

Erin Banco & “Pipe Dreams”

SEASON 1
episode five

Nicholas Lemann

Hi, I'm Nicholas Lemann and welcome to Underreported, a podcast from Columbia Global Reports. Columbia Global Reports is a new book imprint out of Columbia University. I'm here today with Erin Banco, an investigative reporter at the Star-Ledger and NJ.com, focusing on the intersection of money and government. Erin is the author of the new book *Pipe Dreams: The Plundering of Iraq's Oil Wealth*. Erin has been a fellow at the New York Times, as well as a Middle East correspondent for International Business Times covering armed conflict and human rights violations in the Middle East for years. She's a graduate of Columbia University's School of International and Public Affairs and of the University of Wisconsin-Madison.

Pipe Dreams is a cautionary tale that adds important knowledge to our understanding of the current state of affairs in Iraq and Kurdistan, telling the story of how political infighting, Western meddling, widespread corruption, and the war with ISIS has coalesced to squander the country's promised oil wealth, leaving ordinary citizens poorer and more despondent than they were under Saddam Hussein. Hi Erin, thank you for being with us today.

Erin Banco

Thanks for having me.

Nicholas Lemann

So let's just start with a little bit of your personal history. When did you first go to Iraq and under what circumstances?

Erin Banco

Sure. I went to Iraq for the first time in the spring of 2014 when I was a Middle East correspondent for International Business Times. My assignment there was to obviously cover the rise of ISIS.

Nicholas Lemann

And how long were you there for?

Erin Banco

My first trip, I was there for about three weeks, and then I went back several times after that for International Business Times and then again as a freelancer after I finished my time there.

Nicholas Lemann

So where were you in Iraq? And tell us a little bit about what it's like to be there.

Erin Banco

So I was in Kurdistan, in Iraq. I had flown into Erbil, which is the main airport there in Kurdistan.

Nicholas Lemann

Just for the uninitiated, where's Kurdistan, within Iraq? Where is it with respect to Baghdad?

Erin Banco

Kurdistan is a semi-autonomous region in the northern part of Iraq, and there are sort of two main cities in Iraq in general. There's Erbil, which is the capital of Iraqi Kurdistan, and then there's Baghdad, which is obviously the capital of Iraq proper. I spent all or most of my time in Iraq reporting in the Kurdistan region.

Nicholas Lemann

So how did you get from reporting on ISIS to reporting on oil?

Erin Banco

When I started reporting on ISIS, all of my colleagues were trying to figure out why ISIS was gaining so much ground, how they were able to recruit, how they were able to pay their recruits. And we ended up figuring out that their strategy was taking over small refineries and oil wells and then using the money that they made on the black-market selling oil to pay their new recruits. So it was a cash machine for them. It's how they sustained themselves throughout the war.

Nicholas Lemann

And then as you were getting into oil, I know that you developed some sources and

learned more than just what ISIS was doing to sort of take oil out of the system. How did that happen?

Erin Banco

So I think there's only so much you can tell about the story of oil in Iraq from the ground. There's obviously a lot happening there in terms of construction of new pipelines, new wells popping up, the export itself onto the international market, and the ways in which the government in Kurdistan handles all of that.

But there's a separate aspect to the story which is told through the lens of regulatory enforcement officers in the US and the UK who have for years really, since the invasion of Iraq, focused on oil companies, Western oil companies and their relationship to the government in both Baghdad and Erbil and contractors who were eager to sign oil contracts in the country.

The story of oil in Iraq is not focused in Iraq itself. The whole sector is defined by who is developing that oil. And those players exist, you know, all over the world. But this book looks at primarily US oil companies as well as British oil companies.

Nicholas Lemann

So back to what you were saying about regulatory authorities. So you ended up meeting some of these folks?

Erin Banco

So it's an interesting story. When I came back from Iraq and in between my trips, I would spend a lot of time talking to experts in the field. People who were either oil consultants or worked at think tanks in Washington, who knew the players on the ground and themselves were making trips to the region. And through that side reporting, I found sources in the regulatory enforcement bodies in the US and the UK, specifically in the US, within the FCC and the DOJ, who were focused on FCPA, Foreign Corrupt Practices Act violations. And that was sort of their job, to look into FCPA violations in Iraq.

Nicholas Lemann

So let's go back in time a little bit and then forward. And, you know, this is with apologies for having a sort of US-centric view of this, but we're sitting in the US right now. Part of the optimistic, now-long forgotten scenario for the Iraq war – and,

you know, I speak as one who was at the time a Washington correspondent covering the run-up to the Iraq war – was that if the US led its coalition of the willing and unseated Saddam Hussein, and was able to install a new government that was, you know, squeaky clean and democratic and so on, the whole country could be remade with oil revenues, basically. That there was, you know, the rich oil fields of Iraq were a potential source of wealth for the country that would make the democratic transition go down very smoothly. And, you know, so I remember the argument. Why didn't that happen? Was that ever a possibility?

Erin Banco

I think it was off to a bad start from the beginning, quite frankly. I think that unfortunately for the people of Iraq, for some, that continues to be a dream of theirs. But looking back, we can see that the ways in which the oil sector developed, both in Kurdistan and in and around Baghdad, they were built on political rivalries. You know, tribalism, the political infighting. It's at a height now, but it's waxed and waned over the years. But it was at its peak then.

And so in people's vie for power, there came to be issues in the ways in which the sector developed. In the sense that everyone wanted power, everyone wanted to hold on, everybody wanted to hold on to the money, everyone wanted to be the hero. They were the ones who wanted to sign the contracts, they were the ones who wanted to build the connections with the West. It was unregulated. It was an unregulated market. And with too many cooks in the kitchen, a lot can slip through the cracks. Money can be siphoned off. That's how corruption starts.

Nicholas Lemann

So just going back through some basics about Iraq, what's the relationship between Baghdad and Kirkuk, and between Iraq as a whole and Kurdistan? What is semi-autonomous mean and how does that affect the way oil is produced and regulated?

Erin Banco

Iraqi Kurdistan is autonomous, which means it has its own government. The Kurdish regional government has pretty much say over how things function in that region. Oil, though, has always been a contentious issue between Erbil and Baghdad. Baghdad has always said that constitutionally it has the right to control the oil revenues. So the money that comes out of production, they've always thought that they constitutionally have that right. Now, the Kurds say the same thing. And so there's a big constitutional argument over, you know, quite literally what the Constitution

says. You know, the Kurds argue one thing, Baghdad argues another.

And so now we're at a point in time where the Kurds, for several years and during the war with ISIS, maintained control of their oil revenues. They split off from Baghdad and basically said, you know, "Enough is enough. We're going to take control of our oil and we're going to have control over our oil revenues." In retaliation, Baghdad said, "Okay, well, if you're going to do that, we're not going to give you the 17% of the budget." And so now we've seen the Kurdish economy decline very quickly because they need that 17%. So now we're at a point in time where we say, okay, time for negotiation. Who's going to give what? And now we're in a waiting period. Elections are in the spring. You know, the Kurds still technically are in control of their oil wealth, though Baghdad is fighting to get that back. We're very much in a gray area in Iraq right now in terms of oil.

Nicholas Lemann

So if you go back to the aftermath of the US-led invasion, let's say I'm in the oil business and I show up in Kirkuk and I want to drill an oil well. Do I have to give somebody permission to do it?

Erin Banco

Yes. So Kirkuk is a bit of an anomaly when it comes to the oil debate between Erbil and Baghdad. Kirkuk is split. Part of Kirkuk is controlled by Baghdad and part of it now is controlled by the Kurds. Although just recently, after referendum, Baghdad took control over the oil wells that the Kurds had once controlled. So Kirkuk has gone back and forth between Erbil and Baghdad.

Nicholas Lemann

So I show up at the Oil Ministry and say, "Sir, I would like a permit to drill oil on this particular location." And then and that's how I get the permit?

Erin Banco

Well, I think that the discussions start long before you show up on the ground in Iraq. I mean, connections are forged years prior to there actually being a formal request for a chance at signing a contract. And Baghdad's oil contracts are very, very different than the oil contracts in Kurdistan.

Nicholas Lemann

So just talk about that a little. What's the difference in terms of if you're in the oil business, who do you deal with and how do the terms vary?

Erin Banco

Sure. So in Baghdad, they have technical service agreements, and there's a Ministry of Oil that oversees those oil contracts or exploration contracts. And there are usually bidding rounds, so it's pretty transparent. I don't want to say transparent because there's not a lot about oil that's transparent in Iraq...

Nicholas Lemann

Including the oil itself.

Erin Banco

Right. So there are open bidding rounds. And so you deal with the Ministry of Oil there. And then in Kurdistan, it's a bit different. They have production sharing contracts which take a different form, and I won't get into the weeds of it all, but they're different. You deal with the Ministry of Natural Resources, who the Ministry is headed up by a guy named Ashti Hawrami. He's been there since about 2005, 2006. And he is the main guy there.

Nicholas Lemann

And, you know, one of the fascinating things about the book is that you make it clear that what you've just described is a sort of government system, but it sits on top of a kind of a clan government system. Right? That goes way, way back in time. So could you describe that and how it works?

Erin Banco

When it comes to oil, the Ministry of Natural Resources is mostly aligned with the Kurdish Development Party, the KDP. And so the KDP is seen as a party that holds a lot of power in the country because of that position within the Ministry of Natural Resources.

And then you have the PUK, which is the different side of Kurdistan and has sort of different beliefs about how the country is supposed to move forward. And we've seen those two parties clash over time. Again, the KDP in the PUK – Patriotic Union of

Kurdistan being the PUK – and it's split up geographically within Kurdistan, those two parties, and it's basically based on where you live is how you align with whatever party.

Nicholas Lemann

And there are also these traditional, powerful families associated with the parties, right?

Erin Banco

Sure. So the KDP has historically been aligned with the Barzani family and the PUK has historically been aligned with the Talabani family. And those two families have again clashed over power for decades. There's a lot of back and forth between the two parties over time, and the relationship has sort of gone up and down throughout the decades. But those two families have definitely historically always vied for power.

Nicholas Lemann

So into this comes the US and US oil companies, including ExxonMobil, then headed by Rex Tillerson, now our Secretary of State. So if you could fill in that part of the picture a little – how do these companies and the American officials that they're used to working with enter the picture of oil, particularly in Kurdistan?

Erin Banco

ExxonMobil was the first company to come in and sign contracts, or hold contracts with both Erbil and Baghdad. They were able to exist in the country in both areas. And that was a skill, that was something that other international oil companies didn't believe was possible because of the tensions between Kurdistan and Baghdad. And so it wasn't until Exxon's entrance that the world turned and said, wow, you know, Kurdistan must really have something.

Nicholas Lemann

So when you started getting material from these regulatory sources that you developed, what was the story that they were telling you about what was going on there?

Erin Banco

The first thing that was very apparent, which I had already, you know, everyone had

already known that Iraq was sort of rife with corruption in both Erbil and Baghdad, but it didn't really occur to me to what level. It was really hard to understand at what level corruption existed, especially in Kurdistan. You know, I knew there was political infighting between the PUK and KDP, but I didn't know how that played out in the oil sector and why it mattered. And so that was the first thing I really got from them.

And then beyond that, obviously the documents that were handed over to me, as well as email exchanges, really opened my eyes to the level of in-fighting in the actual signing of the contracts. How players in Kurdistan, the Barzani, the Talabani oil consultants really all, you know, wanted control over the process. And it was in that process that we saw corruption start to unfold, and we were able to look back – me and my sources – at when it all really started and how it started.

Nicholas Lemann

Essentially, one of the things we mean by corruption is oil drilling is happening, but the revenues aren't going where they're supposed to go. Right?

Erin Banco

Sure, I think that's part of it. That's a big part of it. When oil is – when fields are explored, and then drilled, and then oil produced and sold on to the international market. The oil revenues in Kurdistan, at least for a time, flew back into the hands of those in charge of the Ministry of Natural Resources, or the Ministry of Finance, those to work closely together. But there was a severe lack of transparency within the Ministry of Natural Resources, especially with Ashti Hawrami in terms of once that oil was sold, what bank did it go to? Who was in charge of those bank accounts? From there, how did it flow back into public coffers to pay civil servants?

And what we ended up finding, and that a lot of experts had sort of looked at was, wait a minute, there's not as much money as there should be flowing back into these public coffers. Where did all of it go? And what we ended up finding out was either some of it was siphoned off into other LLCs that were formed and owned by rich politicians in Kurdistan, or some of it were held in private accounts. And some of it we just don't know where it is. I mean, we've been able to follow a lot of it, but there's still a portion that's out there that we don't know where it is.

And so that was sort of the focus of this book. And part of the corruption also exists in bribes and kickbacks. And so when you talk to business leaders, you know, in the oil industry, they'll say, "Yeah, well, that's part of the Middle Eastern culture. They just, that's what they do. They want gifts. They want bribes. This is just part of

doing business.” But what we ended up finding in our reporting is that those bribes and kickbacks fueled business for international oil companies that gave them greater access to contracts and to money. And so we were able to navigate some of those within the book.

Nicholas Lemann

How do the American officials look in your story? People who were involved in rebuilding Iraq?

Erin Banco

Not good. I think look, I think that when we think about contractors and, you know, whether it be military contractors or oil companies in Iraq, postwar, there’s a lot of bad there. Right? And so our goal with this book was to really figure out, well, what went wrong, what was so bad about it? And what we ended up finding out was that US officials knew all of this was going on. You know, if they weren’t involved in it themselves, were very aware that this was an issue that needed fixing.

Nicholas Lemann

Now, how does ISIS get into the picture, and when?

Erin Banco

So ISIS existed for a while before the world really found out about them in 2014. They really formed as a militant group and gained momentum in I’d say 2013. And then from there very slowly started to take over oil wells and refineries in one-off attacks. And they weren’t consistent until 2014.

Nicholas Lemann

So at this moment when we’re talking, there’s a narrative, you know, that ISIS has been defeated. Is that what you’re hearing?

Erin Banco

I think that’s a narrative that’s out there for sure. I think they’ve lost significant ground in both Iraq and Syria. Have they been defeated? No. I think that’s a – what do we mean when we say defeated? You know, has their ideology been squandered? Definitely not. Are there elements that still exist in both of those countries? Yes. And they still do hold some, very minimal, but some ground.

Nicholas Lemann

What does it feel like to be in these places? You have pretty vivid descriptions in the book of your time in Iraq. Just bring it to life for us a little bit. Are the cities booming, or are they not booming? Is there a lot of poverty, or a lot of prosperity, or both? What does it feel like to be in the oil fields? And so on.

Erin Banco

So Kurdistan is a very strange place in the sense that there is severe poverty and there is significant wealth. You can see the division in Kurdistan very clearly. So I think I have this one scene in the book where there's the Divan Hotel in Erbil, which is a very sort of famous, lavish, five-star hotel. And to the side of it is a makeshift refugee camp that is for Yazidis families who fled the war. And they're living, you know, in makeshift tarp tents and no running water, obviously, no electricity, and maybe get food distributions every-other-day.

But it's also a very smart region. So there is this group of people who are attending university and are still hopeful that they'll be able to find jobs. You know, some of them, though, choose not to follow politics anymore because they are so disheartened by the political situation.

And then you have your families who are simply trying to put food on the table at night and do so whatever way they can. Whether it's, you know, selling things on the street or, you know, doing a makeshift construction job for the day, getting picked up, hopefully, on the side of the highway. And so it's confusing in the sense that you can see physically lots of wealth when you know that many people don't have their jobs. And that's because the government doesn't have enough money to pay them.

Nicholas Lemann

So the deal, just to repeat a little bit, was there'd be all this oil drilled in Kurdistan. The government would take its lion's share of the revenues. It would send much of it to Baghdad. Baghdad would send back 17% of the national budget, and that money would be used to create a sort of functioning welfare-state that would prevent dire poverty and hunger. But you know, there's a standoff. Kurdistan isn't sending the money that Baghdad thinks it deserves. Baghdad is retaliating by not sending its subvention back to Kurdistan. And the losers are poor people in Kurdistan, correct?

Erin Banco

Correct. I think there has been some economic revitalization over the past eight

months, nine months or so, in the sense that civil servants now are getting paid on time, even if it's not the full paycheck. There was a significant period of time, a year or two, where on and off people would go six months without a paycheck.

And another problem that Iraq as a whole has and definitely within Kurdistan, is a bloated payroll. So there's a lot that needs to be done in terms of thinning that out, finding out who has – if there are people who are gathering paychecks under multiple different names. That's a big issue.

So there's an accounting and payroll issue, but it's all fueled by the economic situation, which is, you know, built on the oil industry. And, you know, when you talk to officials about the economic situation in Kurdistan, they'll say, "Yeah, well, Baghdad's not sending the budget." Which is true. They're not sending that 17%. Or they'll say, you know, "We have 1.1 million refugees to feed." That's actually not really true either, because the international aid community is there, you know, handling most of that. Though Kurdistan does need to have electricity up and running within these camps.

So. While, Kurdistan has faced a lot of roadblocks in terms of funding its government and feeding its people, there are a lot of other issues like corruption, like accounting and payroll issues that make this situation worse.

Nicholas Lemann

Do you think there's a lesson here? Could this whole thing have gone better than it did?

Erin Banco

Well, yeah. What I feel needed to happen was, and I think if you talk to anybody who are experts on this topic, or even if you just talk to local people about this, they'll say, "Where's the accountability?" You know, "Where the regulation? Where's the checks and balances? We don't have any," they'll say. And so that was something that should have been set up from day one.

You know, one person can't hold all the power when it comes to oil. And when that happens, you know, you have a lack of transparency. Money can go missing. But then when you talk to the Ministry of Natural Resources, they'll say, "This is the system that works for us. This is the system where we can have ownership of our oil and we can get independence from Baghdad," and that's important to them. So there are varying opinions on this in terms of corruption and money flowing into areas or

pockets that it shouldn't. There needs to be more regulation and accountability and checks and balances. Is that possible now? I'm not sure.

Nicholas Lemann

Yeah, we're very lucky to be able to have a firsthand report from you about this. And based on visiting and fresh information, you know. A part of the backstory to this book, or at least to our being interested in the book, was right when we were starting out, I met a former high government official who had been involved in Iraq. And I said to him, "What's the mystery here that has never been solved?" And he said, "Look, I'm on the inside, and I'll tell you what, I don't know. What happened to all that oil money that was supposed to make everything work? And where is it?" And, you know, it was very striking to me hearing this, that even somebody high up in the US government didn't know the answer to this question. And I think you've gotten us closer than anybody else to understanding why this went so wrong.

Erin Banco

With that money that stays within the Ministry of Natural Resources, they say, "Well, we're using it to pay, with the refugee crisis. We're using it to pay our civil servants," when we actually know that's not happening. And so our goal was really to dig deeper and say, "Well, listen, you're not actually doing these things, so where is that money?" And we ended up seeing that it's being used to fund basically political rivalries in Kurdistan.

Nicholas Lemann

Well, you've done an amazing job with a very difficult story, so thank you for doing it. And I hope many people will read, and I don't know if the word is "enjoy" your book, but they'll be shocked, and they'll learn a lot from the book. It's very absorbing reading. Thanks for being with us on the podcast.

Erin Banco

Thank you so much.

Nicholas Lemann

Erin Banco's new book, *Pipe Dreams: The Plundering of Iraq's Oil Wealth* is available now wherever you buy books. Thank you for speaking with us. And before we go, here's one more reminder to subscribe to this feed. Please write a review when you have something to say about the show, and definitely stay in touch. You'll find all

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