

Shareholders Don't Shoot Each Other

By Charles Wolf, Jr.

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Privatizing Iraq's oil assets, and vesting all citizens with shares, can provide incentive for every Iraqi —

including Sunnis, the insurgency's core — to view commerce as a better path than violence. Ownership would provide 28 million citizens with a prospective increase in per-capita income of about \$5,800, substantially raising their present income. This is unlikely to persuade hard-core terrorists to change course. But turning all Iraqis into stockholders of the nation's oil wealth can win over the support of the bulk of the Sunni population that now backs the insurgency through provision of foot soldiers, intelligence, cover, safe houses or passive acceptance.

Iraq's oil reserves, estimated at 115 billion barrels, are the world's third-largest after Saudi Arabia and Iran. However, the geographic location of these reserves within the ethnically divided federal Iraqi state presents a problem: 80% of the oil is located in southern Iraq where the Shiites, who constitute 60% of the population, predominate; 15%-18% of the oil is in northern Iraq where the Kurds, who constitute 20% of the population, are concentrated. Less than 5% of reserves are located in Al-Anbar, Nineveh and Salahuddin provinces, where most of the 20% of the population that is Sunni lives. In a federal, democratic Iraq whose majority is Shiite and whose most lucrative assets are located in areas where Shiites and Kurds predominate, the future appears gloomy for Sunnis when benchmarked against the Saddam years, in which Sunnis had it all: privilege, status, as well as the oil assets regardless of their geographic location.

A readily, though perhaps not easily, available innovation can go a long way toward redressing this

portentous Sunni outlook. At present, oil assets are a government monopoly. Privatizing them and giving every Iraqi an equal share in ownership can be accomplished by turning over the assets to private companies — two in the south and one each in north and central Iraq — and vesting all citizens with equal shareholdings in each company, e.g., 5 or 10 shares issued to each Iraqi in each company. Shares could be traded at market-determined prices, but trading would be limited to Iraqis, at least for an initial period of 5-10 years, after which the market might open to foreign participation.

The new stock issuance would be an Exclusive Public Offering (EPO), issued gratis to Iraqis on an equal per capita basis. Company management would be responsible to shareholders in accord with the guidelines of sound corporate governance. Corporate earnings and dividends achieved by management for the benefit of shareholders would affect share prices as well as management tenure and compensation. Assuming full disclosure and certification of financial reports to shareholders and independent corporate directors, laggard management performance would result in management replacement. Government would derive revenues by taxing corporate and shareholder income.

What would this be worth to Iraqis? Assume that oil reserves in the ground are valued at \$20/bbl, and assume further that 30% of the total asset value is mortgaged and absorbed upfront to finance new and replacement infrastructure investment in the newly formed companies. The book value that remains for each Iraqi's total shareholdings can be estimated at about \$58,000. A conservative ratio of return to net asset value of, say, 10% would yield for each citizen additional annual income of \$5,800. Sunnis would not be confined to the 20% of the shares they'd receive from the EPO in accord with their proportionate size in the population. They could trade up and acquire additional shares as, of course, could citizens of other ethnic groups, depending on their financial capabilities and acumen. The numbers plainly suggest an enormous opportunity for family betterment through schooling, health services, housing and community improvement. In a phrase: a brighter future.

Mr. Wolf is senior economic adviser at the RAND Corporation and a senior research fellow at the Hoover Institution.