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NOTE FOR Sir DAVID MANNING ON UK OIL COMPANY INTEREST IN IRAQ

This note was prepared following Jim Drummond's discussion with Bill Henderson of Trade Partners UK's International Group on the above subject and the possibility that Sir David Manning may brief the Prime Minister on this issue, but as a first step planned to discuss it with Ms Rice of the NSC.

LINE TO TAKE

- HMG has had discussions with a number of UK companies involved in the oil, gas and petrochemical sectors about re-construction/re-facilitation of Iraq's oil sector at some stage in the future. These discussions have taken place amid concerns that talks are being held between US officials and companies involved in these sectors from the US and other countries, e.g. Russia, without any involvement of the UK.
- Although it would not be appropriate for UK to enter in to any detailed discussions that might be seen to be premature, we are concerned to ensure that our companies have access to a level playing field in any future post-conflict scenario.
- Request that HMG and relevant British companies are involved in future discussions on contingency planning on Iraq in the oil, gas and petrochemical as well as other sectors.

BACKGROUND

With proved reserves of 112.5 billion barrels of oil (10.7% of world reserves) Iraq is second only to Saudi Arabia in terms of remaining oil reserves. In addition to this Iraq has proven gas reserves, largely associated with oil, of around 110 trillion cubic feet (tcf), comparable in size to those the entire EU. Further more, exploration in Iraq is relatively immature and yet-to-find (YTF) reserves have been estimated at between 50 and 200 billion barrels of oil. This magnitude of YTF reserves is unmatched anywhere in the world.

To date over 80 fields have been discovered in Iraq, but only 15 have been put in to production. There are over 12 giant fields (reserves greater than 1 billion barrels) essentially undeveloped. These fields alone contain over 50 billion barrels of oil. By

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comparison, the USA's proven reserves amount to 30 billion barrels and the UK's less than 5 billion.

Based on these reserves Iraq has the potential to be an extremely important future player in the supply of oil and gas to world markets. The country's undeveloped resource base is technically capable of supporting a production rate of over 10 million barrels of oil per day (mmbopd). However, due to various factors including the Iraq's policy towards OPEC, availability of investment capital and the ability of the global market to absorb this level of production without a price collapse it is unlikely such levels will be attained. It is suggested that a first phase of development to 4 mmbopd could take place. This would require \$20 billion investment over a five-year period. To expand capacity to 6 mmbopd, investment may reach a further \$30 billion over a ten-year period.

Despite the vast sums required to develop Iraq's reserves, there is a great deal of interest from International Oil Companies to become involved in this. This is based on the fact that, although modern technologies will be required to undertake this work, Iraq's reserves are considered amongst the cheapest in the world to develop, driven by having large, onshore fields with simple geological structures.

UK oil and gas producing companies and their supply and service companies are keen to play a part in any future development, or re-development, in Iraq. However, there are concerns over reports that American officials are in discussion with oil companies both from the US and other countries, notably Russia, about future developments and that the UK may be left out of any plans being developed for this sector. A meeting was held between Baroness Symons and representatives of BP, Shell and BG Group on 31 October to discuss their concerns (see attached copy of briefing for, and note of this meeting). An additional meeting between the Baroness and BP on this issue is planned for 4 December. A further meeting with all three companies to discuss this subject is proposed in the not-too-distant future.

It would be inappropriate for HMG to enter into discussions about any future carve-up of the Iraqi oil industry. None-the-less it is essential that our companies are given access to a level playing field in this and other sectors after the resolution of current issues. This is especially so given that if for one reason or another UK oil companies are not given an fair opportunity to access Iraqi reserves this could have a major impact on their position in global markets. It is recommended, therefore, that action is taken to ensure that the UK is represented in any future discussion on contingency plans for this and other important sectors within Iraq. **It would be inappropriate for HMG to enter into discussions about any future carve-up of the Iraqi oil industry, not least because it would suggest that our objectives on Iraq are other than to see the effective disarmament of Saddam Hussein's regime.**

Regrettably, in the time available we have been unable to produce a list showing current involvement of foreign oil companies in Iraq. However, companies from more than a dozen countries including France (TotalFinaElf), Russia (LUKoil and Zarubezhneft), Italy, Spain, Turkey, China and India have reached agreement or begun negotiations with the Iraqi authorities on developments in this sector.

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The following papers, which we unfortunately do not have available electronically, may also be relevant;

- Washington Telno 1256 of 1 October
- Record of Edward Chaplin's meeting with Shell: 2 October
- Washington Teleletter of 9 October
- Christopher Segar's (FCO AMED) minute of 10 October

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