Deals With Iraq Are Set to Bring Oil Giants Back

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> BAGHDAD — Four Western oil companies are in the final stages of negotiations this month on contracts that will return them to Iraq, 36 years after losing their oil concession to nationalization as Saddam Hussein rose to power.

Exxon Mobil, Shell, Total and BP — the original partners in the Iraq Petroleum Company — along with Chevron and a number of smaller oil companies, are in talks with Iraq's Oil Ministry for no-bid contracts to service Iraq's largest fields, according to ministry officials, oil company officials and an American diplomat.

The deals, expected to be announced on June 30, will lay the foundation for the first commercial work for the major companies in Iraq since the American invasion, and open a new and potentially lucrative country for their operations.

The no-bid contracts are unusual for the industry, and the offers prevailed over others by more than 40 companies, including companies in Russia, China and India. The contracts, which would run for one to two years and are relatively small by industry standards, would nonetheless give the companies an advantage in bidding on future contracts in a country that many experts consider to be the best hope for a large-scale increase in oil production.

There was suspicion among many in the Arab world and among parts of the American public that the United States had gone to war in Iraq precisely to secure the oil wealth these contracts seek to extract. The Bush administration has said that the war was necessary to combat terrorism. It is not clear what role the United States played in awarding the contracts; there are still American advisers to Iraq's Oil Ministry.

Sensitive to the appearance that they were profiting from the war and already under pressure because of record high oil prices, senior officials of two of the companies, speaking only on the condition that they not be identified, said they were helping Iraq rebuild its decrepit oil industry.

For an industry being frozen out of new ventures in the world's dominant oil-producing countries, from Russia to Venezuela, Iraq offers a rare and prized opportunity.

While enriched by $140 per barrel oil, the oil majors are also struggling to replace their reserves as ever more of the world's oil patch becomes off limits. Governments in countries like Bolivia and Venezuela are nationalizing their oil industries or seeking a larger share of the record profits for their national budgets. Russia and Kazakhstan have forced the major companies to renegotiate contracts.

The Iraqi government's stated goal in inviting back the major companies is to increase oil production by half a million barrels per day by attracting modern technology and expertise to oil fields now desperately short of both. The revenue would be used for reconstruction, although the Iraqi government has had trouble spending the oil revenues it now has, in part because of bureaucratic inefficiency.

For the American government, increasing output in Iraq, as elsewhere, serves the foreign policy goal of increasing oil production globally to alleviate the exceptionally tight supply that is a cause of soaring prices.

The Iraqi Oil Ministry, through a spokesman, said the no-bid contracts were a stop-gap measure to bring modern skills into the fields while the oil law was pending in Parliament.

It said the companies had been chosen because they had been advising the ministry without charge for two years before being awarded the contracts, and because these companies had the needed technology.

A Shell spokeswoman hinted at the kind of work the companies might be engaged in. “We can confirm that we have submitted a conceptual proposal to the Iraqi authorities to minimize current and future gas flaring in the south through gas gathering and utilization,” said the spokeswoman, Marnie Funk. “The contents of the proposal are confidential.”

While small, the deals hold great promise for the companies.

“The bigger prize everybody is waiting for is development of the giant new fields,” Leila Benali, an authority on Middle East oil at Cambridge Energy Research Associates, said in a telephone interview from the firm’s Paris office. The current contracts, she said, are a “foothold” in Iraq for companies striving for these longer-term deals.

Any Western oil official who comes to Iraq would require heavy security, exposing the companies to all the same logistical nightmares that have hampered previous attempts, often undertaken at huge cost, to rebuild Iraq’s oil infrastructure.

And work in the deserts and swamps that contain much of Iraq’s oil reserves would be virtually impossible unless carried out solely by Iraqi subcontractors, who would likely be threatened by insurgents for cooperating with Western companies.

Yet at today’s oil prices, there is no shortage of companies coveting a contract in Iraq. It is not only one of the few countries where oil reserves are up for grabs, but also one of the few that is viewed within the industry as having considerable potential to rapidly increase production.

David Fyfe, a Middle East analyst at the International Energy Agency, a Paris-based group that monitors oil production for the developed countries, said he believed that Iraq’s output could increase to about 3 million barrels a day from its current 2.5 million, though it would probably take longer than the six months the Oil Ministry estimated.

Mr. Fyfe’s organization estimated that repair work on existing fields could bring Iraq’s output up to roughly four million barrels per day within several years. After new fields are tapped, Iraq is expected to reach a plateau of about six million barrels per day, Mr. Fyfe said, which could suppress current world oil prices.

The contracts, the two oil company officials said, are a continuation of work the companies had been conducting here to assist the Oil Ministry under two-year-old memorandums of understanding. The companies provided free advice and training to the Iraqis. This relationship with the ministry, said company officials and an American diplomat, was a reason the contracts were not opened to competitive bidding.

A total of 46 companies, including the leading oil companies of China, India and Russia, had memorandums of understanding with the Oil Ministry, yet were not awarded contracts.

The no-bid deals are structured as service contracts. The companies will be paid for their work, rather than offered a license to the oil deposits. As such, they do not require the passage of an oil law setting out terms for competitive bidding. The legislation has been stalled by disputes among Shiite, Sunni and Kurdish parties over revenue sharing and other conditions.

The first oil contracts for the majors in Iraq are exceptional for the oil industry.

They include a provision that could allow the companies to reap large profits at today’s prices: the ministry and companies are negotiating payment in oil rather than cash.

“These are not actually service contracts,” Ms. Benali said. “They were designed to circumvent the legislative stalemate” and bring Western companies with experience managing large projects into Iraq before the passage of the oil law.

A clause in the draft contracts would allow the companies to match bids from competing companies to retain the work once it is opened to bidding, according to the Iraq country manager for a major oil company who did not consent to be cited publicly discussing the terms.

Assem Jihad, the Oil Ministry spokesman, said the ministry chose companies it was comfortable working with under the charitable memorandum of understanding agreements, and for their technical prowess. “Because of that, they got the priority,” he said.

In all cases but one, the same company that had provided free advice to the ministry for work on a specific field was offered the technical support contract for that field, one of the companies’ officials said.

The exception is the West Qurna field in southern Iraq, outside Basra. There, the Russian company Lukoil, which claims a Hussein-era contract for the field, had been providing free training to Iraqi engineers, but a consortium of Chevron and Total, a French company, was offered the contract. A spokesman for Lukoil declined to comment.

Charles Ries, the chief economic official in the American Embassy in Baghdad, described the no-bid contracts as a bridging mechanism to bring modern technology into the fields before the oil law was passed, and as an extension of the earlier work without charge.

To be sure, these are not the first foreign oil contracts in Iraq, and all have proved contentious.

The Kurdistan regional government, which in many respects functions as an independent entity in northern Iraq, has concluded a number of deals. Hunt Oil Company of Dallas, for example, signed a production-sharing agreement with the regional government last fall, though its legality is questioned by the central Iraqi government. The technical support agreements, however, are the first commercial work by the major oil companies in Iraq.

The impact, experts say, could be remarkable increases in Iraqi oil output.

While the current contracts are unrelated to the companies’ previous work in Iraq, in a twist of corporate history for some of the world’s largest companies, all four oil majors that had lost their concessions in Iraq are now back.

But a spokesman for Exxon said the company's approach to Iraq was no different from its work elsewhere.

"Consistent with our longstanding, global business strategy, ExxonMobil would pursue business opportunities as they arise in Iraq, just as we would in other countries in which we are permitted to operate," the spokesman, Len D'Eramo, said in an e-mailed statement.

But the company is clearly aware of the history. In an interview with Newsweek last fall, the former chief executive of Exxon, Lee Raymond, praised Iraq's potential as an oil-producing country and added that Exxon was in a position to know. "There is an enormous amount of oil in Iraq," Mr. Raymond said. "We were part of the consortium, the four companies that were there when Saddam Hussein threw us out, and we basically had the whole country."

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