Reference ID	Created	Released	Classification	Origin
09BAGHDAD3003	2009-11-15 14:50	2011-08-30 01:44	CONFIDENTIAL	Embassy Baghdad

SUBJECT: BIG OIL'S ABOUT-FACE ON IRAQ: THREE WORLD CLASS OIL CONTRACTS IN ONE WEEK

¶1. (U) The first week of November saw significant progress towards realizing the GOI's vision of tripling oil production over the next eight years. On November 1, a consortium led by Italian firm ENI and including U.S. firm Occidental and South Korea's Kogas initialed a contract for the Zubair oil field in southern Iraq. On November 3, a consortium led by BP and including China National Petroleum Company (CNPC) signed their contract for Rumaila oil field, one of the largest oil fields in the world. Finally, in a nail-biting finish, the GOI on November 5 announced that it would award the West Qurnah (phase 1) oil field to a consortium led by ExxonMobil and including Royal Dutch Shell (edging out late competition from a Lukoil/ConocoPhillips consortium). According to the development proposals offered by the consortia, over the next six to eight years these fields should see the first trache of what will ultimately be approximately USD 85 billion in capital investment, billions more in operating expenses, and an incremental projected 4.7 million barrels per day of oil production (1.8 MMbpd from Rumaila, 900,000 bpd from Zubair, and just over 2.0 MMbpd from West Qurnah).

¶2. (C) Despite these developments, press accounts continue to refer to the "failed" June 30 first oil licensing round, because only the BP/CNPC deal closed at that ceremony. However, as the terms of the contracts on offer were clarified -- notably including tax treatment -- other firms continued to pursue their initial bids. Both ExxonMobil and ENI were the winning bidders on their respective fields in the first bid round, and each subsequently accepted the maximum remuneration fee offered by the GOI, a fee that many commentators at the time were quick to dismiss as absurdly low. In short, though it took several months, each of the three fields mentioned above was ultimately awarded as a result of and according to the terms of the first bid round. If it was ever correct to refer to the first bid round as a failure, that characterization is demonstrably false now. (See Baghdad 2661 for Embassy,s reassessment of the first bid round.) (Comment: That said, we doubt this was how Shahristani had envisioned the process playing out. He overplayed his hand on June 30 and was forced into follow-on negotiations in order to salvage the contracting process. But his rigidity during the first bid round contributed to his political ability to continue to pursue these deals. Because standing firm against the oil companies proved Shahristani's bona fides as a defender of Iraqi interests, he could engage in follow-on negotiations without opening himself up to accusations of selling out to foreign interests. End Comment.)

¶3. (C) The next hurdle will be validating the proposed process for approving these oil field development contracts. Many lawyers within the GOI and parliamentarians argue that according to a 1967 law, only the Council of Representatives (CoR, the Iraqi Parliament) can approve these contracts. Shahristani, backed by Prime Minister Maliki, argues instead that approval by the Council of Ministers is sufficient. Chairman of the CoR Oil and Gas Committee Ali Balo (KDP) and Second Deputy Jaber Khalifa Jaber (Fadhila) have each told econoffs (see Baghdad 2834) and repeated in the press their Qeconoffs (see Baghdad 2834) and repeated in the press their concerns over the legality of the oil contracts and whether any future government would be bound to respect them. (Comment: Other political motives are at work as well. Balo, acting on behalf of the KRG, likely seeks to block progress on oil deals -- which are critical to the GOI -- to pressure the GoI on other issues important to Erbil. Jaber professes to be merely defending CoR equities in demanding oversight, but attacks on the oil deals and on Shahristani could also be a show of displeasure with Maliki's refusal to merge his State of Law electoral coalition with the Shi'a-dominated Iraq National Alliance. Moreover, Jaber's political party, Fadhila, still has an axe to grind over the ouster of former Oil Minister Ibrahim al-Uloum, a Fadhila member, in 2006. End Comment.)

¶4. (C) Shahristani appeared before the CoR on November 10 and ¶11. In private, Balo had been frank in his expectation that general dissatisfaction with Shahristani, coupled with the anticipated poor performance under questioning, would lead the CoR to call for a vote of no confidence in the Minister.

That's not how it worked out. Shahristani easily parried Jaber's accusations of corruption and incompetence. Indeed, Shahristani was able to deflect some of the mud Jaber was flinging back onto Jaber's Fadhila. In the end, Jaber scored few, if any, points and Shahristani came out of the interrogation relatively unscathed and possibly even strengthened. This comes at a time when KRG Minister of Natural Resources Ashti Hawrami is under investigation for insider trading with DNO. These new oil contracts and a stronger Shahristani would diminish KRG,s leverage to secure an advantageous revenue sharing agreement with GOI.

¶5. (C) What can we expect to see in the second bid round? Only a few of the fields on offer (perhaps West Qurnah Phase 2, Majnoon, and Halfaya) are likely to generate significant interest. With three Iraqi super-giant oil fields locked up already, other companies could view bid round two as their last chance to participate in the black gold-rush. On the other hand, none of those first bid round fields have broken ground, and doubts over technical and legal issues remain. There is less data available to bidders on many of the second round fields compared to those offered in the first bid round. Add to this on-shore and off-shore export infrastructure limitations (see Baghdad 2975), and it would be reasonable for firms to remain prudent. We expect to see one or two significant fields awarded in December, possibly to super-major oil companies that are not already represented in Iraq. (ChevronTexaco and Total are two obvious possibilities.) We particularly expect they would seek to acquire West Qurnah Phase 2, to leverage other surface infrastructure developments in nearby WQ Phase 1 and Rumaila oil fields. With nearly 5 MMbpd of new oil production on the way, a runaway success in bid round two is no longer needed, and might even be counterproductive. We also predict continued insistence by some parliamentarians that the CoR must approve oil contracts, an insistence that will be driven by political considerations rather than a principled defense of institutional prerogatives. With nearly USD 100 billion in investments on the table from bid round one, we predict the GOI will find it exceedingly difficult to challenge, much less abrogate those contracts. However, it might well spur them to take a firm stand with regard to any contracts that come out of bid round two. (Note: Bid round two is scheduled for December 11-12, 2009.)