Iraq’s Oil Auction Hits the Jackpot

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BEIJING – Former United States vice president Dick Cheney, ex-defense minister Donald Rumsfeld and assorted US neo-cons will have plenty of time to nurse their apoplexy. One of their key reasons to unleash the war on Iraq in 2003 was to seize control of its precious oilfields and thus shape a great deal of the new great game in Eurasia – the energy front – by restricting the access of Europe and Asia to Iraq’s staggering 115 billion barrels of proven oil reserves.

After at least US$2 trillion spent by Washington and arguably more than a million dead Iraqis, it has come to this: a pipe dream definitely buried this past weekend in Baghdad with round two of bids to exploit a number of vast and immensely profitable oil fields.

The bids, supervised by the Oil Ministry, were presented on a live TV game show. Instead of *American Idol*, Iraqis got “Oil Idol”. In a raucous carpet bazaar atmosphere, the ministry played “my way or the highway” and forced 44 foreign Big Oil corporations to cut to the max the fee they collect on every barrel extracted in Iraq and submit to 20-year contracts. These multinationals were not given a share in Iraqi oil production; they will be paid a $2 fee per barrel for raising output above a mutually agreed level.

Still, for Big Oil, the possibility of having a crack at all those mega-giant fields in Shi’ite-controlled southeast Iraq – the largest concentration of its kind in the world – led all players to yell , “It’s raining oil!” Once you’ve paid the ticket, you’re inside the theater. And what a theatre … The Iraqi government may end up paying foreign Big Oil as much as $50 billion for its know-how. All these “service” deals will dodge Iraq’s parliament – which might throw a wrench in the works. And Big Oil will still get $2 for each barrel of extra crude above a minimum production target.

In June, Iraq held its first oil auction, offering foreign companies the chance to increase production at already-pumping fields. The latest auction was the first time foreign firms could bid on untapped fields. Of the 10 groups of fields available, seven were awarded.

Win-win for Russia and China

Cheney’s and Rumsfeld’s script was never supposed to develop like this. Instead of US Big Oil getting the lion’s share, strategic competitors Russia and China turned out to be big winners. Dick Cheney’s “consolation prize” was an Exxon-Mobil-Shell alliance getting the phase 1 of West Qurna in early November. Exxon-Mobil had been the favorite to also win Rumaila (17.8 billion barrels of reserves). But a BP-CNPC (China National Petroleum Corporation) alliance got it in the end because unlike Exxon-Mobil they agreed to cut their fee per barrel down to the Oil Ministry-enforced $2.

CNPC (50%), along with partners Total from France (25%) and Petronas from Malaysia (25%), was also a big winner for Halfaya (4.1 billion barrels of reserves, projected output of 535,000 barrels per day (bpd)), southeast of Amara.

Petronas again (with 60%), and the Japan Petroleum Exploration Company (Japex), with 40%, will invest a cool $7 billion to develop Gharaf (reserves of around 860 million barrels, projected output of 230,000 bpd). Bidding was fierce. Losers were a joint Turkish-Indian bid, a Kazakh/South Korean/Italian consortium, and Pertamina from Indonesia.

A Petronas-Shell alliance got the highly coveted Majnoon (reserves of more than 12 billion barrels, projected output of 1.8 million bpd), near the Iranian border. Russia's Lukoil (85%), with junior partner Statoil (15%), got phase 2 of the immense West Qurna (located 65 kilometers northwest of Basra; about 12 billion barrels of reserves; projected production of 1.8 million bpd) – which in theory it had already bagged under Saddam Hussein. When Lukoil was stripped of its contract by Saddam, it blamed US-instigated United Nations sanctions, while Saddam blamed Lukoil itself.

West Qurna's phase 1 (8.7 billion barrels of reserves, with a projection to increase output from 300,000 bpd to 2.3 million bpd before 2016) was won in November by the aforementioned Exxon Mobil-Shell alliance. Losers were Total from France, a consortium of Petronas, Pertamina and Petrovietnam, and a BP-CNPC alliance.

Gazprom (40%), with junior partners TPAO, Kogas and Petronas, got Badra (projected production of 170,000 bpd). Unlike the mad scramble for the southern fields, no one even bid for the East Baghdad field, for obvious reasons: it's located in a virtual war zone. [1]

The Shi'ites are coming!

Iraq nationalized its oil industry in 1972. Now Big Oil is back with a vengeance. Iraqi Oil Minister Hussain al-Shahristani made no bones about Iraq's ambitions, saying, "Our principal objective is to increase our oil production from 2.4 million barrels per day to more than four million in the next five years." Iraq is at present exporting less oil than under Saddam, but it aims to export seven million barrels a day by 2016. Shahristani also insists "our country will have total control over production".

That is enormously debatable.

For the moment, Prime Minister Nuri al-Maliki's government in Baghdad is obviously a winner. Iraq currently gets only $60 billion a year in oil revenues. It's not enough to rebuild a country destroyed by the Iran-Iraq war of the 1980s, UN sanctions and the American occupation. Arguably, Iraq's oil industry would not have sufficient funds, equipment and technical people to get back on its feet alone.

Whether with more oil revenues Baghdad will be able to impose law and order – starting with the capital – and fully equip its 275,000 military plus police forces, that's an open question. No one knows for sure who will be in control of Iraq in the near future, with parliamentary elections due early next year. A new government may be tempted to renegotiate these contracts, or even invalidate them.

In the next few years, with Iraq being able to reach the target of producing at least four million barrels a day, it's fair to argue this won't substantially influence the price of oil; but it will prevent it from shooting up out of proportion. China is now importing over four million bpd – and this will continue to rise. China by itself will be gobbling up any output increase in the global oil market.

What the early 2010s will definitely see is the rise of a relatively wealthy, Shi'ite-controlled Iraq friendly with Iran and Lebanon's Hezbollah. Essentially, Shi'ite Islam on the rise. The US-friendly autocracies and dictatorships in the Gulf will cry again, "It's the return of the Shi'ite crescent!" United States think-tanks may be tempted to define Maliki as the new Saddam. The only difference is that by then, Cheney and company will be safely ensconced in the dustbin of history.

Note
1. To see which companies got what in detail, go here

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