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Iraqi oil: Once seen as U.S. boon, now it's mostly China's

By Sean Cockerham

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Ten years after the United States invaded and occupied Iraq, the country's oil industry is poised to boom and make the troubled nation the No.2 oil exporter in the world. But the nation that's moving to take advantage of Iraq's riches isn't the United States. It's China.

America, with its own homegrown energy bonanza, isn't going after the petroleum that lies beneath Iraq's sands nearly as aggressively as is China, a country hungry to fuel its rise as an economic power.

Iraq remains highly unstable in terms of security, infrastructure and politics. Chinese state-owned oil companies appear more willing to put up with that than Americans are.

"The Chinese have a higher tolerance for risk," said Gal Luft, a co-director of the Institute for the Analysis of Global Security, a Washington research center focused on energy.

The International Energy Agency expects China to become the main customer for Iraq's vast oil reserves. Fatih Birol, the agency's chief economist, recently declared "a new trade axis is being formed between Baghdad and Beijing." Birol said that about 80 percent of Iraq's future oil exports were expected to go to Asia, mainly to China.

Iraq's potential for oil production is huge. The International Energy Agency predicts that Iraqi production will more than double in the next eight years and that the country will be by far the largest contributor to growth in the global oil supply over the next two decades. By the 2030s, the agency expects Iraq to become the second largest global oil exporter, overtaking Russia.

American oil companies, in the meantime, are "barely active" in Iraq, said Robin Mills of Dubai-based Manaar Energy Consulting. There's Exxon Mobil, which is locked in a dispute with the Iraqi government and is looking to sell at least some of its stake in the giant West Qurna-1 oil field, with the state-owned PetroChina discussed as likely buyer. The other U.S. firm operating in Iraq is Occidental Petroleum Corp., Mills said, a company that has just a minority, non-operating stake in the Zubair oil field.

Iraq hasn't become the bonanza for big Western international oil companies that some might have expected when the U.S. invaded 10 years ago.

It's a different story, though, for the U.S. oil field services and engineering companies that have established dominant positions in Iraq. That includes Haliburton, the company that Iraq war booster Dick Cheney led before he became vice president.

Bush administration officials suggested shortly after the invasion that revenue from Iraq's oil fields could largely pay the cost of rebuilding the country. That turned out to be wrong, and $60 billion in American taxpayer funds ended up going into the reconstruction of Iraq. The war devastated Iraq's oil industry, as kidnappings, sabotage and attacks on infrastructure made it virtually impossible to do business.

While the industry's improvement in Iraq since 2009 has been substantial, according to analysts, the country remains a tough place to work. Huge problems remain with infrastructure, security and logistics.

The contract terms the Iraqi government offers oil companies also aren't attractive, said Trevor Houser, an energy specialist with the New York-based Rhodium Group consulting firm. China is expanding in Iraq because it needs the energy and it doesn't have alternatives that are as good as those of Western oil companies, he said.

The most profitable places in the world to work as an oil company are the North American unconventional fields – such as shale deposits in the Eastern U.S. – and the deepwater fields in West Africa or the Gulf of Mexico, Houser said. China has limited opportunities in those places, he said, with the state-owned oil company PetroChina lacking the technological sophistication needed for deepwater production.

"The fact that (PetroChina) is expanding in Iraq is not to me a sign of their strength, it's a sign of their relative weakness," Houser said.

Birol, the chief economist at the International Energy Agency, said that nearly a third of the future oil production in Iraq was expected to come from fields that either were directly owned or co-led by Chinese companies.

Oil companies from the U.S. and other Western nations have been more interested in the Kurdistan region of Iraq, a largely autonomous area that doesn't take orders from Baghdad. Kurdistan offers more stability and better contract terms to the international oil companies, to the fury of the Baghdad government, which is charged with handling international affairs and calls the contracts illegal.

Western oil companies generally have more attractive global investment opportunities than Iraq, said Luft, who's an adviser to the U.S. Energy Security Council, a nonprofit group that works to lessen dependence on fossil fuels..

They also need to answer to their shareholders, and they see the world differently from the way state-owned Chinese companies do, he said."The Chinese oil companies are more in tune with the geopolitical agenda of their government and respond less to shareholders," Luft said. "If Exxon operates somewhere and has to close down operations for a month, that would have an impact on investors. When the Chinese go into one of those places and something bad happens, there is not the consequence in terms of stock."

Luft said he didn't see Chinese development of Iraq's oil as a case of China enjoying the spoils of a war for which the U.S. had paid dearly both in lives and taxpayer dollars.

It's a myth that U.S. energy security relies on Middle Eastern imports, he said. Oil from the region makes up just a small percentage of what America uses. The U.S. will benefit if China or anyone else can get Iraqi's huge reserves developed and onto the market, he said. Since oil is a global commodity, he said, more oil on the market brings down prices.

"Energy security is about not only the availability of the resource but also about the cost," Luft said. "Anything that brings down global oil prices is positive for U.S. energy security."