CNPC, CNOOC and SINOPEC in Iraq: Successful Start and Ambitious Cooperation Plan

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Abstract: When China started to look for oil overseas in the 1990s, Iraq was struggling against the economic sanctions after the first Gulf War. At that time, China and Iraq had no chance for oil cooperation until the second half of the 1990s when the United Nations Security Council (UNSC) adopted the program of oil for food in 1996, which was in the signing of the first oil contract on the Al-Ahdab oil field. But this deal faced many problems due to the conflict between the Iraqi government and the UNSC at that time. The real beginning was after American invasion of Iraq in 2003, when the Chinese oil companies participated in the first and second biddings offered by the Iraqi Oil Ministry and the Chinese oil companies. Especially CNPC won very important contracts, when it signed contracts on big oil fields in the southeastern and southern parts of Iraq. In addition, the Chinese importing oil from Iraq started to increase rapidly during the last few years, and it is expected to reach high levels in the near future.

Key Words: China; Iraq; Oil Companies; Oil fields; Oil Security

The successful cooperation between the Iraqi Oil Ministry and...
Chinese oil companies resulted from highly mutual interests between China and Iraq. In the mid-1990s, the high officials’ visits of the two countries paved the way for making the first oil cooperation under the program of oil for food; senior Chinese and Iraqi officials have paid frequent visits. Some of these have occurred during the crisis periods. Besides the discussions of making economic and oil cooperation, the issues of Iraq’s compliance with UN resolutions and the UN sanctions regime have been given priority on the agenda. In August 1996, Shi Weisan, Director-General of the Africa and West Asia Department of the Ministry of Foreign Trade led a Chinese business delegation to Iraq (China Daily, 1996: August 24). Shi mentioned that Chinese firms were eager to help meet Iraq’s needs for machinery, building materials, telecommunications equipments and labors (Poole, T., 1996: November 12). Six months later, China’s Assistant Foreign Minister Ji Peiding led a commercial delegation to Baghdad. Those delegations arrived in Baghdad to conduct a survey and pursue the possibility of participating in the eventual reconstruction of Iraq’s industrial installations and infrastructure (BBC, 1996: December 17). In December 1996, shortly after the Security Council approved the UNSC Resolution 986 “oil-for-food program” which greatly expanded oil sales, permitted under the terms of the 1991 cease-fire by allowing Iraq to sell oil to customers who were selected by itself, with funds from those sales going into an account that it could use to import humanitarian goods. China investigated the possibility of oil-exploration deals and oil-field investment activities in Iraq, then China National Petroleum Corporation (CNPC) signed in June 1997 contract with Iraqi Oil Ministry involving a $1.3 billion investment to develop the Ahdab field in Iraq (Oil Daily, 2002: December 17). The development process would only begin once the UN sanctions against Iraq were lifted. However, because of the United Nations’ sanctions, Chinese oil company activity has reportedly been limited mainly to surveying work on Al-Ahdab. In 1998, CNPC began negotiations for a second
field, the Halfayah field, but no contract has been signed (Xu, X., 2000: June). During the first three years of the program, China’s role on the Security Council and its opposition to the continuation of sanctions made it a favorite of Iraqi officials. After that some other international oil companies tried to follow CNPC’s way to sign contract with Iraqi Oil Ministry, such as India’s ONGC and Indonesia’s Pertamina tried to sign agreements in 2000 for oil development in the Western Desert region, and PetroVietnam signed a preliminary agreement to develop the Amara fields (Marcel, V., 2002: 7). Also the Japanese oil companies tried to buy oil from Iraqi Oil Ministry using the same way (Japan Economic Newswire, 2003: August 15), but all these attempts failed due to US invasion to Iraq in 2003.

After US invasion to Iraq in 2003, China played an important role to give the UN the main role in Iraq, and the Chinese position coming with Chinese Ambassador’s (Wang Guangya) speech in United Nations, discussed Iraqi issue: “You have to recognize that the US is the biggest country in the world. If they do not want to participate in the UN, I don’t think the UN will work effectively” (Alterman, J. & Garver, J., 2006: 31). After the US occupation of Iraq, the political process in Iraq passed through very critical periods, whereas the security was the most important task for the Iraqi new government. Iraq experienced a series of the elections especially in 2005 and the election of March 7, 2010 (Al-Shafiy, M., 2011: January); during the period after the occupation, international oil companies were worried about the security condition in Iraq which made them hesitated to participate in the process of rebuilding the oil sectors in Iraq. As for the Chinese oil companies, although the violence in Iraq rises from time to time, Chinese oil companies continue to take active part in the processes of developing Iraqi oil industry.

CNPC, CNOOC and Sinopec worked to find their own way in Iraqi oil market. Among these three companies, CNPC was the most active and successful one, whereas CNPC signed three contracts, and
two of them shared with international companies, whose contracts were about big oil fields especially the contract of Rumilla oil field; CNOOC got an important contract in Missan oil fields shared with Turkish oil company; and Sinopec started its way toward Iraqi oil market from weak point when it got contract with local government of Kurd’s region without the approval of the central government in Baghdad which put obstacles in its way toward other oil fields in Iraq especially in the Middle and South of Iraq (New York Times, 2009: June 29);

Figure No.1. Map of the Iraqi oilfields invested by CNPC, CNOOC and SINOPEC

Chinese oil companies, like other oil companies, consider Iraq as a key strategic country. Chinese oil companies have proven to be willing to cut profits and to bear the political risks. According to the
specialists, the highest net increase in crude production capacity from 2010 to 2015 (from OPEC countries) will likely come from Iraq (Jiang, J. & Sinton, J., 2011: 20).

1.1 China National Petroleum Corporation (CNPC)

China National petroleum Cooperation (CNPC) was the first Chinese hand in Iraqi oil market, and it was the first international oil company signing contract with Iraq after the first Gulf War (Webb, S., 2008: August 28), CNPC sign three important oil contracts shared with international companies about three oil fields in Iraq, including Ahdeb, Rumaila and halfaya oilfields (CNPC). In addition to that, it is regarded as the biggest foreign investor in Iraqi oil due to the largest equity reserves.

1.1.1. Al -aheid Oil Field
The oil field was discovered in 1979 with estimated reserve of one billion barrels, located in 180 kilometers away, southeast to Iraq’s capital city of Bagdad (CNPC). Iraqi Al-Ahdab agreement with China was the first accord with a foreign oil firm taken up for renegotiation by the new government after the invasion. Originally this agreement was signed first time in 1997 when the China National Petroleum Corporation (CNPC) signed a $1.3 billion agreement with Iraq’s national oil company to jointly develop a rich new field in eastern province in Iraq (Webb, C., 2008: August 28). The work on the Al-Ahdab field was suspended when China withdrew its personnel from Iraq in the run-up to the March 2003 invasion (Alterman, J. & Garver, J., 2006: 31). The subsequent ouster of Saddam Hussein’s regime clogged the implement of Al-Ahdab agreement, when Iraq’s interim government declared its intention to review all oil deals
signed under Saddam’s rule. The Iraqi Oil Minister Shahristani said that all deals reached under former Saddam Hussein regime (including Al-Ahdab field contract) must be renegotiated within the framework of the new oil and gas laws that are currently being discussed in Iraq (Xinhua, 2006: October 31).

The new Iraqi government constituted in 2006 began negotiations with China in November of that year on reviving the agreement. Negotiations to resuscitate the Al-Ahdab deal are related to cancellation of all or part of an $8 billion debt owed to China by Iraq. Meanwhile, CNPC developed a detailed new development plan for Al-Ahdab in line with the specifications of the new Iraqi government (Alterman, J. & Garver, J., 2006: 32). The positive reactions towards the new negotiations about the Al-Ahdab field and the participations of Chinese oil companies in the process of rebuilding the oil sector in Iraq were clear in the statements of leaders on both sides. During his visit to China in October 2006, Iraqi Oil Minister Hussein Shahristani said that Iraq welcomed Chinese oil companies to participate in the reconstruction of the Iraqi oil industry (Xinhua, 2006: October 31). China also expressed its willingness to resume and promote oil cooperation with Iraq, in October 2006, Chinese Foreign Ministry spokesman Qin Gang said current Sino-Iraqi cooperation only involved oil trade and personnel training due to the US-led war in Iraq which broke out in March 2003 (Xinhua, 2006: October 31). In 2006 and during his visit to China, Iraqi Oil Minister (Shahristani) met the representatives of major Chinese oil companies including China National Petrochemical Corporation (CNPC), China National Offshore Oil Corporation (CNOOC) and Sinochem Corporation and he invited them to participate in the biddings offered by Iraqi Oil Ministry and said, “We intend to invite bids from foreign companies for the first
batch of oil fields soon in order to reach our targets” (Xinhua, 2006: October 31). Iraqi leaders believed that China, with its experiences operating in dangerous places such as Sudan and Angola, would be less concerned than Western oil firms about the security risks associated with operating in Iraq.

CNPC made the new deal of Al-Ahdab oilfield during Iraqi President Jalal Talabani’s visit to China in May 2007. During his stay, China canceled Iraqi debts owed to the Chinese central government, and China’s leading role in Al-Ahdab’s development was reconfirmed in a new agreement (Alterman, J. & Garver, J., 2006: 32).

In November 2008, after a two-year negotiation, CNPC signed the Ahdeb oilfield service contract with Iraqi government, which was the first oil project that cooperated with foreign country after the war. In this project, Chinese side invested around $3 billion. The duration is 23 years and can be extended according to the practical situation (Iraqi Business News, 2011: September 27).

A Chinese National Petroleum Company (CNPC) started work in the Al-Ahdab oilfield in March 2009, hoping to pump 110,000-130,000 barrels per day (bpd) from the field (Iraqi Business News, 2011: September 27). The beginning of the work in this oil field was the starting point of rebuilding the Iraqi oil industry after series of the wars, CNPC was the first international oil company working in Iraq after decades of wars. During high-profile opening ceremony for the project in Kut City, the capital of Wasit province, a number of delegates from both Chinese and Iraqi sides have participated, including Chang Yi, Chinese ambassador to Iraq and Hussein al-Shahristani, Iraqi Oil Minister; “The Al-Ahdab oil field project will become a model for the Sino-Iraqi cooperation in the future, as well as for cooperation between the two peoples,” said Chinese ambassador
Chang Yi, adding that the project will serve the welfare of local Iraqi people and regional development (*Xinhua*, 2009: March 11). Then Iraqi Oil Minister Hussein al-Shahristani said that the project served as a locomotive for local economy, and contributed to “both Iraqi national revenues as well as local peoples’ welfare”. He envisioned more cooperation to come between the two sides, given such project works well. After that the Wasit governor Latif al-Tarfa praised such cooperation, as it will help develop “regional oil, business, society and culture.” He was also confident that such project would bring the province “from an agricultural one to a strong commercial one” (*Xinhua*, 2009: March 11). Al-waha Co. is the joint venture of CNPC and another Chinese company, Zhenhua Oil Company for the project; Zhi Yulin, board chairman of the Al-waha Co. said that members of the Chinese company have overcome a series of difficulties relating to the turbulent situation. Under the turbulent circumstances featured by countless attacks and explosions here and there across Iraq, stabilizing dramatically during the past years, CNPC was eager to fulfill what it had promised to the war-torn state an output boost of 25,000 bpd in the following three years and 110,000 bpd within the 6 years ahead; He vowed to boost oil output to 110,000 bpd in six years and create local employment opportunities, and boost business development of Wasit province as well as its industry recuperation (*Xinhua*, 2009: March 11).

According to the deal that the two sides have agreed on the only service contracts, under which Iraqi state firms keep all the oil while paying Chinese company for its work, China would receive a service charge of $6 per barrel of oil produced at Al-Ahdab, which will be gradually reduced to $3 per barrel (*Xinhua*, 2009: March 11).

In 2009, seismic exploration and drilling operation had been
deployed in Al-Ahdab oil field. The director in the location said that “We commenced capacity building and surface work in 2010. Large-scale drilling resulted in the spud-in of 27 wells and the completion of 24 wells throughout the year. A total length of 201km of three export pipelines was welded in 2010. The operating area, living camp, and logistics and service area took shape. 1,703 jobs, or 58% of the total, were locally staffed (CNPC).

The Al-Ahdab contract is of great importance in the aftermath of wars and sanctions, and the following violence that plagued Iraq and consequently kept foreign investors outside, Iraq is now well poised with its ambitions of inviting foreign firms to bring in expertise and investment to quickly improve its decrepit oil infrastructure and long paralyzed oil industry. A Chinese oil executive said in 2009 that, the company would make a profit of less than one percent, but that contract was a way to “get a foot in the door” of the Iraqi oil industry, which has much larger fields than Ahdab (Chinese Firm Now Pumping Iraqi Oil, 2011: June 29). The Ahdab field’s estimated reserves are small according to Iraq’s standards and open the door could make deals more important, and that what exactly happened when CNPC and BP signed the contract of Rumaila oilfield in June 2009 which is Iraq’s largest oil field.

1.1.2 Rumaila Oilfield

The second important achievement of CNPC in Iraq came when it signed with British “BP” the contract of the biggest oil field in Iraq (Rumaila oil field) (China Daily, 2009: July 1), and it is also considered the sixth largest field in the world with oil reserves of about 17 billion barrels (CNPC). This oil field was discovered by British Petroleum (BP) in 1953 when Iraq was under the occupation of Britain; after the nationalization of the Iraqi oil in 1972, the oil fields became under the
control the Iraqi government (*The Great Day of Annihilation, Rumaila Oil Field*, 2011: September 21); Rumaila Oilfield locates 50kms away from west Basra in southern approximately 32 km from the Kuwaiti border. The dispute between Iraq and Kuwait over allegedly slant-drilling in the field was one of reasons for Iraq’s invasion of Kuwait in 1990 (Tucker, S., 2010: 713). The field covering an area of 1,800 square kilometers (CNPC), consisting of two parts: the north and the south part. The proved reserves of south Rumaila Oilfield is 1.96 billion tons and the proved reserves of north Rumaila Oilfield is 1.12 billion tons (CNPC, 2009: September 17).

CNPC and BP won the contract after fierce competition, during the first bidding offered by Iraqi Oil Ministry; ExxonMobil also bid on servicing this field at a price $4.80 walked away due to price cutting terms with the Iraqi Government leaving BP and CNPC as winners of the contract; On November 3, 2009, CNPC, and British Petroleum (BP), inked a technical service contract with Iraq’s State Oil Marketing Organization (SOMO) and South Oil Company (SOC) in Baghdad to expand production of the oilfield. The current daily output is 960,000 barrels, CNPC and its partners will expand Rumaila’s daily productivity to 2.85 million barrels during a six year period (CNPC). The CNPC shears 37%, BP 38%, and Iraqi South Oil 25%; the duration of the contract is 20 years with a possible extension for 5 years (CCTV, 2009: October 10). Service fee of $2 per incremental barrel is above baseline production of 1.75 mb/d. Consortium reckons to pay $500 million soft loan to Iraqi treasury and commit $300 million to develop field in the short term. Long-term investment could be up to $20 billion for capital and operating expenses (Jiang, J. & Sinton, J., 2011: 40).

In 2010, the Rumaila Field Operating Organization (ROO), a
consortium constituted by CNPC, BP and Iraq’s South Oil Company, took over operation management and commenced operation in the oilfield. Over the course of the year, a total of 41 wells were drilled, and 122km of flow lines were laid (CNPC). The initially targeted 10% increase of daily oil production was met in December, 2010. Currently 200 production wells are operating at Rumaila field which rises the field produces to 1.1million barrels making up 40% of Iraq’s oil production, BP and CNPC intend to raise the production to 2.85 million barrels per day within the next five years. Once this production milestone is reached, Rumaila will become the second largest oil field in the world after the Saudi Arabian Ghawar oil field (CNPC).

The Rumaila deal was considered as win – win contract for both countries (China and Iraq); For Iraq, the oil production will increase by 75%, and doesn’t have to take any capital risk. On other hand, the development of Rumaila Oilfield is very important to China’s energy strategy in Middle East; it will be beneficial to ensure the oil supply of China, also to stabilize the oil price and to develop the relationship with a key petroleum country. Through this rehabilitation and expansion project for Rumaila Oilfield, CNPC’s expertise in developing some domestic fields, which have the similar geologically characteristics with Rumaila, will certainly facilitate the efficient rejuvenation of the super-giant field. Furthermore, CNPC will provide training opportunities for local workers in Rumaila.

1.1.3 Al- Halfayah oil field

The third contract for CNPC was about Halfaya oilfield which is located east of Amarah and south of Iraq. Halfaya is proven to hold 4.1 billion barrels of recoverable reserve and has potential production of 200,000–535,000 barrels per day, but currently only produces 3,000
barrels per day. In the second round of international oil bidding in Iraq in 2009, CNPC, Total Exploration “Total” and Malaysia’s Petroliam Nasional Berhad “Petronas” won the bidding in a tender for the Halfaya Oilfield project. On January 27, 2010, the service contract was formally signed for the Halfaya oilfield; in accordance with the requirements, CNPC, Total, Petronas and Iraq’s South Oil Company formed a joint operator ship, and entered into a contract in respect of the development and production; the term of the contract is 20 years (CNPC, 2010: January 28). Pursuant to the contract, CNPC will act as one of the operators. CNPC, Total, Petronas and Iraq’s South Oil Company shall own the participating interests in the Halfaya Oilfield, in the percentage of 37.5%, 18.75%, 18.75% and 25% respectively. The joint operatorship led by CNPC will boost the production of Halfaya to 535,000 barrels per day (Gulf Oil & Gas, 2010: January 28). Output at Iraq’s Halfaya oilfield will rise to 70,000 barrels a day in 2012 with the drilling of 48 wells. The China National Petroleum Corporation (CNPC) and its partners in the southern Halfaya oilfield have awarded a $174 million contract with the China Petroleum and Engineering Corp. (CPECC) to build three crude processors. The Iraqi officials of Missan oil company expressed their confidence of the work of CNPC and others companies to develop the oil field timely, Ali Maarij, head of Iraq’s state-run Missan Oil Company said the new plans will raise the production capacity of Halfaya field by 100,000 barrels per day (Iraqi Business News, 2011: June 9). Ali Altarfi, the official of Missan Oil Company, said that, “the plan is to drill 300 wells in this gigantic oil field within 5 years, according to the agreement signed with the Ministry of Oil.” (Iraqi Business News, 2011: May 16).

The contract stipulates that production should reach 535 thousand barrels per day (bpd), which is five times higher than the
local production of the field, in addition to provision of gas products to neighboring power stations. “The reserves of this oil field are expected to reach 15 billion barrels,” Altarfi added (Iraqi Business News, 2011: May 16). When the work started in the locations, some problems appeared with the local people living in the area, and the Missan oil company took the responsibility to solve these problems. Iraq’s Missan Oil Company has said that it has formed a committee to compensate the farmers whose agricultural areas fell within the Halfaya Oil Field, east of its Amara city. Mohammed Jabbar, Chairman of the Compensations Committee said that “in response to the approval of the Oil Minister and the instructions of Missan Oil Company’s Director-General, a committee was formed to carry out field inspection of the losses caused in the agricultural areas, within the limits of Halfaya Oil Field, now under development promoted by a Chinese company, according to a contract with the Oil Ministry,” Jabbar said that the area of the oilfield exceeded 530 square km, representing the total area for the field developed by the Chinese company, adding that 70 farmers had demanded compensation in the area (Iraqi Business News, 2011: May 10).

To have foothold in Missan province is important for CNPC and CNOOC to improve and extend their business in Iraq, whereas Missan Province is rich in oil, covering six oil fields in Bazergan, Abu-Gharb, Fakka, Halfaya and Amara areas. In addition to the Majnoun Oil Field, that belongs to Missan and Basra Oil Companies. Missan also contains five discovered oil fields that are still unproductive, which includes al-Huweiza, Rafi’e, Rafidain al-Sharqi, dujeila and Kumeit (Iraqi Business News, 2011: December 1). From the Iraqi side especially in Missan province, the works of Missan oil fields will influence positively on the life of the local people in the province, also the
development of Halfaya oilfield and other oil fields shall insure enough gas for Kahla’a power station, according to the Director-General of Missan Oil Company, who said that the gas produced from the oil field would exceed 60 million cubic feet. Ali Mi’arij, the leader of Missan oil company, said that “The development of the Halfaya field shall secure the needs of the Kahlaa Electric Power Station for the gas which needs to operate it,” (Iraqi Business News, 2011: December 13) Kahlaa power station, opened last year, has a capacity of 180 megawatts. Its total cost reached $121 millions, although it has been working below capacity due to several problems, including lacking of enough gas to operate it (Iraqi Business News, 2011: December 13).

1.2 China National Offshore Oil Corporation (CNOOC)

CNPC opened the gate of Iraqi oil market to other Chinese oil companies whereas CNOOC followed the same way of CNPC in Iraq and got the first contract in the same province (Missan province) when CNOOC won the contract of Missan oil fields; thus Missan province became the holder of two Chinese oil companies. In order to extend their work in other provinces and to enhance the Chinese oil companies’ existence in Iraq, it was important for two companies to strengthen their relations with the local government and the local people of the province and to ease their works there especially when China has a very good reputation in Missan and other parts of Iraq.

1.2.1. Missan Oil Fields Contract

CNOOC, together with Turkish Petroleum Corporation (TPAO), signed a technical service contract for the development and production of the Missan Oil Fields within Iraq on May, 17, 2010 to
develop three oil fields in Missan province according to the first competition round. The fields are “Bazerkan, Fakkah, and Abu-Gharb”. The Missan Oil Fields are located in the southeast of Iraq, about 350 kilometers southeast of Baghdad (CNOOC, 2010: May 17). The contract term lasts about 20 years and the Company has undertaken to increase the daily production of the Missan Oil Fields to 450,000 barrels within six years (CNOOC, 2010: May 17). The Company will earn $2.3 per barrel on the incremental oil production once the daily production raises by 10% from its current level and will recover its expenditure through a cost recovery mechanism (Missan Fields Operating Division, 2011: July 21). According to contract, CNOOC acts as the operator and holds 63.75% participating interests while TPAO holds 11.25%. Iraqi Drilling Company, a local Iraqi company, holds the remaining 25% in the project (Missan fields Operating Division, 2011: July 21). After signing the contract, the leaders of the Iraqi Oil Ministry and CNOOC welcomed this step. The Iraqi oil mister Shahristani said at a press conference following the signing of the final contract “signing the contracts for the first round of competition will reflect positively on the living standards and economic situation of residents of the province as well as providing jobs to contribute in reducing the unemployment”. And Mr. Fu Chengyu, Chairman and CEO of the Company commented (Iraqi Oil Ministry, 2011: May 30), “It is a great pleasure to participate in rebuilding Iraqi’s oil industry together with TPAO. CNOOC Ltd and its partner will carry out an active investment plan on the development of the Missan Oil Fields, to increase the production level for the benefits of all parties” (Iraqi Business News, 2010: May 20); In addition to that, the governor of Missan province also welcomed signing the final contract with the coalition of the two companies,
“Chinese –Turkish” saying that “the government agencies will make their best to succeed and support the work of these companies, to develop the oil industry in the country” (Iraqi Oil Ministry, 2011: May 30).

On December 20, 2010, China National Offshore Oil Corp. Ltd. (CNOOC Ltd.) announces that the contract with Iraq Missan Oil Company (MOC) entered into force. On February 12, 2011, the first meeting of Joint Management Committee (JMC) was held at office, located in Alamarah city, Missan Province. Representatives from CNOOC Iraq Limited, Missan Oil Company (MOC), Petroleum Contracts& Legal Directorate (PCLD), and Iraqi Drilling Company (IDC) participated this meeting, they planned for the next steps and found the solutions for the problems faced the work of the companies, and all parties agreed that the work in the project is going on timely and the companies expected to reach the planned production on time as scheduled (Missan Fields Operating Division, 2011: July 21).

1.3 China Petrochemical Corporation (Sinopec Group)

The third Chinese company obtaining contract in Iraq is China Petrochemical Corporation (Sinopec Group), the second largest oil company in China and the largest refiner in Asia. In June of 2009, Sinopec purchased Swiss oil explorer Addax petroleum Corp at the cost of $7.24 billion dollars (Sinopec Will be 7.24 billion US Dollars Acquisition of Addax Petroleum). Before the purchase, Addax has signed oil contract with Kurdistan (Kurdish Regional Government) in northern Iraq. The contract was about the Taq Taq oil field which is located in the Kurdistan Region of Iraq approximately 60 km northeast of Kirkuk, 85 kilometers southeast of Erbil, and 120 km northwest of
Sulaimaniyah (*Ekurd Daily*, 2011: October 22); The Taq Taq field has been producing 40,000 bpd, transported by tanker trucks to a central depot and then fed into the export pipeline to the Turkish port of Ceyhan, and it’s in the process of expanding the facilities to 70,000 barrels a day capacity (Herron, J., 2009: May 20).

Sinopec contracting with Kurdish regional government puts obstacle in the way of Sinopec towards other oil fields in other parts of Iraq, especially in southern part which is rich in oil; because the Iraqi Oil Ministry is committed to not dealing with any international oil company that it signs oil contracts without the approval of the central government and Iraqi Oil Ministry.

At the beginning, the Iraqi Oil Ministry sent Sinopec a letter asking about its relation with Addax, and its responsibility for Taq Taq oil field whereas Addax is among foreign oil firms that have signed independent oil deals with semi-autonomous Kurdish authorities in northern Iraq (*China Daily*, 2009: August 26). Then when the information conformed that the Sinopec inherited the responsibility of the Taq Taq contract, the problem between Sinopec and Iraqi Oil Ministry appeared.

The following events indicated that the Addax’s deal clearly had a negative impact on Sinopec’s efforts to further tap oil reserves in Middle and southern parts of Iraq. Sinopec is still working with the Iraqi government on this issue. While Sinopec was barred from bidding in the 2009 licensing rounds, that did not affect the position of CNPC or CNOOC and their work in Iraq.

Despite these problems, Sinopec and Oil Ministry still have big chances to overcome these obstacle and go ahead to make real and deep cooperation. This issue was considered as a temporary problem and can be solved in time; and here we put forward some steps to
CNPC, CNOOC and SINOPEC in Iraq: Successful Start and Ambitious Cooperation Plan

solve it:

Firstly, freeze the contract of Taq Taq oil field until the problems between the central government of Iraq and Kurds local government have been solved; then after solving this problem, Sinopec will resume the contract. In this way Sinopec will keep its deal with Taq Taq and can get more opportunities in another parts of Iraq especially in the middle and south of Iraq, in addition to that, Sinopec will avoid to be involved in Iraqi domestic problems especially in the relation between the Iraq central government and Kurdish regional government;

Secondly, make refining investment in southern part of Iraq; Sinopec can use its rich experience with Iran and Saudi Arabia in this aspect.

Thirdly, the Sinopec investments in southern part of Iraq will be a win-win strategy for both China and Iraq. This project will help China secure its future oil demand, and enhance the position of Chinese oil companies in the Middle East in general and in Iraq in particular, and then Sinopec and other Chinese oil companies will have more opportunities to enhance the oil cooperation with Iraq, especially when 80% of the Iraqi oil fields haven’t been developed yet.

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CNPC, CNOOC and SINOPEC in Iraq: Successful Start and Ambitious Cooperation Plan


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