US firms lose out in bidding for Iraq oil fields

Patrick Martin
14 December 2009

In a clear signal of the declining influence of American capitalism, even in a country conquered and occupied by the US military, companies from China, Russia, Malaysia and Angola, along with several European oil giants, won most of the rights for exploration and development of Iraq's oil fields.

The concessions were awarded Friday and Saturday by the Iraqi oil ministry, after a competitive auction in which joint ventures of European and Asian companies won the lion's share. Of the ten concessions awarded so far, including in an earlier auction, US-based companies will play the lead role in only one, while getting a lesser share in a second.

The most aggressive bidder was the China National Petroleum Company (CNPC), while Lukoil and Gazprom of Russia, and European firms like Royal Dutch Shell, ENI (Italy), British Petroleum, Statoil (Norway) and Total (France) all won bids. Petronas, the state-owned Malaysian oil company, won the most bids, three, while the Angolan state oil company Sonangol won two.

A total of 15 oil fields were put up for bidding, but five received no bids, because they are located in areas in the center and north of Iraq still contested by insurgents or politically unstable, and considered too risky for significant investment. A sixth field drew only one bid. The main interest was in oil fields in the southern part of the country, around Basra.

The oil ministry offered fields with nearly 40 billion barrels in proven reserves, about one-third of Iraq's 115 billion total. Iraq has the world's third-largest proven reserves, trailing only Iran and Saudi Arabia, but most of these were discovered more than 25 years ago, before international sanctions cut off the flow of investment capital. The country is believed to have undiscovered reserves that could be as extensive as the oil already known to exist.

Discarding the production-sharing contracts initially proposed by US occupation officials—a structure that would have given the bulk of profits to the multinationals—the oil ministry offered 20-year service contracts in which the oil companies would receive a flat fee per barrel and any increase in oil prices will go to the Iraqi government.

The winning bidders agreed to accept fees in the range of $1.35 to $1.50 per barrel of oil, with the market price for oil now over $75 a barrel. According to oil minister Hussein Shahristani, the deals will allow Iraq to increase its oil output from the current level of 2.5 million barrels a day to as many as 12 million barrels a day in 2016, double the production level before the US invasion and more than Saudi Arabia produces today.

The biggest single field, Majnoon in the south, with an estimated 12.58 billion barrels in reserves, nearly a third of the total offered, was won by a combination of Shell and Petronas, which underbid the rival consortium of Total and CNPC. The Shell-Petronas consortium agreed to raise production from the current 45,900 barrels per day to 1.8 million barrels per day by 2019.

The second largest field, West Qurna Phase 2, with some 12 billion barrels in reserves, was awarded to a consortium led by Lukoil, Russia's second largest energy company. Lukoil had previously signed a contract to develop West Qurna Phase 2 in 1997, but Iraqi president Saddam Hussein subsequently reneged on the deal.

For the Halfaya field, with an estimated 4.1 billion barrels, Petronas, CNPC and Total submitted the winning bids, beating three other European and Asian consortiums. Output would increase from 3,100 barrels per day to 535,000 barrels per day by 2022.

The poor showing of the American-based oil companies was predictable, since seven of them registered and paid fees to participate, but only one

© World Socialist Web Site

actually submitted a bid to the latest auction. Two US companies, ExxonMobil and Occidental Petroleum, won bids during an earlier auction.

In an early summer decision, BP and CNPC won a contract to run the Rumaila oil field, the biggest in the world, with 17.8 billion barrels in proven reserves. ENI, Occidental Petroleum and Korea Gas signed an agreement last month to develop the Zubayr field, with an estimated 4.1 billion barrels in reserves. ExxonMobil and Shell signed a contract to develop West Qurna Phase 1, believe to hold 8.6 billion barrels.

Industry analysts cited two main reasons for the failure of the US companies. The European-Asian consortiums were able to combine technical expertise and relatively lower labor costs, allowing them to accept a lower per-barrel fee.

More significantly, the US companies needed higher fees to offset the substantially higher security costs they face in Iraq, due to the widespread popular hostility to the US occupation. Any US-run oil facility in Iraq would be a high-profile target for insurgent attack, and a successful attack could lead to colossal losses.

Iraq’s enormous oil resources were a major factor in the Bush administration decision to invade and conquer the country. Vice President Richard Cheney’s energy task force, which held closed-door meetings early in 2001, reportedly pored over maps of Iraq as part of the process of determining the source of future US oil supplies. US oil companies were kicked out of Iraq in 1972, along with all the other multinationals, when the Baathist regime in power at the time nationalized the oil industry.

The cost of production for Iraqi oil is very low, about $1.50 to $2.25 a barrel, rivaling Saudi Arabia’s. This compares to $20 a barrel in Canada’s tar sands, and figures in between for most offshore oil drilling, as in the Gulf of Mexico. The main difficulty is replacing equipment that is either outdated, because of the protracted economic sanctions, or destroyed by years of war and civil war.

Iraqi oil minister Shahristani said that the government has spent more than $8 billion trying to increase capacity, but needs $50 billion more, which it must seek from the global oil industry.

The deals are precarious not only because of the ongoing security issues, but because the legal position of the multinational firms is uncertain. Despite constant prodding from Washington, the Iraqi parliament has failed to adopt a law to regulate the oil industry and give legal protection to foreign investors.

The Kurdish regional government took unilateral action two years ago to invite Western exploration companies into the provinces it controls. The national government is now following suit, opening up the massive southern oil fields to foreign capital.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site