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SUBJECT: CHEVRON ON IOC INVESTING IN IRAQ

¶1. (C) Summary: Meeting with ACMAT Haslach, Chevron expressed eagerness to return to Iraq, but not at any price. The company might join one of the ten consortia that were awarded contracts from Iraq's two oil bid rounds in 2009; Total is a likely partner. Chevron suggested that differences in international oil companies' (IOCs') investment portfolios and objectives will continue to determine which IOCs are most interested in investing in Iraq. Thin profit margins, lack of export infrastructure, lack of world demand for incremental oil production, and lack of skilled tradesman are the disincentives to IOC investing in Iraq, according to Chevron. Chevron predicted that Iraq will lower its total oil production target from 12 million barrels per day (Mbpd) and argued that 6-7 Mbpd would be a better target. Finally, Chevron expressed strong interest in a bid round for exploration blocks, which it said would be politically and economically attractive. End summary.

Chevron Wants to Invest in Iraq but Not at Any Price
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¶2. (C) In a February 14 meeting with Assistant Chief of Mission for Assistance Transition (ACMAT) Haslach, Chevron Vice President (and Iraq Country Manager) Donald MacDonald said Chevron is eager to return to Iraq, but not at any price. He disclosed that Chevron might join one of the ten consortia that were awarded contracts from Iraq's two oil bid rounds in 2009 (ref C). He indicated that Chevron also was examining other ways to invest in Iraq, but provided no details. He mentioned the French company Total as a likely partner. (Comment: Chevron was Total's original partner for both bid rounds, but refused to join Total's final bids, because Chevron regarded the bids as unreasonably low. Total is in a consortium, led by CNPC (China National Petroleum Corporation) that was awarded the Halfaya oilfield in the second bid round. MacDonald may have been suggesting that Chevron might join this consortium. End comment.)

¶3. (C) MacDonald said the very low remuneration fees and very high plateau production targets in the awarded contracts were making Chevron hesitant to join one of the ten consortia. "Any investment in Iraq must compete with the rest of Chevron's investment portfolio and our current portfolio is strong," he underscored. To support Chevron's cautious approach to Iraq, MacDonald referenced a recent Goldman Sachs's report that suggests oil-sector investment opportunities in Iraq are much less attractive than many other oil-sector investment opportunities around the world.

Diverse Motivations Drive IOC Investment in Iraq
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¶4. (C) When pressed on why other IOCs had found investment in Iraq attractive while Chevron had not, MacDonald amplified his early point by saying that every IOC's investment portfolio and investment objectives are different. He said an investment in Iraq will fit better into some portfolios than others. MacDonald added that some companies, like Lukoil, have been compelled by objectives other than profit, such as home-government imperative, to seek investment in Iraq at almost any price.

¶5. (C) MacDonald also stated that, during the bid rounds,
Q5. (C) MacDonald also stated that, during the bid rounds,
aggressive bidding from Western IOCs came primarily from the former partners in the defunct Iraq Petroleum Company. (Comment: The Iraq Petroleum Company (IPC) was formed in the early 1900s to seek the first concession to explore for Iraqi oil. Although it evolved over the years, its IOC partners

eventually were the companies now known as BP, ExxonMobil, Royal Dutch Shell, and Total. Excluding the companies that are state owned or controlled, Occidental Petroleum was the only Western IOC that is not a former IPC partner and that bid aggressively enough to be awarded a contract from Iraq's 2009 oil bid rounds. MacDonald's implication seemed to be that former IPC partners have better knowledge of some of the oilfields offered for bid or have historical reasons for wanting to reinvest in Iraq. End comment.)

Disincentives to IOC Investment in Iraq

¶6. (C) When asked why Chevron did not bid in Iraq's second bid round, MacDonald said the "structure of the bid round prevented a competitive bid." (Comment: MacDonald seemed to imply that Chevron declined to compete with the aggressive bidding that ensured thin profit margins. End comment. See ref D.) When asked what, other than low remuneration fees and high production targets, might discourage Chevron from investing in Iraq, MacDonald identified the lack of export infrastructure (ref B) and the lack of short-term world demand for the large increase in oil production that Iraq is now planning. (Comment: MacDonald expressed no concern over legal or political risks. This is a trend in our conversations with IOCs. We assume this trend means that IOCs now regard these risks as relatively reasonable, especially for those companies eager to have a presence in Iraq's oil sector. End comment.)

¶7. (C) Regarding export infrastructure, MacDonald opined that Iraq did not yet fully understand what infrastructure will be needed and that it will likely not be ready in time. Regarding oil production, he again stated that the production targets for the awarded contracts are too high. He suggested that if Iraq's total production target was only 6-7 Mbpd, Iraq would benefit from better oilfield reservoir management and over the long term would extract a higher percentage of oil from its reservoirs. (Comment: Chevron has specific reservoir expertise in some of Iraq's oilfields, in part from reservoir studies completed several years ago (ref A). End comment.)

¶8. (C) MacDonald lamented Iraq's lack of skilled tradesman (e.g., welders and electricians) that meet IOC qualifications and suggested that Iraq needed a formal apprentice system for tradesman. (Comment: This is a frequent lament of all the IOCs. End comment.) He predicted that Iraq's oil sector would need more than 20,000 qualified tradesmen in three to six years.

¶9. (C) MacDonald predicted that the total production plateau that Iraq can achieve in the short term will be well below the current target of 12 Mbpd. For that reason, he predicted that Iraq will eventually seek to renegotiate its ten contracts with the IOCs. "And I have never seen a renegotiated contract benefit an IOC," he said.

Alternatives for IOC Investment in Iraq

¶10. (C) When asked whether Chevron would consider investing in an area of Iraq's oil sector other than exploration and production, MacDonald said Iraq was "too far away" (geographically) from "anywhere" for Chevron to invest in Iraq's refining or petrochemicals industries.

¶11. (C) In response to an inquiry about whether Chevron might participate in a bid round for exploration blocks, MacDonald expressed strong interest. He explained that since production from such a bid round would not begin for at least seven years, awarding contracts for exploration blocks might be politically and economically attractive. He predicted such contracts would encourage smaller firms to invest across a number of Iraq's provinces, especially provinces that currently have little or no oil production. He suggested that the eventual production from such investments could provide a wave of incremental oil production for Iraq about the time it might be needed.