Carbon Web

News & Analysis on Big Oil - Issue 10 - Autumn '08

A project of PLATFORM - www.carbonweb.org

Preventing an industrial tipping point

BP, Shell and the Canadian tar sands

Under the pristine boreal forest in Northern Alberta lie the Canadian tar sands, a vast carbon time bomb that if ignited will dramatically increase the chance of passing a climate change tipping point. While a rational approach to this threat would be to step back from the edge and freeze development, the contrary has been taking place. Over the past decade Shell, and then BP, have dramatically ramped up investment in the province. However, calls are growing for the shareholders of these companies to halt the tar sands expansion, and a new report by Greenpeace and PLATFORM is adding to this chorus.

While referred to by the industry merely as 'unconventional oil', tar sands are in reality a mix of bitumen, sand and clay. They are present in three distinct deposits in Alberta – Athabasca, Peace River, and Cold Lake – the combined area of which is greater than that of England and Wales. Around 20% of these sands are close enough to the surface to be mined, in huge opencast pits, busy with mechanical shovels the size of trucks and trucks the size of houses. The remaining 80% lie too deep and can only be extracted by 'in-situ' methods. This involves injecting steam underground below the tar sands - in effect boiling the heavy bitumen out of the ground.

Both mining and 'in-situ' projects leave a devastating impact on the forests. Trees are clearcut for the opencast areas. But also with in-situ methods, trees are felled in long lines for seismic testing and uprooted to make way for steam pipes, fragmenting the habitat. Meanwhile, highly contaminated water is left in vast toxic tailing ponds large enough to be seen from space. The surface water run-off from the extraction finds its way into the rivers. High levels of pollution have now been linked to growing health problems in the First Nation communities in the region.

But it is the carbon dioxide emissions of the tar sands developments that mark them out the most. Once the bitumen has been extracted it is 'upgraded' to remove impurities, and make it possible to refine the resulting synthetic crude, or syncrude.

A tar sands upgrader in Alberta. Photo David Dodge, The Pembina Institute

Combined with the gas required to steam the bitumen out of the ground, extracting a barrel of oil from the tar sands is three to five times more energy intensive than extracting a barrel of oil from a conventional well. Thus, the move by the industrial world to exploit these resources means a move toward a dependency on highly carbon-intensive fuels, at precisely the time when we need to be rapidly de-carbonising our economies. Developing tar sands threatens to 'normalise' unconventional oil, creating a potential industrial tipping point.

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A desperate search for reserves

Alberta's tar sands have been tentatively extracted since the 1950s, but on a small scale. However, the last decade has seen a sudden rush into the province, led initially by Canadian companies but followed by the oil majors – in particular Shell and BP. Shell began ramping up investment from 1999 onwards – and has now set itself on course for tar sands to make up 30% of its total oil reserves. Meanwhile BP, which shunned the province in the early 2000s, made a dramatic u-turn in 2007 when it announced a $5.5 billion joint venture in the Sunrise project during the Bali Climate Conference.

Both companies find themselves under the same pressure – how to replace oil reserves as they extract crude. In 1979 international oil companies controlled 70% of the world's oil production, yet now they control below 10%. The oil majors are increasingly being locked out of existing oil provinces. The Russian state

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pressured Shell to relinquish a substantial part of its stake in the Sakhalin II gas and oil project. BP has had to re-negotiate assets in Venezuela and Bolivia, and remains in a long struggle to retain its position in TNK-BP in Russia – which constitutes 25% of its oil production. Both companies have found it far harder to gain access to reserves in Iraq than was expected prior to the US-UK invasion. These perceived limitations are pushing the companies to invest in the apparently politically secure province of Alberta.

A changing investment climate

However, the sheer scale of the tar sands venture, and the complexity of its chain of production, make it tricky for investors. To extract and upgrade the bitumen uses huge quantities of natural gas – 800 million cubic feet per day between 2005 and 2007, enough to heat around half the households in Canada. Canada's conventional gas fields are in decline, so the gas demanded is leading to the exploitation of supplies previously considered out of bounds. These include coal bed methane in the mountains of British Columbia and possible fields in the Arctic Beaufort Sea.

Proponents of tar sands development enjoyed an investment tailwind from approximately 1997 to 2007, provided by a number of factors including a US presidency that shunned climate concerns and gave precedence to energy security and a lack of concerted international governmental and civil society opposition to the projects. However, this tailwind is rapidly becoming a headwind.

The political climate in the US is changing. In December 2008, a new law in California will progressively introduce a Low Carbon Fuel Standard (LCFS), constraining the market for tar sands-derived fuels, by assessing and limiting the full lifecycle emissions of any fuel sold. In June 2008, the US Conference of Mayors called for similar LCFS to be implemented, and a number of states look to follow suit. Barack Obama, US Presidential candidate, has called for a federal law implementing LCFS.

Elsewhere there is increasing opposition to other elements of this massive system. In British Columbia there are strong protests against BP's Mist Mountain and Shell's Sacred Headwaters coal bed methane projects. In Ohio and Ontario residents have been battling against BP's Whiting Refinery and Shell's proposed Sarnia - both being equipped to specialise in handing syncrude from the tar sands. In Alberta itself, First Nations have been resisting tar sands extraction projects through the courts.

It is this shift of a tailwind into a headwind that is highlighted in the new Greenpeace/PLATFORM report – ***BP & Shell: Rising Risks in Tar Sands Investments*****, published in September 2008. The report, endorsed by a significant number of financial bodies such as the Co-op Bank, ECCR and Holden & Partners, asks investors in BP and Shell to call on the companies to halt further investment in the tar sands.**

Bankrolling coal

Not just the Oil & Gas Bank

As national controversy grows over proposals for a set of seven coal-fired power stations, UK banks are fuelling the global coal boom – the 'roll to coal'.

PLATFORM's recent report, *Cashing in on Coal*, finds Barclays and HSBC trailing behind the UK leader in fossil fuel investments, RBS-Natwest. The report estimates that in the last two years, RBS was responsible for $15.93 billion of financing of companies involved in extracting or burning coal - compared to Barclays' $5.79 billion and HSBC's $10.10 billion - from Germany to India, from Portugal to Australia.

Financing coal mines and power plants in today's carbon-constrained world can never be sustainable practice. However, RBS is involved in financing many of the most controversial companies involved in rapid coal expansion, some of which are engaged in practices with particularly harmful social and environmental consequences. The bank participated in two mega loans totalling $70 billion to German power-giant E.ON – either side of the company's announcement of plans to build 17 new coal and gas power plants across Europe. E.ON has generated a great deal of controversy over its plans to build a new coal-fired power station at Kingsnorth in Kent – the first in 30 years in Britain. Its critics have included NASA scientist Dr James Hansen, a large cross section of NGOs ranging from the RSPB to the Women's Institute and more than 2,000 direct action campaigners who took part in August's Camp for Climate Action.

Elsewhere, RBS took part in providing $800 million of credit to Arch Coal, the US' second largest coal producer. Arch Coal has been heavily involved in mountain-top removal mining (MTR) – a practice of blasting off the tops of mountains with powerful explosives, then dumping the mountain-tops into nearby valleys. Rather than remove the coal from the mountain, MTR involves removing the mountain from the coal. More than one million acres of biologically diverse hardwood forests in Appalachia, eastern USA, have already been decimated. For local communities, MTR means the loss of thousands of jobs, growing poverty and increased health risks from toxic coal sludge.

RBS was responsible for $15.93 billion of financing of companies involved in extracting or burning coal

While providing billions to companies like E.ON and Arch Coal, RBS claims to be addressing the environmental and climate impacts of its operations. It is particularly proud of two recent events it hosted: its 2008 Annual Economic Lecture titled "Towards a low carbon economy" and the UK Low Carbon Economy Summit co-organised with the Department for Business, Enterprise and Regulatory Reform that took place at the Tate Modern in London.

In the event's opening speech, RBS Chairman Sir Tom McKillop laid out his company's position: "As a leading banking partner of the energy sector for many decades, RBS recognises its responsibility in addressing these challenges." The statement would be commendable, were it true. While proudly advertising RBS' $3.5 billion of support to renewables over two years, McKillop did not deem it relevant to mention the total volume of support for fossil fuel companies - and RBS has consistently refused to take any responsibility for that lending. Financing of coal companies alone was around five times that of renewables. As this double-speak becomes harder to sustain, McKillop is rapidly undermining RBS' credibility in addressing climate change.

The government, alongside coal-burners like E.ON and RBS, argue that a supposed 'energy gap' in 12 years time justifies the expansion of fossil fuel infrastructure and deflect propositions for co-ordinated action on climate change. However, the recent Poyry Report by twelve of Europe's top scientists lays out paths to a stable UK energy future that combines targets for reduced usage and increased efficiency of power, alongside stepped-up renewable energy programs. There is a clear need to find a path forward that ends our dependency on fossil fuels, as there is little point in keeping the lights on if the house is flooded.

There is little point in keeping the lights on if the house is flooded.

RBS has positioned itself to take the credit for organising green conferences and lending to renewables. At the same time it is planning to keep providing the financial fuel that drives the global coal boom, locking us into decades of carbon emissions and pushing us perilously closer to the two degree tipping point of runaway climate change.

www.oyalbankofscotland.com/cioc/

Conflict in the Caucasus

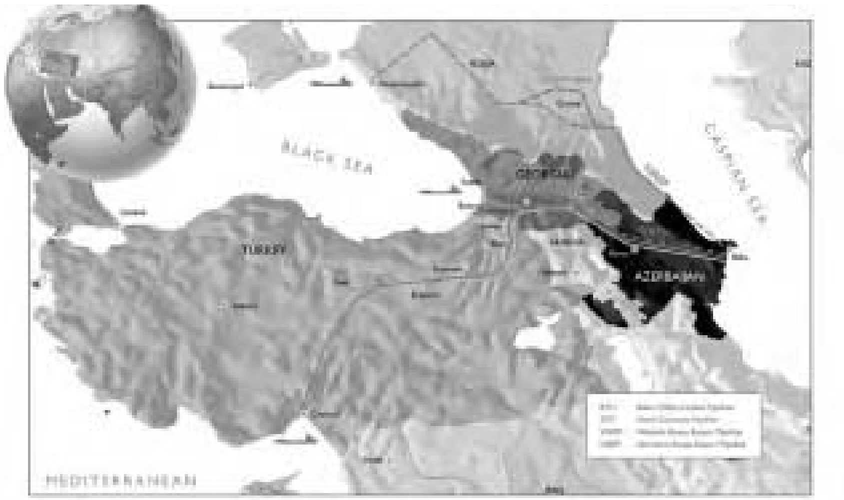
British troops dispatched to Georgia to protect the flow of Caspian crude oil from Baku from the encroaching Russian threat.

This was 1919, when Britain took control of the Black Sea ports of Batumi and Poti, the outlets through which Azeri oil was transported for onward shipment to Great Britain. The broader aim was to prevent Bolshevik forces from reaching the Rothshild's Baku-Batumi railway line.

In August 2008, UK and US military and diplomatic muscle is again being exerted to maintain the flow of Azeri oil to the West. While there was no direct military intervention in Georgia during its recent conflict with Russia, US planes airlifted 2,000 Georgian troops out of the Green Zone in Baghdad to return them to the conflict with Russia. Guided missile destroyer USS McFaul, carrying Tomohawk cruise missiles, was one of five US Navy ships to dock in Batumi.

US Vice-President Cheney visited Baku and Tbilisi immediately after the ceasefire. Following a meeting with Bill Schrader, head of BP Azerbaijan, Cheney asserted that Washington's intention was to ensure a 'free stream' of oil and natural gas from the Caspian Basin to the West. Azeri analysts believed that Cheney almost certainly prodded Azeri President Ilham Aliyev to be clearer in siding with the US in any future confrontation, and to allow the US to secure a military presence in Azerbaijan.

As in 1919, UK and US involvement in the Caucasus is heavily shaped by policies directed at maintaining control of export routes for Caspian oil. Pressure is exerted to ensure crude is shipped westwards to European markets, bypassing Russia and Iran and avoiding an Eastern export route to China. The short-term failure in Western attempts to avoid dependency on Russia will likely lead to intensified US and EU pressure for additional pipelines, such as the Nabucco gas route intended to carry Azeri and Turkmeni gas into the EU grid.



Guaranteeing Insecurity - the Export Credit Guarantee Department

The South Ossetia conflict could easily have been foreseen. But British taxpayers' money was spent on the Baku-Ceyhan pipeline with eyes firmly closed to its impacts on regional conflict, according to documents released under the Freedom of Information Act.

Documents released to Corner House and Friends of the Earth show that the Export Credit Guarantee Department downplayed the pipeline's security risks when it provided $150- 300 million to the project in 2003. In particular, the threat that the project would prompt a reaction from Russia (although raised by the Foreign and Commonwealth Office, which recorded that Russia viewed the pipeline "as part of a wider American plot to squeeze Russia out of the Black Sea and the Caucasus") appears to have received scant attention. Instead, the emphasis in government documents was on the BTC pipeline acting as a "project for peace". Warnings that the pipeline might be a target for the Kurdish PKK attacks or that security provisions would lead to a militarisation of the corridor – with the high risk of communities along the pipeline being subject to human rights abuses – were also ignored.

While the ECGD holds "150 or so" files relating to BTC, there is not a single file that specifically addresses the risks of conflict. A 2003 briefing paper prepared for HM Treasury argued that conflict was not a major "project sensitivity".

The documents show that before ECGD agreed to support BTC, senior FCO officials identified the need for a detailed analysis of the foreign policy implications of pipelines in the region - but that the study was never commissioned. The proposal for the study specifically mentions the risk that political instability in the Caucasus posed to the "physical security" of pipelines and the threat of Russia "misusing" its "dominant position as transit country". It was proposed that a BP staff member undertake the project – while remaining on BP's payroll.

In response to an ECGD request for departmental comments on the BTC project, the FCO replied: "We are concerned that the pipeline runs close to minority ethnic areas in Turkey and that its construction may lead to an increased Turkish military presence in the area. I have discussed this point with the Turkey desk who are satisfied that it is unlikely to result in any problems." There is no record in disclosed FCO files that ECGD requested further details – or the basis for the Turkey desk's conclusions, despite their being at odds with the views of others in the FCO.

Tragically, the price for ECGD's casual attitude is being paid by the victims of the violence.

A view from Tbilisi

The Russia-Georgia conflict and the Baku-Tbilisi-Ceyhan pipeline

by Manana Kochladze

A new Cold War. Punishment of Georgia's pro-western tendencies. Reincarnation of a strong Russia. A return to a multipolar world. What all these narratives miss is that the Great Game is old, and struggles for Caspian Oil only its latest play. The players, and likely winners, are primarily G8-based multinational corporations and politicians that claim success in creating so-called 'energy security', while the perennial losers are local communities and the environment.

Since plans for the Baku-Tbilisi-Ceyhan (BTC) pipeline first emerged, the impacts on local safety and security were amongst the main concerns raised by local communities and NGOs. However, the Western governments driving the plans and the international financial institutions that funded them strove to convince the region's poor that the BTC and parallel Baku-Tbilisi-Erzerum gas pipeline would bring economic prosperity and stronger democracy to the region. The reality has been one of misery, increased poverty and now conflict that has displaced thousands of Georgian citizens.

Guided Missile Destroyer USS McFaul

The construction of the pipeline in an unstable region like the Caucasus always looked like risky business, given the existing political and military tensions, particularly along apparent religious and ethnic faultlines. Despite this, project assessments by the oil companies, public banks and export credit agencies did not adequately assess security risks and impacts on local populations. BP fiercely refused proposals from environmentalists to move the pipeline route from the Borjomi Gorge, Georgia's ecological treasure, to a shorter route closer to Armenian border, with the mysterious objection that it passed close to a Russian military base. This despite the fact that the potential for Russian attacks were never publicly studied.

A few days after a PKK-claimed explosion in Turkey put BTC out of action, Russian jets bombed the pipeline route in southern Georgia, leaving 50 deep craters in the fields along the route. Some missiles landed within 100 yards of the pipeline itself. Several days later, large fires started across the Borjomi-Kharagauli National Park in the vicinity of the pipeline, immediately after Russian military helicopters flew over the forested areas.

Russian Premier Putin stated that "Russia's actions have caused no damage to BTC pipeline", inadvertently stating that "We are carefully treating *our* energy facilities and we do not intend to cause damage to anything." His words strangely echoed BP's statements that there is no evidence that Russian forces attempted to bomb the BTC line.

As in the James Bond movie "The World is not Enough", a 'happy' end is expected, as at some point Russia and the Western multinationals will agree how to share out Caspian wealth and control over the region. And as in the movie, the misery of poverty and a destroyed environment will be forgotten.

Tbilisi-based Manana Kochladze is founder of Green Alternative (www.greenalt.org) and Caucasus Regional Coordinator of CEE Bankwatch Network (www.bankwatch.org)

Oil & violence in Turkey

At 11pm on 5 August, a major explosion ruptured the BTC pipeline near Yurtbashi village in Turkey's eastern Erzincan province. The blast sent flames shooting up to 160 feet in the air. Nearby residents told PLATFORM that they heard explosions, before a plume of smoke scattered ashes onto surrounding crops. It took six days to extinguish the fire, by which time an estimated 12,000 barrels of oil had been burned off, spreading a toxic cocktail of carcinogens and other pollutants over a wide area.

The Kurdistan Workers Party (PKK) claimed responsibility for the explosion. The group has threatened further attacks, including on tanker ships using BTC's terminal at Ceyhan on the Mediterranean.

There are now fears that the local population, especially Kurds, will suffer from increased military crackdowns and raids along the route of the pipeline. PLATFORM has already received reports that Kurdish villagers have received letters warning them that their cropfields around the pipeline are now off limits. Under the legal regime for BTC, the oil companies may invoke *force majeure* for acts of terrorism. However, the Turkish state, responsible for ensuring the security of the pipeline, may not. This creates a direct financial incentive for further militarisation of the pipeline route - worrying news for those who live along it.

Life in the Landscape of Hydrocarbons Exit Strategy III

by James Marriott

This essay originally took the form of a workshop given at the Camp for Climate Action in a field near Kingsnorth Power Station in August.

How was it that the marshes of Hoo St Werburgh – so good for grazing cattle and sheep, so rich in birdlife – were turned into a site for Kingsnorth Power Station – with its chimneys and access roads, its spoil fields and loading jetties? How were the oil companies involved in this process? And how might it be turned in a different direction?

Arguably the most important meetings in the development of Kingsnorth took place between 1948 and 1951, between Sir William Fraser and Hugh Gaitskell MP, Minister for Fuel & Power. Fraser was Chairman of the Anglo Iranian Oil Company (AIOC), soon to be renamed British Petroleum. In 1947, the AIOC had purchased a fuel depot site on the southern edge of the Isle of Grain, aiming to develop it as a new refinery. While initial discussions were around a medium sized refinery, events soon transformed the plans into something much larger.

For in those early years of the Cold War, the Labour Government was keen to ensure a secure energy supply. This appeared to be in jeopardy when Iran nationalised its oil and threw out AIOC in October 1951. The AIOC had dominated the Iranian economy for 40 years, and in turn had become utterly dependent on Iran. The loss of these assets was devastating for the company – the refinery at Abadan alone contributed 80% of the company's refining capacity.

The AIOC weathered this dramatic storm by laying off thousands of staff, by increasing production in Iraq and Kuwait, by rebranding itself as British Petroleum, and by building Britain's largest oil refinery on the Isle of Grain – with the enthusiastic support of the government. The geopolitics of energy, refracted through a British corporation and the British Government, began to alter the landscape of the Hoo Peninsula.

BP's Kent Refinery on the Isle of Grain began processing crude in February 1953. For the next 30 years it put out petrol, aviation fuel, diesel, fuel oil, bitumen and a wide range of products from crude oil imported from Kuwait, Iraq, Libya, Venezuela and elsewhere. The first oil from the Niger Delta was refined there after 1958, and the first oil from the North Sea was celebrated in 1975 with a special trip by hydrofoil down the Thames by the then Minister for Energy, Tony Benn MP.

By the time the refinery processed its last load of crude in 1982, its presence had utterly altered the Hoo Peninsula. The refinery expanded to obliterate the settlement of Wallend, while BP constructed workers' homes across the peninsula. Middle management were housed in High Halstow, at a respectable distance from the refinery. Down the hill in Hoo they built an extensive new housing estate for the manual workers. The BP social club between the two later became the BAE Club – and then police headquarters during the Climate Camp.

Out of the heart of this new landscape rose two new power stations – Kingsnorth and Grain. Kingsnorth was planned in the early 1960s, and began generating in 1973. The plant was designed as a duel-fuel power station, burning coal and oil sourced from the refinery next door.

The Kent Refinery had effectively given birth - and then it died. In August 1982, the BP Kent Refinery began to close. Yet the legacy of the refinery's operation remains long after. Wilfred Human of Strood's widow is still trying to get compensation for her husband's death. Mr Human worked for 22 years at the BP refinery and died of exposure to asbestos. The impact of the refinery remains in the water, soil, air and flesh of the Hoo Peninsula.

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In 2003 BP announced its return to the Hoo Peninsula – the construction of a liquid natural gas terminal on the Isle of Grain, together with Sonatrach, the Algerian State Oil Company.

An activist scales a tripod with Kingsnorth Power Station in the background. Photo: Nick Cobbing

Gas extracted from deep beneath the Sahara Desert is piped 750 miles to the Mediterranean coast where it is pressured until, at -160 degrees, it turns to liquid – liquid natural gas (LNG). From the terminal at Skikda two dedicated LNG ships journey to Grain and back, taking 14 days for the round trip.

Once at Grain the LNG is regasified and passes into the pipelines bound for the National Grid. As the terminal capacity iexpands new pipelines are constructed to cross the peninsula. Gas from the Algerian desert passing silently by.

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"There were up to 100 men who came into our village from three directions – they were here for at least three hours. We hid in the house, but they threw bombs through the windows and broke down the door with axes. My baby son Mohammed was five and they cut his throat and threw him out of the upper window. Then they cut the throat of my eldest son Rabeh and then my brother's throat because he saw them kidnapping his wife and tried to stop them. They took some of the girls."

This testimony is by one of the survivors of the slaughter of 349 villagers in Rais in Algeria on 29th August 1997. These killings were part of the civil war that raged in Algeria after the army-backed regime cancelled democratic elections in February 1992. Between 75,000 and 120,000 people were killed. The massacre at the village of Rais continued for three hours, only 500 yards from an army barracks.

"They threw bombs through the windows and broke down the door with axes"

At precisely the same time, 350 miles south of Rais, BP employees worked at an oil company camp in Hasi Messaoud, Algeria's main oil installation. They operated behind three sets of electrified fences, patrolled by Doberman dogs and screened by cameras to supplement the army unit stationed outside the camp.

BP began operating at Hasi Messaoud in early 1996, after signing a $2.3 billion deal with Sonatrach at the height of the Algerian civil war. This decision could not have been taken without the agreement of the then Conservative Foreign Secretary, Malcolm Rifkind MP, probably following a meeting with BP CEO John Browne. Although by the mid-1990s the British government had sold all its shares in BP, the company still held a pivotal position in the British economy.

James Marriott presenting in a marquee at Climate Camp. Photo: Kristian Buus

On 24th October 2003, seven years later, Ralph Alexander, BP Head of Gas & Power, announced a 20 year contract between BP/Sonatrach and National Grid to import LNG from Algeria to Grain – tying a connection between that distant desert and the Hoo Peninsula until 2025. And the arrival of Algerian gas had an impact on E.ON too – the following year it announced plans to build a new gas-fired power station at Grain.

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The 40 generations that have farmed the Hoo Peninsula from the first Saxon settlements until the present day left a profound impact on the landscape, mostly noticeably in the reclaiming of the salt marshes. In the past three decades these marshes have become emblematic of the Peninsula. The spirit of the area is changing, from a place dominated by the hydrocarbon industry to a place of wildlife reserves – the RSPB own five on the Peninsula.

We live in the shadow of decisions made between energy companies and government ministers

The struggle over Kingsnorth is, in part, a struggle over the future spirit of this place. We live in the shadow of decisions made between energy companies and government ministers – Sir William Fraser and Hugh Gaitskell between 1948 and 1951, the CEGB in the early 1960s and 1970s, John Browne and Malcolm Rifkind in the mid 1990s.

We know that there have been repeated meetings between Paul Golby, Chief Executive of E.ON, and Malcolm Wicks MP, Energy Minister. Once again the justification for a new coal plant at Kingsnorth is 'energy security' and worries over Russia and the dependability of the Middle East – just as it was 60 years ago. Will we follow the same tracks again, or can a new course be charted for the Hoo Peninsula and our energy infrastructure?

The ‘oil for war’ deal

In 2002 the future Oil Minister of Iraq, Ibrahim Bahr al-Uloum, enthusiastically described the occupation as both a “sort of life insurance for continuing the social and political changes” and “a great incentive for attracting the international oil companies”.

On one hand, the ongoing occupation would allow the US to shape Iraqi politics in its own interests, especially on oil policy. On the other hand, oil companies wanted US forces to remain to defend their operations, as admitted by French company Total in a rare candid moment in 2007. Now, in 2008, the occupation looks set to be extended, partly to hold the door open for foreign oil companies, which in turn would need the occupation to be extended further... a cycle of war without end.

But the power of the USA to impose unpopular policies has been dramatically weakened. Remarkably, a civil society campaign (led by Iraq’s unions and oil professionals) has prevented passage of an oil law that would effectively privatise Iraqi oil reserves - in spite of extreme pressure from the USA.

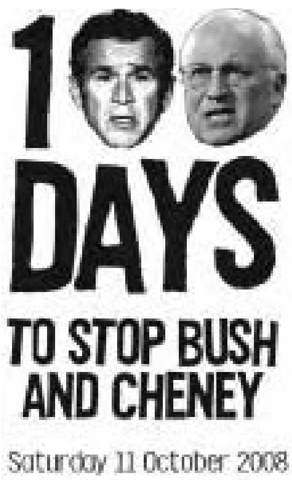
As the prospect of passing the oil law recedes from the grasp of the outgoing Bush/Cheney government, efforts are being concentrated on the Status of Forces Agreement (SOFA), which would maintain the occupation beyond expiry of the UN mandate at the end of 2008.

The SOFA, whose main purpose is to place US troops under US rather than Iraqi jurisdiction, and hence to protect them from having to comply with Iraqi law, is being negotiated alongside a broader strategic framework agreement, covering political, economic and security issues. Rumours are circulating in Baghdad that the agreement will include provisions allowing control of the oilfields to be privatised. The original November 2007 declaration of principles included “Facilitating and encouraging the flow of foreign investments to Iraq, especially American investments”. But any investment provisions in the SOFA are unlikely to have either the detail or the binding force of an oil law. Instead the strategy is to keep the troops in place, and play long. The flaw in the strategy is that the longer the troops stay, the more unpopular US agendas become.

However, the US approach is looking less like a show of strength and more like an act of desperation. The shift in politics in Baghdad was again illustrated by the recent termination of nearly a year’s negotiations over technical service contracts for some of Iraq’s largest fields. The talks – with BP, Shell, ExxonMobil, Chevron, Total and three smaller companies – collapsed largely because of the greed of the companies. Not interested in service contracts that only last for a year or two, the companies insisted on extension rights to give them what they really wanted: first preference on longer-term contracts to subsequently manage the fields and take a large slice of the revenues. But in the changed politics, the Oil Ministry was able to stand firm, and quite rightly deny them such unfair advantages.

The next phase will be the formal launch - in London rather than Baghdad - of a round of bidding for those same fields on 13 October, with the aim of signing contracts in June 2009.

Meanwhile, the first two major contracts are about to be signed: a $1.2 bn contract with China National Petroleum Company to develop the al-Ahdab field in Wasit province, and a $3-4 bn contract with Shell to extract and market associated gas from the oilfields in Basra province. Both have resulted from long-running negotiations, without any competitive bidding process.



The Oil Ministry says that all of these deals will be on a service contract model – where the foreign company is paid a fee rather than taking a share of production. If true, this is a significant improvement on policy since two years ago, when Iraq looked set to give everything away.

Yet, they are still set to offer the companies more generous terms than are to be found in Iraq’s neighbours. These Iraqi contracts allow the foreign companies to manage and operate the oilfield – rather than simply carry out a service or install some equipment as in Saudi Arabia or Kuwait.

But the biggest problem is that no-one knows what the terms really are – and in these contracts, the devil is in the detail. Unless the contracts themselves are published, Iraqis will not know what their government has signed away.

The Iraqi Oil Ministry criticised the Kurdistan Regional Government for signing contracts without transparency, and without a competitive process. The standards the Ministry demanded should form its own starting point.

More fundamentally, Iraq’s history demonstrates the danger of signing long-term contracts while the country is still occupied. Any contracts signed now must be short-term, so that a sovereign Iraqi government can make its own decisions once the troops are withdrawn. It may be the only way to break out of the occupation-oil-occupation cycle of violence.

100 Days

Join the Hands Off Iraqi Oil procession through London to stop Bush and Cheney's last push for Iraq's oil - 100 days before they leave office

12 noon, Saturday 11 October 2008
Shell House, SE1 7NA

Resisting Shell on the water

The battle between Shell and community activists in Rossport, Ireland, intensified in September. Shell is attempting to develop a gas field off the coast of Co Mayo, build a high pressure gas pipe near villagers' homes and construct a refinery on unstable bog. The world's largest pipe-laying vessel, the Solitaire, arrived in September to install the offshore section of the pipeline. The opposition Shell to Sea campaign fears that if this part of the pipe is built, it will make onshore plans inevitable.

Kayaks and dinghies attempt to stop Shell dredging in Broadhaven Bay.

Attempts by local fisherfolk, residents and activists to disrupt Shell's activities with a protest flotilla of kayaks, inflatable dinghies and rafts has been met by heavy-handed force from Irish Police boats, Shell support craft and at least two Irish Navy warships. Dinghies have been repeatedly rammed and protesters dumped into the water, while Shell vessels have continued operations in spite of danger to bystanders.

Despite this, the Solitaire was prevented from laying pipes. Protesters continued to attempt a marine blockade, and a small group boarded the ship to warn its captain that a local school teacher had gone on hunger strike at Shell's gates until the Solitaire leaves Irish waters. Local activists believe that if the Solitaire can be stopped until early October, rough seas will end work for the year. STOP PRESS - reports indicate the Solitaire appears to have left Ireland.

A Rossport solidarity activist in a dinghy pursued by an Irish Navy vessel.

The Shell dredger purposefully dumps gravel within inches of a protestor, endangering his life.

An Irish Navy ship 'protecting' the enormous Solitaire pipelaying ship, off the coast of Rossport.

The Eurocrats go bear-baiting

The EU & TNK-BP

As BP and its rival shareholders in Russian oil company TNK-BP have sparred for control of the company, both sides have pulled in powerful state actors as back-up over the last six months. With the oligarchs counting on support from the Russian Intelligence Agency, BP countered by drafting in not only British ministers but European Union officialdom as well.

BP's role in successfully influencing policy decisions to its own ends in Westminster is widely accepted, but there is less awareness of how the company operates in the murky world of Brussels-based lobbying. Thus, CarbonWeb is running an edited excerpt from an upcoming report by Corporate Europe Observatory that explores how BP mobilises EU support for its own interests.

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Russia holds the world`s largest natural gas reserves, and is the second largest oil exporter. The 1991 collapse of the Soviet Union offered BP the opportunity to access Russia's reserves for the first time. John Browne, who was BP Chief Executive at the time, relished the prospect, believing that Russia "rivals any other potential opportunity available anywhere in the world". By 2003, BP had made the largest foreign investment in Russia since 1917. TNK-BP was registered as a joint venture, with 50% of the company owned and controlled by BP and the other half under the control of Alfa-Access-Renova (AAR), a group of four Russian oligarchs.

From the outset the joint venture has been marred with problems and BP has clashed repeatedly with the Russian state. In 2007, TNK-BP returned control of its Kovykta gas-field, following accusations that the company was falling short of production figures set down in its licence.

The troubles came to a dramatic head throughout 2008. In March the FSB (the Russian Intelligence Agency) raided TNK-BP`s Moscow offices and charged an employee with spying. Less than a week later, BP was forced to suspend 148 foreign staff seconded to TNK-BP because of visa complications. May saw the offices raided by the FSB for the second time in three months, while BP faced a lawsuit from an unknown Siberian company. In June Bob Dudley, the TNK-BP President, was questioned for five hours by the Interior Ministry as part of an investigation into tax irregularities at TNK.

At this point the EU began to publicly pressure Russia, with a series of high level pronouncements condemning the treatment of BP.

Visiting Moscow, European Trade Commissioner Peter Mandelson criticised the Russian state, "I regret very much any instance, for example in the case of TNK-BP, where tempers seem to have flared ... What this is doing is creating a bad image [of Russia] ... it goes all the way around the world." Mandelson called for a "grand energy bargain" between the EU and Russia and said that the TNK-BP dispute

Bob Dudley, President and Chairman of TNK-BP

"has got to be resolved speedily." Speaking at an EU-Russia summit that same month, the EU External Affairs Commissioner, Benita Ferrero-Waldner, raised the issue directly with the Russian government as a matter of investor confidence in Russia.

EU Commissioner Mandelson told the Russian government to 'step back'

Mandelson in an interview told the Russian government to "step back" and allow the investors to resolve their differences. President Medvedev fired back that the state should not interfere in corporate conflicts and criticised those shareholders who expected to have disputes resolved with the help of the state.

The TNK-BP oil depot of Karelyanefteprodukt. Photo: TNK-BP

Analysis

Why would EU Commissioners intervene on behalf of a private company like BP? The EU has supported BP`s moves into Russia over an extended period – the recent intervention was not a one-off gesture of support. While BP and Shell were buying their way into Russian oil and gas reserves, the European Union was simultaneously setting its sights on Russia as a major energy source, to the point where it was providing over 40% of the EU`s gas needs by 2006.

BP lobbying and positioning has helped persuade EU officials that the interests of the EU are aligned with those of the company. While he was still Chief Executive of BP, Lord Browne admitted that the company used government support to "underpin" business. To generate this government support on an EU level, the company has penetrated various Brussels-based advisory groups and quangos, achieving significant levels of influence within Brussels.

Howard Chase, BP's Head of European Affairs, sits as the Chairman of the Industry Advisory Panel in the Energy Charter Secretariat, a Brussels-based body that seeks to ensure free trade, transit and investment in the energy sector in the Former Soviet Union, protecting the interests of foreign energy investors.

TNK-BP oil extraction operations in Russia
Photo: TNK-BP

This same Howard Chase is also the convenor of the Foreign Economic Relations group at the European Roundtable of Industrialists – self-described as "one of the most influential pressure groups around". BP Chairman Peter Sutherland chairs this working group, whose work "is based on the premise that open international flows of trade, investment and expertise are a critical component of European competitiveness." A recent paper by the group argued that Russian policy-makers "can best strengthen investors' confidence by taking measures that strengthen the perception that investments are safe and can be put to the most productive use."

BP appears to have succeeded in using the EU's political muscle to defend its interests in Russia.

While documents showing the full extent of BP's penetration of EU institutions are unavailable – the best lobbying always remains secret - the company appears to have succeeded in using the EU's political muscle to defend its interests in Russia. The resolution of energy security issues in the EU depends on greater energy independence and in economic restructuring based on renewable energy. However, BP's efforts have instead led the EU to take action in the opposite direction, prioritising support for the oil company's attempts to replace its depleting reserves with Russian gas and oil.

This article is an edited case study from a forthcoming Corporate Europe Observatory report on BP's lobbying in Brussels prepared by CEO and PLATFORM.

Notes from Gog & Magog

Notes from Gog & Magog prides itself on seeing into the murky parts that other columns just don't fathom. What we would have given to have witnessed one, two or several meetings that took place in the week following the 7th August during the conflagration in South Ossetia.

As some point someone from BP surely paid a visit to the Russian Ministry of Defence in Moscow to complain about the 50 craters alongside the Baku-Ceyhan pipeline in Georgia, left by a Russian bomber. Did Rashid Javanshir, the Head of BTC Co? Or did someone from BP headquarters visit the Russian Embassy in London? Or, given the somewhat tricky relations between Russia and the company given the wranglings over TNK-BP, did BP just smile sweetly and keep its head down? "You bombed our pipeline? Oh no worries." Certainly BP studiously refused to confirm the well-founded reports of those bomb craters.

And then there were the meetings between BP and Russians over the use of the Baku-Novorossiysk pipeline. After BTC had been blow up by the PKK and shut down, after Baku-Supsa had been reopened and quickly closed when Russian tanks effectively camped above it at Gori, after the railway line carrying Azeri crude to Batumi had been blown up - then the Russians graciously offered BP the use of the Baku-Novorossiysk pipeline to export Azeri crude. How did this offer come about? Who went to whom to discuss it? Did William (Bill) Schrader, President of BP Azerbaijan, visit the Russian energy representative in Baku? Did Richard Spies, President of BP Russia meet the Energy Ministry in Moscow?

If the latter, Gog & Magog wonders if he met Igor Sechin, the Russian Energy Minister who's played such a tough hand against BP in the TNK-BP affair?

Oh what we would have given to be a fly on the wall at those meetings.

Students 'die' outside the Royal Bank of Scotland London office in protest against the bank's role in driving climate change during the Camp for Climate Action. Photo: Ric James.

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