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BP/IRAQI ENERGY

Summary

1. Iraq is the big oil prospect. BP are desperate to get in there and anxious that political deals should not deny them the opportunity to compete on equal terms.
2. The long term potential is enormous, but BP think production after regime change will only build up relatively slowly: there will not be a dramatic early impact on the oil market.

Detail

3. You hosted a presentation by a BP team led by John Paniguian on Iraqi energy on 6 November. We had in advance steered them away from the immediate political and military questions, and the presentation and discussion were accordingly largely technical and focused on post regime change issues.
4. The following picks a few points from a detailed presentation. Copies of BP's handout are available on request.

Iraq's importance/BP positioning

5. Lest there was any doubt, the presentation spelt out why Iraq is special for the oil companies. It has not only the second largest proven oil reserves in the world but unique 'yet-to-find' potential: in other words, because it has been so poorly explored the geologists reckon that proven reserves understate the true position by far more than elsewhere. BP's own assessment of the size of yet-to-find oil suggests that Iraqi reserves could be rather over 200bn barrels compared to 250bn or so in Saudi Arabia. There are other higher estimates which could put Iraq on a par with Saudi Arabia. As if that were not enough, oil production costs - in the range of \$0.5-1.0 per barrel - are the lowest in the world.
6. Almost as an afterthought, there is major gas potential too, with a potential revenue stream of \$1bn pa. Most gas is flared at present.
7. BP therefore regard Iraq as 'vitally important - more important than anything we've seen for a long time' and would be prepared to take some big risks in support of a rehabilitation programme. They made clear

- (a) that a level playing field for IOCs in Iraq was enormously important for them. You told them this message was well understood; and
- (b) that they were particularly nervous about the prospect of the present regime's deal with TotalFinaElf on exploiting Majnoon [the giant field, 30 miles north of Basra on the Iranian border, which has reserves of 12-20 billion barrels] being allowed to stand. If it did it would add 10bn barrels overnight to TFE's reserve base and catapult the company to the top of the IOC league table: the combined reserves of ExxonMobil, Shell and BP were around 30bn barrels.

Potential Iraqi oil production

8. The potential is huge but the industry is in a mess. The reserve base is more dilapidated (sic) than anywhere else in the world, with numerous unsatisfactory short-cuts taken in order to keep production up. Production from the two big fields which dominate production is falling, so the industry has to run fast to stand still.

9. BP reckon that

- large investments will be needed simply to keep a level of 2.7-2.8mbd going. With the best technology this will be possible using existing producing fields alone;
- for production to reach 4mbd it will take c\$20bn of new investment and 5-7 years; to reach 6mbd, an additional \$30bn and 8-10 years.

They regard these latter figures as feasible. They see the bulk of the finance for this new investment coming from the private sector: like us, they anticipate the Iraqi government being under severe financial pressure.

10. BP did not seem to think it likely that OPEC constraints would stand in the way of Iraq expanding production. In discussion the way OPEC in general and Saudi Arabia in particular accommodated Iraqi aspirations was noted as an important uncertainty. More generally it was noted that although the effects on the oil market will be slow to build up, they will in due course be important. Resources will be diverted from other, higher-cost areas [including potentially Russia]. Western dependence on the Gulf will increase rather than reduce.

Kurdish oil

11. BP noted in passing that while (as is well known) most of the proved reserves are in the south, a high proportion of the yet-to-find oil is in the north [the 'Zagros extension' in the NE - sounds as if it must fall substantially in Kurdish areas]. This, though BP didn't say so, is potentially

politically important. There has always been an economic leg to the Kurdish leaders' acceptance of the principle of federation within Iraq, rather than independence: they have acknowledged that the Kurds should be better off as part of oil-rich Iraq.

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