activities. (Kuczynski, 1999, p.1). If that is the case, it can be considered as a disadvantage for the Iraq to hold monopolistic power in certain industries while the global trend currently favours private ownership and competition. Similarly, if the Iraq's oil industry remains under the government's control, then it will be less able to attract multinational companies to accelerate their

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investments in the states. Bearing in mind that the government still needs the restoration of the oil fields to their maximum capacity as quickly as possible to sustain the functions of government, this becomes an important point.

Philip added that, a condition for the success of State oil company in delivering benefits to the nation, which is playing a constructive role in their respective economies, there is still the need for some autonomy from the clientelistic and revenue raising proclivities of central government. They need to adopt economic strategies that do not involve undue political difficulties. They need to do all these things while observing the normal commercial and organisational disciplines which are necessary in order to achieve efficiency. (Philip, 1997, pp.2-3). This benefits the whole of Iraq by decreasing the cost of a product that improves people's quality of life.

6. Conclusion

Nationalisation of oil industry in Iraq had its advantages and disadvantages although the process was derived from political considerations which may no longer apply today. The reason is that when the decision to nationalise Iraq's oil industry was made, the world economic system was very different from what it is today. We are now in a new era of globalisation and capitalism dominating the market, whilst at the same time the pro-socialism and anti western ideologies are disappearing in Iraq.

Since the last half-century, oil products were the most important energy resources for modern life and economy. People needed petrol for power generation and transportation. Since Iraq has giant oil fields, and producing and developing oil in Iraq is very cheap, the Government endeavoured its best to supply its domestic oil demand at a cheap price. Yet, the benefit and the social welfare goals were not obviously seen in the process of the nationalisation of the Iraq's oil industry for over three decades. This was mainly due to centralised decision by the previous regime, and exploiting the oil revenue for warfare costs. Besides that, corruption has corroded the oil industry in both pre and post invasion times.

Last but not least, the main point to consider is that whether such benefits were for a specific period of time or they last until the end of the age of oil industry. The history told us the nationalisation was of a good impact, but the future is in the hand of what happens next.

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