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## U.S.-FRANCE ANALYSIS SERIES

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### TOTAL IN IRAQ

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There has been much talk about the TotalFinaElf (TFE, recently renamed Total) bid to develop two of Iraq's largest oil fields. The project has attracted a great deal of attention because the French “super major” is the highest profile player to have negotiated preliminary agreements with Iraq to develop its fields while the country was under sanctions. In light of the prize involved, there was a great deal of suspicion that France's foreign policy in Iraq was dictated by its oil interests. In fact, however, while TFE has staked a large part of the company's future in Iraq, the company has not received undue diplomatic support from the French government. On the one hand, the French government had wider interests in Iraq than simply supporting oil sides. On the other hand, TFE has been careful not to tie its interest too closely to the French government's, realizing some time ago that its independence from the government would be critical for securing a role for a French oil company in post-Saddam Hussein Iraq.

#### **Total's Experience in Iraq**

There are several stories to tell in tracing the history of TotalFinaElf (TFE) in Iraq. TFE is the result of a merger in 2000 of Elf and TotalFina (itself the result of a merger a year earlier with the Belgian PetroFina). The original Total was practically born in Iraq. The company was founded in 1924 by a syndicate of French industrialists and financiers and entered the business of pumping oil by taking over the French government's 23.8% share in Iraq Petroleum (IPC—then called Turkish Petroleum). This later entitled it to share in the output of the generous Kirkuk field, discovered by IPC in 1927. In 1930, the French government took up a 25% interest in Total and later increased this to 34%, but the company retained its managerial independence. After World War II, the company developed oil in Basra (and was active in Qatar, Algeria and Iran). Total lost its interests in Iraq during the nationalization of the oil industry, but returned in May 1991 to hold discussions with the Iraqi oil ministry to develop the giant oil field Bin 'Omar following the lifting of UN sanctions.

Elf Aquitaine was a national oil company created by General de Gaulle in 1965. Elf was intended to secure access to oil for the French state, but it also became a foreign policy tool, covertly maintaining the French presence in Africa through intelligence gathering, corruption and close association to the intelligence services. It was also one of the main sources of financing

for the *Gaulliste* movement. In time, corruption scandals and covert party financing also involved the Socialist party. Attempts were made to clean up the company following its privatization in 1994, but the nebula of networks that bound the company to the intelligence services and to the two main political parties resisted reform. Although a variety of scandals involving Elf have littered the front pages of French papers over the last few years, none have even mentioned Iraq. There has been no evidence of dealings similar to those in Africa though the company began talks in 1991 with the Iraqi oil ministry to develop Majnoon, an oil field in Southern Iraq.

The Iraqi oil authorities offered Elf and Total an equity interest in Majnoon and Bin 'Omar. The most attractive terms in the Middle East were on offer in Iraq: the companies were negotiating on the basis of production-sharing terms for the development of large-scale reserves which had already been discovered. This is an oilman's dream. But there was a catch of course and the dream could not be turned into reality so long as Iraq was under UN sanctions. And it was also likely those attractive terms would not be on offer without sanctions. In fact, the Iraqi government offered these terms on the condition that the companies' home government should gradually abandon its economic boycott of Iraq. The negotiations with the French firms repeatedly reached a dead end because of the political conditions being demanded by Baghdad. The French companies stressed that there was no question of signing any contract with Iraq before UN sanctions were lifted.

In spite of this, it appeared that the negotiations between both companies and the Iraqi Ministry of Oil reached a "very advanced stage." According to some industry reports, only technical and economic issues prevented the signature of the draft agreement. In fact, it seems that the status of the talks swayed to and fro with the diplomatic tide. The Iraqis showed themselves keen to draw the French into an agreement at times when the regime was threatened. In 1992, for example, the regime was engaged in an armed struggle against rebel forces in an area which was part of the no fly zone (supported by France). At that time the Iraqi Ministry of Oil stated that Iraq was "ready to sign any agreement."<sup>1</sup> The two oil fields are precisely in this zone.

But the French companies never signed the agreements. They negotiated the deals with the purpose of gaining a foothold that might be advantageous once the political situation changed. The companies seemed confident that might be sooner rather than later. Indeed, Christophe de Margerie, then Executive Vice President of Total Trading and Middle East, said in January 1993 that he expected Iraq to return to the international scene that year, arguing that the inauguration of Bill Clinton would help in preparing the atmosphere for lifting sanctions again.<sup>2</sup> Of course, events followed a different course. Total and Elf continued their talks with the Iraqis, almost signing a contract at one point in 1997 when it appeared the Iraqis were prepared to accept that the French groups' signature could not entail any contravention of the sanctions—only to postpone the deal because of Iraq's fall out with the UNSCOM inspectors.

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<sup>1</sup> Fayiz 'Abd Allah Shahin, Undersecretary of the Iraqi Ministry of Oil, Middle East Economic Survey, Vol. 35:47, August 24, 1992.

<sup>2</sup> Middle East Economic Survey, Vol. 36:16, 18 January 1993, Section A8

If TFE had succeeded in signing for both of the promised fields, the prize would have been great for the group's future, doubling its reserves (with an additional 10 billion barrels) and eventually increasing its production capacity by 400,000 barrels per day (a 16% increase).<sup>3</sup> Total and Elf (and later TFE) talked to the Iraqis for years, but whereas Russian and Chinese companies signed final agreements for Iraqi fields, TFE refrained from entering into binding contractual relations with the oil authorities while the country was under sanctions. Signing in itself would not have constituted a breach of sanctions. The UN Sanctions Committee did not object to the signing of agreements of intent with Iraq as long as no services were actually provided and no financial transactions took place. In principle, an exploration agreement could be signed and analysis of the geological data could be performed outside of Iraq, provided the findings were not reported back to Baghdad.

TFE's concern with signing was that it would have set itself up for a breach of contract for non-performance because such agreements involve specific work obligations within a set time frame. This was the fate of the Russian oil company Lukoil's contract for developing West Qurna, which was cancelled last December by the Iraqi authorities on the grounds that the Russian group had not fulfilled its obligation to begin work. (Clearly, Lukoil's political maneuvering also contributed to this end. The Iraqi oil authorities were displeased with the company's double-game as it sought to get assurances from the U.S. government that its interests in Iraq would survive a change of regime.)

Though Total/TFE enjoyed a strong reputation among oil professionals in Iraq, its careful treading of the diplomatic quagmire was also a source of frustration for Saddam Hussein's regime. Its refusal to invest foiled the Iraqi government's production expansion plans, prompting the oil ministry to warn foreign companies they would lose their fields unless they disregarded the sanctions regime and started work. As part of the "national effort" launched in 1999, Iraq began developing on its own the giant southern Majnoon oilfield promised to Elf.<sup>4</sup> The company further frustrated the regime when it stopped buying or shipping Iraqi crude in 2002 when the UN Sanctions Committee imposed a strict retroactive pricing policy on Iraqi exports. The pricing policy was intended to deter international firms from submitting to Iraq's demands for oil surcharges outside of UN control. TFE did not resume shipping Iraqi crude until Iraq dropped the surcharge.

### **Assessing Company Influence on French Policy**

In the 1990s, the French government took a distinctly different stand from that of the United States on lifting the oil embargo against Iraq. The U.S. insisted that Iraq must accept and implement all relevant Security Council resolutions before the lifting of sanctions could be reviewed. The French government favored a more gradual approach to the lifting of sanctions to reward Iraq when it implemented UNSC resolutions. Paris focused on a number of specific

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<sup>3</sup> Deutsche Bank, *Oil & Gas*, August 27, 2002.

<sup>4</sup> There has been some concern among industry specialists, and presumably in Total's offices, that this domestic production, though modest in terms of barrels produced, might damage the reservoir as a result of a lack of the appropriate technology and equipment in Iraq.

resolutions and demands, and did not, for instance insist on the implementation of Resolution 688 calling for the respect for human rights in Iraq, as did Washington. However, it was adamant that Iraq eliminate its weapons of mass destruction in accordance with Security Council resolution 687, allow the return of UN inspectors without conditions, and ratify its new border with Kuwait. In 2001, a French foreign ministry spokesperson said that “France wants to impose international controls of Iraqi weapons. This will prevent the country from rebuilding its weapons of mass destruction arsenal.” However, this official went to say that “what we need today is not a policy of punitive sanctions looking to the past, but rather a policy of vigilance and of control under the authority of the United Nations Security Council.”<sup>5</sup> This apparently two-pronged official statement highlights the distinctiveness of French policy toward Iraq: Paris wanted Iraq to disarm, but wanted to pursue means other than punitive sanctions to get Iraq to comply with UN resolutions. Paris challenged the effectiveness of economic sanctions and opposed the use of force, but supported *smart sanctions*, the oil-for-food program, as well as the idea of a gradual lifting of sanctions.

French policy relied on its history of relations with Baghdad to influence the Iraqi regime to disarm, while using these approaches to develop those relations further and to secure more commercial contracts. This dual-use of French visits to Iraq over the past decade has generally been successful and France made some headway in getting Baghdad to comply with UN resolutions. French diplomats were satisfied to see demonstrations of their influence in Baghdad when Iraq admitted UN inspectors unconditionally in the fall of 2002. They were aware, however, that this relationship was always conditional. The Iraqi government's generous commercial offers, whether on the oil front or regarding more general trade, were not only tied to effective French diplomatic support, but also to its need to secure that French support. As we saw in the previous section, the Iraqi oil ministry courted the French companies at times when the regime was threatened. It also punished French companies when their government relented in its support. After France supported “smart sanctions” in 2001 (which involved more stringent control of Iraq's use of oil funds), its privileged status was demoted in favor of countries offering stronger support to Baghdad.<sup>6</sup>

There was a general suspicion among the public and in the media that oil interests dictated both U.S. and French policy toward Iraq.<sup>7</sup> In fact, however, the capitals concerned had more

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<sup>5</sup> Déclaration du Porte-parole du Quai d'Orsay, (28 février 2001) <http://www.france.diplomatie.fr>. Author's translation.

<sup>6</sup> Russia ranked first, followed by India, China, Turkey and several Arab states. Although France was on the list of Iraq's privileged trade partners from 1996 to 2000, its companies took just 15% of the contracts authorized by the United Nations. That market share dropped to 3% in the year before the war—though it should be noted that in terms of trade flows French exports to Iraq remained among the strongest. Since 1996, France obtained over \$3.5bn in contracts authorized by the oil-for-food program, supplying Iraq primarily with humanitarian and industrial goods.

<sup>7</sup> On February 15, 2003, for instance, there were demonstrations around the world with posters pleading “No war for oil.” For an example of suspicions that U.S. policy in Iraq was driven by oil concerns, see Ignacio Ramonet, “C'est l'ONU qui est visée,” *L'Humanité*, February 28, 2003. For a parallel claim about French policy, see Helle Dalle, “No Blood for French Oil,” *Washington Times*, March 5, 2003.

ambitious goals than merely securing oil contracts for their companies. Though French commercial interests in Iraqi oil were important, the bilateral relations of France and Iraq were multidimensional and covered a great deal more than oil contracts. The French government would not have allowed its companies to transgress the UN Sanctions or to undermine its delicate diplomatic game at the Security Council. At times, its Iraqi policy ran squarely against the interests of the French oil companies. For instance, when in 1997 Elf and Total were about to sign their long-negotiated contracts to develop Iraq's oil, the French government would not attend the (eventually aborted) signing ceremony prepared for the Elf and Total chairmen in Baghdad. In the final hour, the deal was postponed, due to the unfolding crisis between Iraq and UNSCOM, which signaled a change of priorities for both Iraq and France.

The French firms clearly wanted to secure the approval of the French government and the EU for such a move, as Total did prior to the signing of its agreement with Iran to develop its natural gas resources in 1995 (a year ahead of the American Iran-Libya Sanctions Act that imposed sanctions on foreign companies for such deals). The French government has frequently supported bids made by French companies overseas, in particular in countries that are part of its special zone of influence. Iraq is no exception, nor is oil. Over the years, official French backing has often served Total because of the complexity of ties binding Baghdad to Paris.

However, Total has been careful not to tie its fate too closely to Paris's. It relies on its own commercial relations in Iraq and turns to diplomatic support only when it judges such support useful and available. As long as France does not participate in the coalition operations in Iraq, Paris will have little influence over the occupying administration to support Total's bid. Despite suggestions that France's opposition to the American invasion of Iraq would adversely affect its oil interests, the company's chief executive Thierry Desmarest indicated that they would press their claim for oil contracts in a post-Saddam Hussein Iraq on the grounds of their commercial merit. "We have shown in the past," he explained, "that we are able to defend ourselves on an equal footing with our peers even in some areas where there was a reputation of significant American influence."<sup>8</sup>

### **Total's Role In a New Iraq**

Though Total's past diplomatic leverage in Baghdad clearly will not be of great use in an Iraqi state under U.S. occupation, the company probably does not expect to make long-term investments in Iraq's oil sector for another 5-7 years in any case.<sup>9</sup> Common assumptions regarding the commercial competition for Iraq's oil bounty are in sharp contrast to industry concerns about the future oil regime in Iraq. The world's largest oil companies are in agreement that the stable conditions for long-term foreign investment in the Iraqi oil sector can only be created when the new Iraqi regime is recognized as independent of the occupying

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<sup>8</sup> *Middle East Economic Survey*, Vol. 46:8, February 24, 2003.

<sup>9</sup> For discussion of this point, see Valerie Marcel and John V. Mitchell, *Iraq's Oil Tomorrow*, Royal Institute of International Affairs, April 2003.

powers. All five of the oil “super majors”, including the American companies ExxonMobil and ChevronTexaco, have made public statements to that effect since the war ended.

In the meantime, Total seems to have taken to boardroom negotiations rather than diplomatic maneuvering to secure its role in Iraq's oil industry. It is likely that the group will join forces with other players enjoying stronger American support to win a future bid for Iraq's oil fields. The fields of Majnoon and Bin 'Omar are so large that a joint venture with other partners to develop them would be a positive outcome for Total.

What exactly could Total offer to joint venture partners? Or to the Iraqis? Though Total is not in favor with the authorities in a U.S.-controlled Iraq, it might have several advantages when it comes to doing business in post-occupation Iraq. Generally speaking, Total is a well-respected company. In negotiations, it has demonstrated a particular sensitivity to the demands of producers where other companies have not and, as a result, it has gained access to markets hitherto closed to foreign oil companies. In Iraq in particular, it knows the rocks and the people. Having prepared specific plans to develop Majnoon and Bin 'Omar, Total knows the geology of two of the biggest oil fields in Iraq. More importantly, in the process of its long-drawn out negotiations with the Iraqis between 1991 and 2002, Total has come to know the people on the ground and has built relationships there. Many of the *ancien regime* oil professionals (often Baathists only out of necessity) still occupy key positions at the ministry and within the national oil company. Positive relations with these Iraqi officials and with new recruits will be reinforced by Total's decision not to challenge a possible cancellation of the agreements it negotiated with the Iraqis and more generally by the company's conciliatory attitude.

On the other hand, some Iraqis resent France's refusal to participate in the campaign against Saddam Hussein. If the reconstruction effort is successful and the U.S. and the U.K. leave the country as friends and allies of a democratic Iraq, then France's “principled stance” won't be on much of a moral high ground. Similarly, however, if the Iraqis grow to resent the occupying powers, French companies won't be penalized by association.