

China Is Reaping Biggest Benefits of Iraq Oil Boom, By TIM ARANGO and CLIFFORD KRAUSS

BAGHDAD — Since the American-led invasion of 2003, Iraq has become one of the world's top oil producers, and China is now its biggest customer.

China already buys nearly half the oil that Iraq produces, nearly 1.5 million barrels a day, and is angling for an even bigger share, bidding for a stake now owned by Exxon Mobil in one of Iraq's largest oil fields.

“The Chinese are the biggest beneficiary of this post-Saddam oil boom in Iraq,” said Denise Natali, a Middle East expert at the National Defense University in Washington. “They need energy, and they want to get into the market.”

Before the invasion, Iraq's oil industry was sputtering, largely walled off from world markets by international sanctions against the government of Saddam Hussein, so his overthrow always carried the promise of renewed access to the country's immense reserves. Chinese state-owned companies seized the opportunity, pouring more than \$2 billion a year and hundreds of workers into Iraq, and just as important, showing a willingness to play by the new Iraqi government's rules and to accept lower profits to win contracts.

“We lost out,” said Michael Makovsky, a former Defense Department official in the Bush administration who worked on Iraq oil policy. “The Chinese had nothing to do with the war, but from an economic standpoint they are benefiting from it, and our Fifth Fleet and air forces are helping to assure their supply.”

The depth of China's commitment here is evident in details large and small.

In the desert near the Iranian border, China recently built its own airport to ferry workers to Iraq's southern oil fields, and there are

plans to begin direct flights from Beijing and Shanghai to Baghdad soon. In fancy hotels in the port city of Basra, Chinese executives impress their hosts not just by speaking Arabic, but Iraqi-accented Arabic.

Notably, what the Chinese are not doing is complaining. Unlike the executives of Western oil giants like Exxon Mobil, the Chinese happily accept the strict terms of Iraq's oil contracts, which yield only minimal profits. China is more interested in energy to fuel its economy than profits to enrich its oil giants.

Chinese companies do not have to answer to shareholders, pay dividends or even generate profits. They are tools of Beijing's foreign policy of securing a supply of energy for its increasingly prosperous and energy hungry population. "We don't have any problems with them," said Abdul Mahdi al-Meedi, an Iraqi Oil Ministry official who handles contracts with foreign oil companies. "They are very cooperative. There's a big difference, the Chinese companies are state companies, while Exxon or BP or Shell are different."

China is now making aggressive moves to expand its role, as Iraq is increasingly at odds with oil companies that have cut separate deals with Iraq's semiautonomous Kurdish region. The Kurds offer more generous terms than the central government, but Iraq and the United States consider such deals illegal.

Late last year, the China National Petroleum Corporation bid for a 60 percent stake in the lucrative West Qurna I oil field, a stake that Exxon Mobil may be forced to divest because of its oil interests in Iraqi Kurdistan. Exxon Mobil, however, has so far resisted pressure to sell, and in March the Chinese company said it would be interested in forming a partnership with the American company for the oil field.

If the United States invasion and occupation of Iraq ended up benefiting China, American energy experts say the unforeseen turn of events is not necessarily bad for United States interests. The increased Iraqi production, much of it pumped by Chinese workers, has also shielded the world economy from a spike in oil

prices resulting from Western sanctions on Iranian oil exports. And with the boom in American domestic oil production in new shale fields surpassing all expectations over the last four years, dependence on Middle Eastern oil has declined, making access to the Iraqi fields less vital for the United States.

At the same time, China's interest in Iraq could also help stabilize the country as it faces a growing sectarian conflict.

"Our interest is the oil gets produced and Iraq makes money, so this is a big plus," said David Goldwyn, who was the State Department coordinator for international energy affairs in the first Obama administration. "Geopolitically it develops close links between China and Iraq, although China did not get into it for the politics. Now that they are there, they have a great stake in assuring the continuity of the regime that facilitates their investment."

For China, Iraq is one of several countries it increasingly relies on to keep its growing economy running. China recently became the world's biggest oil importer, and with its consumption growing, it is investing heavily in oil and gas fields around the world — \$12 billion worth in 2011, according to the United States Energy Department. Over 50 percent of its oil imports come from the Middle East, even as imports from Iran have been reduced in recent years. "It's pretty simple," said Kevin Jianjun Tu, an expert on Chinese energy policies at the Carnegie Endowment for International Peace. "China needs more energy and needs to diversify its sources."

The Iraqi government needs the investment, and oil remains at the heart of its political and economic future. Currently OPEC's second largest oil producer after Saudi Arabia, the Iraqi government depends on oil revenues to finance its military and social programs. Iraq estimates that its oil fields, pipelines and refineries need \$30 billion in annual investments to reach production targets that will make it one of the world's premier energy powers for decades to come.

The revenue that investment would produce could either help pave over tensions between Kurds, Shiites and Sunnis, or worsen those tensions as competing camps fight over the spoils.

But the kind of investment that is necessary has required contracting the services of foreign oil companies that are not always enthusiastic about Iraq's nationalistic, tightfisted terms or the unstable security situation that can put employees in danger. Some like Statoil of Norway have left or curtailed their operations.

But the Chinese, frequently as partners with other European companies like BP and Turkish Petroleum, have filled the vacuum. And they have been happy to focus on oil without interfering in other local issues. "The Chinese are very simple people," said an Iraqi Oil Ministry official who spoke on the condition of anonymity because he did not have permission to speak to the news media. "They are practical people. They don't have anything to do with politics or religion. They just work and eat and sleep."

International energy experts said the Chinese had a competitive advantage over Western oil companies working in Iraq. They noted that the Chinese, unlike many Western oil companies, are willing to accept service contracts at a very low per barrel oil fee without the promise of rights to future reserves. While private oil companies need to list oil reserves on their books to satisfy investors demanding growth, the Chinese do not have to answer to shareholders.

The Chinese companies and their workers also win high marks for their technical expertise, as long as they are not working in complicated oil fields, like those in deep waters. "They offer a lot of capital and a willingness to get in quickly and with a high appetite for risk," said Badhr Jafar, president of Crescent Petroleum, an independent oil and gas company based in the United Arab Emirates and a big gas producer in Iraq. He said the Chinese were vital to Iraq's efforts to expand oil production, adding, "They don't have to go through hoops to get people on the ground and working."

Tim Arango reported from Baghdad, and Clifford Krauss reported from Houston.

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