

From the Ambassador
Christopher Meyer KCMG

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British Embassy
Washington

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Sir D Manning KCMG
No 10 Downing Street

9100 Massachusetts Avenue, N.W.
Washington, D.C. 20008-3600

Dear David,

IRAQI OIL

1. You will have seen our reporting of the concerns of Shell and BP that other companies, particularly US, French and Russian, may be positioning themselves with the US Government and/or the Iraqi opposition to exploit Iraqi oil reserves following the lifting of sanctions. Nick Butler, Vice President of BP, called on Tony Brenton this week on the same issue.

2. The companies are well aware of the sensitivities of such discussions. We have made clear that the US motivation as regards Iraq parallels our own: this is a matter of national security, not oil. We emphasised the flat denials we had received from State Department that any such discussions are under way.

3. Nevertheless, the rumours persist. It is not clear, and probably never will be, what went on behind the scenes at the US/Russia energy "summit" in Houston last month. Indeed, it would be surprising if some serious consideration were not being given to how best to get the Iraqi oil industry back in economic business, given its strategic importance to the Iraqi economy. Oil companies obviously have the relevant expertise, and will need to be brought in. Those brought in at an early stage will have a natural advantage. We have seen a report from our team at CENTCOM which suggests that the Pentagon has already awarded a contract to Kellogg, Brown and Root, a subsidiary of Halliburton, to restore the Iraqi oil industry to production levels of 3 m bpd. (Halliburton is, of course, the company of which Cheney was previously chairman). We have so far been unable to obtain collateral for this from the Administration, and it might well in any case amount to no more than prudent contingency planning to stabilize Iraqi oil facilities if Saddam attempts to damage them in a conflict.

4. Either way, there is clearly an issue here which we need to tackle. Raising it in an effective way with the Administration is a delicate matter. My view remains that the

*Raised with Cond. Rice on 9/12 -
and recorded in a minute to the PM*

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Non-filip

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L. Rice

for papers for Washington (9 December) per [initials]

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only realistic way in to this is via a PM intervention with Bush. Their bilateral at Prague could offer an opportunity. The points to be made would be:

- Once Saddam has been disarmed (one way or another), we need to get the Iraqi economy going again. Iraq's oil industry will be central to that economic recovery.
- We, as you, have energy majors who have the skills and resources to help. I hope that UK companies will be invited to participate in any discussions with the corporate sector on Iraqi oil.
- To give the lie to suggestions that this campaign is all about oil, it is vitally important that, once sanctions are lifted, there is seen to be a level playing field for all companies to work in Iraq.
- We might each nominate an interlocutor to stay in confidential touch on this.

5. My view is that the above is the least that we should do. When I saw Jim Baker in Houston last month his clear advice was to put a marker down with this Administration fast. He reminded me - though I remember it well - that by being too squeamish and slow off the mark, the UK did badly out of the Kuwait reconstruction contracts in 1991. The US grabbed the lion's share.

*Yours ever,
Christopher*

Christopher Meyer

cc. Sir Michael Jay, KCMG,
FCO

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