

vanguard the impact can be bloodier and less repairable. Gulfs widen, resentments are magnified.

It is a tragedy that the two principals in the struggle are firmly in the latter camp. If Donald Rumsfeld and Jacques Chirac are allowed to proceed on their

When some are striving to pour oil on troubled waters, Mr Rumsfeld is out there setting fire to it. If there is a festering wound between nations, Mr Rumsfeld emerges from the salt mines ready to supply his own special balm. It is a disgraceful indictment of the

bracketing Germany with Cuba and Libya for its refusal to support force against Iraq, were especially offensive and unnecessary. Current German policy may be misguided but to equate the government that has contributed to US-led military action in the Balkans

important multilateral institutions of the postwar era – the UN, Nato and the EU – in pursuit of his objectives. By the time he is finished, perhaps the World Trade Organisation and the International Olympic Committee will be on the bonfire of French principle.

and decency. "It's true that Heaven frowns on some dark acts; Though great men, our Lord makes higher pacts."

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JOHN TATOM

Iraqi oil is not America's objective

One of those great ideological divides that seem to withstand all reasoned argument is the view that America's determination to oust Saddam Hussein is born of the desire to gain control of Iraqi oil. This view is prevalent in much of Europe and is shared in other parts of the world, especially in the Middle East. Even the wise Nelson Mandela believes it. The view is not, however, dominant, or even much discussed, in the US. Despite the chasm, the implausibility of this view warrants at least one more effort to dispel the myth.

Iraq's oil reserves are very large. At an estimated 112.5bn barrels, they rank second only to Saudi Arabia's 261.7bn barrels. At a current price of \$25 a barrel (above the long-term price of oil and well above even the current price for Iraqi crude), these reserves appear to some analysts to be worth about \$3,400bn – surely an attractive asset.

Such a valuation belies the fact that Iraq has one of the lowest yields – the ratio of annual production to reserves – in the world. Iraq's yield is only about 0.8 per cent, the lowest yield of the top 14 oil-producing countries except for Kuwait's, which is the same. Such a relatively low production level is not a management or political choice that can be reversed. As in Kuwait, it occurs because of the geology of the oil fields and the available technology.

One of the lessons of the Iraq-Kuwait conflict of 1990 is that it is cheaper to buy oil than to try to take it. This is



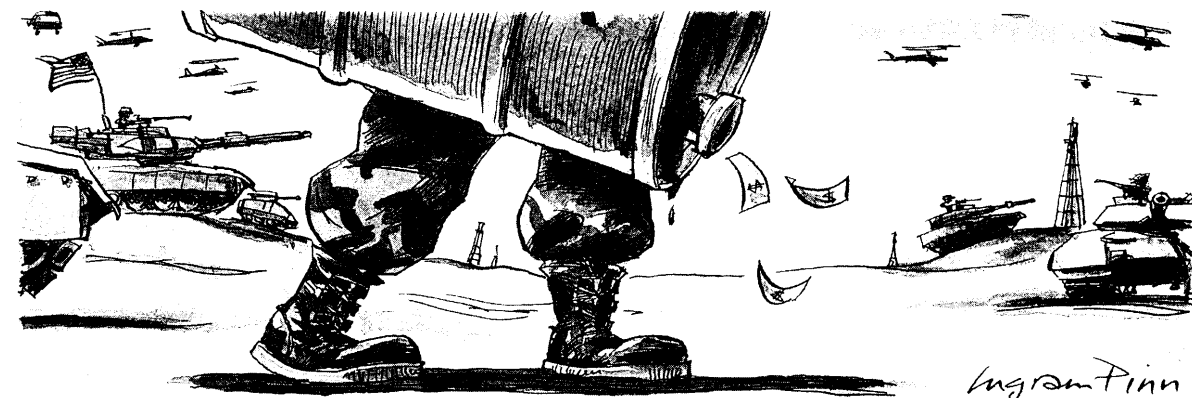
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One of the lessons of the Iraq-Kuwait conflict of 1990 is that it is cheaper to buy oil than to try to take it. This is as true today for the US as it was then for Iraq

Annual production in late 2002 was only about 2.6m barrels a day. At \$25 a barrel, that generates a revenue of about \$23bn a year.

Assuming a cost of capital for the US of about 10 per cent, current revenue from Iraq's oil would be worth about \$230bn. A cost of Iraqi oil production or replacement of as little as \$10 a barrel lowers the market value of Iraq's reserves to about \$140bn. High-end estimates of the cost of a war against Mr Hussein's regime reach the same amount.

Moreover, the estimated cost of war ignores the vast sums required to rebuild Iraq. It does not include servicing the country's debt, which is estimated to be as large as this value of reserves. Nor does it account for the fact that the underdeveloped Iraqi economy will remain weak for many



years. In short, there is likely to be no oil bonus left for the victor of a military conquest.

Some analysts believe that Iraqi oil production could be substantially increased. There is no question that Iraqi capacity could benefit from easier access to markets and easier access to capital investment. But since 1970, the country has produced more than 3m barrels a day only once. In 1979, in an effort to finance Mr Hussein's adventure in Iran, production reached 3.5m barrels a day. With some expansion of capacity and investment in existing facilities, it is possible that Iraq could return to production of 3m barrels a day. A 20 per cent or even 40 per cent rise would not be enough to make a war to seize Iraq's oil into an economically viable venture.

Current oil revenue provides about

\$1,200 a person a year in Iraq. This is 50-75 per cent of recent estimates of Iraqi per capita income. From an Iraqi perspective, that is a large sum. But at about \$100 per US citizen annually, it would be trivial to the average American. Taking a big share of the net revenue would substantially cut Iraq's already low per capita income. That is not a plausible scenario when both the aim of the military effort, and the world's expectation, would be to build a more prosperous and free Iraq. While some productive redistribution of this oil income is easily imagined, it is difficult to see how any of it, even with a substantial boost, could be drained off by a conquering nation or nations.

Now look at the value of oil reserves (instead of the annual revenue from them). If the value of reserves is estimated at \$140bn, that works out at only

\$6,000 per Iraqi. That is far below the figure of \$122,500 per person arrived at by valuing each barrel of reserves at \$25. While \$6,000 is still a few years' income to the average Iraqi, the per capita value to the average American would be only about \$500. That is less than the value per family of the 2001 Bush tax rebate and perhaps less than the bill for the war.

One of the important lessons of the Iraq-Kuwait conflict of 1990 is that it is usually cheaper to buy oil than to try to take it from another country. This is as true today for the US as it was then for Iraq.

America has much better reasons than oil to launch a renewed military assault on Iraq. The terms of the original ceasefire in Iraq have not been met. The cost of attempted containment has risen over time. And, most important,

containment has proven to be impossible given the ease with which Mr Hussein's regime has evaded weapons inspections and the mandated disposal of its weapons of mass destruction.

Too many people in Europe think America's stance is shaped by an insatiable appetite for oil. Perhaps this reflects their difficulty in understanding that America will launch action against Iraq according to its national security needs and after weighing up the military costs and benefits. Whatever the reason, they are wrong. Americans will produce or buy their oil like everybody else, regardless of what happens in Iraq.

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HANS WERNER SINN

There is no European right to a place in the sun

Europe will soon have a new constitution. But if the draft presented by Valéry Giscard d'Estaing last week is anything to go by, it will be imbued with old ideology. The document ignores the free-market economy. There is not a word about the protection of property and no commitment to free enterprise and the division of labour. Instead, it

the document, such as social cohesion and social protection, they could create social harmonisation by the back door. That would have grave consequences for the European economy.

Under the current principle of inclusion, an EU citizen who moves from

Too little thought has

income redistribution of the welfare state just as a national does. By Ifo Institute calculations, the net benefit in Germany amounts to €2,300 a year in the first 10 years.

By restricting these equal benefits to working migrants, the cost is limited. Those who migrate for reasons other than employment receive no welfare benefits apart from one-time health

wait for full welfare benefits, such as rent subsidies and public housing, while enjoying access to public services and other benefits they pay for via taxes and social insurance contributions. If differential treatment is not allowed, countries will be forced to compete to trim welfare benefits so that they are no more attractive as destinations than their neighbours.

sion. But the results could be disastrous. Look at Germany and Italy. The German government contributed to the eastern *Länder's* lack of competitiveness by raising welfare and therefore pushing up wages above productivity. Similarly, the Italian social system has prevented wages in southern Italy from falling to a competitive level. Consequently, both eastern Germany and the