
Analysis : Big Oil To Sign Iraq Deals Soon

By Ben Lando

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Big Oil's big dreams are close to coming true as Iraq's Oil Ministry prepares deals for the country's largest oil fields with terms that aren't necessarily what companies were hoping for but considered a foot in the door of the world's most promising oil sector.

Iraq's proven oil reserves are only smaller than those in Saudi Arabia and Iran -- and the country is only about 30 percent explored.

Iraq produces about 2.4 million barrels per day, a recent increase from the 2 million bpd post-invasion average, but far below what its reserves could handle.

Its oil sector is suffering from decades of Saddam Hussein-era mismanagement, U.N. sanctions and the effects of the current war.

The decision of how to develop a resource that provides for nearly the entire federal budget is political and controversial. To each side's alarm, the national government will rely on a Saddam-era law and Iraq's Kurdish region is signing deals on its own.

Details of negotiations between the ministry and international oil majors are being kept quiet, though media are picking up on pieces of deal-making.

MarketWatch reports executives from BP and Shell were to meet with Oil Minister Hussain al-Shahristani following Wednesday's meeting of the Organization of Petroleum Exporting Countries in Abu Dhabi. The global energy information firm Platts reports top ministry and company officials are to meet in Amman this week.

Shahristani himself dropped hints to United Press International in a recent interview. He said he's moving forward with oil deals despite the lack of a new national oil law, a draft of which has been stalled in negotiations for more than a year.

"This has nothing to do with the national oil law.

There is no timeline. Whenever we finish our discussions we'll just sign the contracts," he told UPI on the sidelines of the OPEC heads of state summit last month.

"This is basically technical-support contracts," he said, adding the contracts will not be the result of a bidding process. "Selected companies will offer us technical support that we need to develop our producing fields."

Develop producing fields? "Yes, only."

With the companies who are helping to, who have been studying them, who have been doing this work? "Yes.

Exactly. That's right."

How many fields? "We will not be announcing anything until we sign the contracts."

Super giants? "They are the super giants, yes."

Super giant fields are those with at least 5 billion barrels in reserves, and in Iraq include the Kirkuk, Majnoon, Rumaila North and South, West Qurna and Zubair fields. Reserves of the Nahr Umr and East Baghdad fields may also reach 5 billion barrels, and there are many large producing fields rumored to be on the negotiating table.

The world's largest oil companies are keen on entering Iraq, as their own booked reserves decline and a growing bulk of global reserves are under nationalized systems.

Oil company officials met with U.S. officials, including Vice President Dick Cheney, prior to the war and since, to discuss contracts for Iraq's oil. Former top officials of the companies were tasked by the U.S.-led occupation with advising the Oil Ministry.

"This means that it is pay-off time for the majors that have been running training courses for Oil Ministry personnel, reservoir surveys, drawn up work-plans and given general advice during the past years," said Samuel Ciszuk, Middle East energy analyst for Global Insight. "It is clever."

He said forgoing bidding allows the ministry to move quickly, as well as prove wrong critics, such as the Iraqi Kurds.

According to insiders to whom UPI talked recently as well as media reports, Shell, which produced a technical study of Kirkuk in 2005, wants a deal for the field. BP wants one for Rumaila, which it studied last year. Shell and BHP Billiton are angling for the Missan field in the south. ExxonMobil is interested in the southern Zubair field while the Sabha and Luhais fields are being targeted by Dome and Anadarko Petroleum.

ConocoPhillips is talking with the ministry about the West Qurna oil field, officials with Russian major Lukoil told Dow Jones Newswires. Lukoil, of which Conoco is a 20 percent shareholder, had a deal with Saddam Hussein for West Qurna in the 1990s, but it was cancelled prior to the war.

Chevron and Total have teamed up in a bid for the Majnoon field.

Less than 1 percent of Iraq's proven reserves are located in the area controlled by the Kurdistan Regional Government, but limited successful exploration and geological formations have the KRG excited with prospects.

Bolstered by contempt for central control and the sluggish pace of the oil law, the KRG has passed its own regional oil law and signed more than 20 exploration and production deals with international oil firms.

Shahristani has called the KRG deals "illegal" and a dispute is slowly brewing in Baghdad. None of the major companies has signed with the KRG, fearing being blacklisted by Baghdad from the rest of Iraq's bounty.

Shahristani, growing impatient himself, has started his negotiations, though the KRG claims the Saddam-era law is illegitimate. Washington, which maintains an emphasis on approving a new oil law, has given Shahristani its blessing.

Iraq's oil sector was fully nationalized in 1972 and power was concentrated in the hands of the Iraqi National Oil Company. INOC is temporarily defunct, and its role has been incorporated into the ministry.

The ministry can sign the service contract deals on its own, though it may need to get Cabinet approval first.

But if it were to sign any risk or concession contracts, such as production-sharing contracts like the KRG, it would need parliamentary approval under the Saddam-era law.

And while service contracts would be highly profitable for companies, Big Oil wants risk contracts. Such deals are usually long term, covering its exploration costs and guaranteeing a profit if oil is found, and allowing them to put the reserves it discovers on the books, a boon in Wall Street's eyes.

Aside from security -- which if it stays bad would make the deals costlier for Iraq -- there's relatively little risk in exploring for crude in Iraq.

Historically it has been easy to find, inexpensive to produce and top quality.

Supporters of the popular nationalized structure in Iraq -- led by the powerful oil unions -- and campaigners who fear the ultimate end to the war is the heist of Iraq's oil wealth are against risk contracts.

Hassan Jumaa Awad, president of the umbrella Iraqi Federation of Oil Unions, told UPI in London last week that service contracts bringing new technology and training will suffice.

"National expertise and resources," he said, "are capable of enhancing production in the oil industry."
