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**RECORD OF CONVERSATION: MR DOWNER AND BHP BILLITON**  
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C O N F I D E N T I A L

RECORD OF CONVERSATION: MR DOWNER AND BHP BILLITON

\*\*\* THE FOLLOWING CONTAINS SENSITIVE INFORMATION \*\*\*

START OF SUMMARY

CABLE GIVES RECORD OF CONVERSATION WHICH TOOK PLACE IN LONDON ON 19 MAY BETWEEN THE MINISTER FOR FOREIGN AFFAIRS AND TRADE, BHP BILLITON EXECUTIVES AND SIR MALCOLM RIFKIND (MIDDLE EAST CONSULTANT) RELATING TO THE HALFAYAH OILFIELD IN IRAQ.

END OF SUMMARY

RECORD OF CONVERSATION BETWEEN:

MINISTER FOR FOREIGN AFFAIRS AND BHP BILLITON

ON: 19 MAY 2003

AT: STOKE LODGE LONDON

OFFICERS PRESENT:

SIR MALCOLM RIFKIND, MIDDLE EAST CONSULTANT  
MR DAVID WALKER, PRESIDENT, UK, NORTH AFRICA AND MIDDLE EAST  
DEVELOPMENT AND OPERATIONS  
MR TOM HARLEY, VICE PRESIDENT, MERGERS, ACQUISITIONS AND DIVESTMENTS  
MR DAVID REGAN, TEAM LEADER, INTERNATIONAL BUSINESS DEVELOPMENT,  
NORTH AFRICA AND MIDDLE EAST

HE MR MICHAEL L'ESTRANGE, HIGH COMMISSIONER  
MR JOSHUA FRYDENBERG, SENIOR ADVISER  
MR BILL PATERSON, FAS, IRAQ TASK FORCE  
MS MELISSA HITCHMAN, FIRST SECRETARY

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MAIN SUBJECTS: BHP BILLITON RIGHTS TO HALFAYAH OILFIELD IRAQ

REPORT PREPARED: BY MELISSA HITCHMAN

REPORT CLEARED BY: JOSHUA FRYDENBERG

MR REGAN GAVE A PRESENTATION OF BHP BILLITON'S INTEREST IN THE HALFAYAH OILFIELD IN IRAQ. HALFAYAH IS ONE OF FIVE STRATEGIC, UNDEVELOPED OILFIELDS SITUATED IN SOUTHERN IRAQ. IT CONTAINS NEARLY FIVE BILLION BARRELS OF RECOVERABLE OIL AND IS EQUIVALENT IN SIZE TO THE ORIGINAL OIL RESERVES DISCOVERED IN BASS STRAIT. THE DEVELOPMENT OF THE FIELD WOULD COMPRISE AN INVESTMENT OF AROUND US\$2 BILLION, WITH PRODUCTION COMMENCING AT 50,000 BARRELS OF OIL PER DAY ESCALATING TO 250,000 LONG TERM.

2. (IRAQ'S TOTAL OIL PRODUCTION BEFORE THE WAR WAS 2 MILLION BARRELS PER DAY, WHICH MR REGAN JUDGED COULD BE INCREASED TO 6 MILLION PER DAY IF GREENFIELD SITES SUCH AS HALFAYAH WERE EXPLOITED: 70 PER CENT OF THE COUNTRY REMAINED UNEXPLORED. IRAQ HAD EXTENSIVE GAS RESERVES ALSO, WHICH EVENTUALLY COULD BE DELIVERED TO EUROPE THROUGH TURKEY).

3. MR REGAN SAID THAT, IN THE MID TO LATE 1990S, NEGOTIATIONS WERE HELD BETWEEN THE MINISTRY OF OIL IN BAGHDAD AND A NUMBER OF WESTERN COMPANIES WHO WERE INVITED TO AGREE PLANS FOR THE DEVELOPMENT OF THE FIVE STRATEGIC OILFIELDS. NEGOTIATIONS WERE CONCLUDED BETWEEN LUKOIL OF RUSSIA FOR WEST QURNA, TOTAL AND ELF (NOW TOTALFINAELF) OF FRANCE FOR MAJNOON AND NAHR UMR, ENI OF ITALY FOR NASSIRIYAH (WITH COMPETITION FOR REPSOL OF SPAIN), AND BHP FOR HALFAYAH.

4. MR REGAN EMPHASISED THAT, ALTHOUGH THE TECHNICAL DETAILS AND COMMERCIAL DOCUMENTATION OF THE DEVELOPMENT PLAN FOR HALFAYAH WERE SUBSTANTIALLY AGREED WITH THE IRAQI AUTHORITIES IN 1996/7, THE AGREEMENTS WERE NOT EXECUTED. THIS WAS DUE TO THE EXISTENCE OF THE SANCTIONS REGIME AND, REGAN CLAIMED, WITH THE AGREEMENT OF THE AUSTRALIAN GOVERNMENT. IN ADDITION TO HALFAYAH, BHP CONSIDERED OTHER FOLLOW-UP OPPORTUNITIES INCLUDING LONG TERM EXPLORATION AND DEVELOPMENT PROJECTS SUCH AS EXPLORATION BLOCK 6 IN THE WESTERN DESERT.

5. MR HARLEY ADDED THAT IN SEPTEMBER 2000 BHP TRANSFERRED RIGHTS IN HALFAYAH TO A JOINT VENTURE LED BY TIGRIS PETROLEUM, HEADED BY BHP EXECUTIVES WHO WERE RESPONSIBLE FOR THE ORIGINAL NEGOTIATIONS ON HALFAYAH. TIGRIS WAS RESPONSIBLE FOR MAINTAINING RELATIONSHIPS WITH IRAQ BY WORKING ON OIL-FOR-FOOD RELATED PROJECTS UNTIL A NORMAL POLITICAL SITUATION COULD BE ESTABLISHED IN IRAQ. THIS ARRANGEMENT WAS JUDGED BY ALL PARTIES TO GIVE AUSTRALIA THE MAXIMUM CHANCE OF SECURING THE HALFAYAH FIELD INVESTMENT.

6. MR HARLEY REVEALED THAT THE TIGRIS/BHP CONSORTIUM WAS IN DISCUSSIONS WITH BRITISH DUTCH (SHELL) ON THE LONG TERM DEVELOPMENT

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OF HALFAYAH. IT HAD RECENTLY SIGNED A THREE MONTH CONTRACT WITH THE COMPANY TO EXPLORE A FEASIBILITY STUDY. MR HARLEY COMMENTED THAT BRITISH DUTCH WOULD ADD POLITICAL, TECHNICAL AND FINANCIAL SUPPORT TO THE CONSORTIUM. BHP BILLITON AND BRITISH DUTCH WOULD LIKELY TAKE A FORTY PER CENT INTEREST, WITH TIGRIS A MINORITY (POSSIBLY TEN PER CENT) INTEREST.

7. MR REGAN OBSERVED THERE WERE A NUMBER OF ADVANTAGES TO IRAQ IN THE PROPOSAL. BEING A GREENFIELD PROJECT, IT IS NOT ENCUMBERED BY ANY EXISTING PRODUCTION, INFRASTRUCTURE AND PERSONNEL ISSUES. IT PRESENTS THE OPPORTUNITY TO UTILISE AN ALREADY NEGOTIATED MASTER DEVELOPMENT PLAN AND COMMERCIAL ARRANGEMENT WHICH GIVES THE PROJECT AT LEAST A TWO YEAR HEAD START OVER OTHER UNDEVELOPED FIELDS. THIS HAS THE POTENTIAL TO YIELD EARLY PRODUCTION AND REVENUES. THE CONSORTIUM HAS ACCESS TO TECHNICAL DATA FROM BHP BILLITON, THE ADVANTAGE OF ANOTHER MULTINATIONAL FROM A COALITION COUNTRY, AND AN ESTABLISHED RELATIONSHIP THROUGH TIGRIS WITH THE IRAQI MINISTRY OF OIL.

8. SIR MALCOLM EMPHASISED THAT IT WAS CRITICAL TO REGISTER THE BHP BILLITON/BRITISH DUTCH/TIGRIS INTEREST EARLY WITH THE US ADMINISTRATION. ALTHOUGH NO PROGRESS COULD BE MADE IN TERMS OF SIGNING CONTRACTS UNTIL AN IRAQI GOVERNMENT HAD BEEN FORMED IN SEVERAL MONTHS' TIME, HE WAS CERTAIN THAT THE US WOULD SEEK TO PROTECT ITS COMMERCIAL INTEREST IN IRAQ. THIS COULD TAKE THE FORM OF EXISTING CONSORTIA BEING ENCOURAGED TO TAKE ON BOARD US PARTNERS. THE FRENCH, FOR EXAMPLE, WERE ALREADY IN NEGOTIATIONS WITH CHEVRON. SIR MALCOLM ADDED THAT THE BHP BILLITON/BRITISH DUTCH/TIGRIS BID WAS UNIQUE IN THAT IT COMBINED AN ESTABLISHED GREENFIELDS INVESTMENT ENTIRELY FINANCED BY FOREIGN INVESTMENT WITHOUT THE DIFFICULTIES A RUSSIAN OR FRENCH BID COULD PRESENT TO THE US ADMINISTRATION. IT WAS A GOOD CLAIM AND REQUIRED LOBBYING - INCLUDING FROM THE AUSTRALIAN GOVERNMENT - IN WASHINGTON.

9. BHP BILLITON AND TIGRIS HAD BRIEFED THE PRIME MINISTER'S OFFICE (MR SINODINOS), DFAT, DEFENCE AND AFFA. IT HAD ONLY JUST STARTED LOBBYING IN THE UK BUT INTENDED TO APPROACH DOWNING STREET AND THE DTI. THE FCO HAD ADVISED, ALSO ON 19 MAY IN A MEETING WITH SIR MALCOLM, THAT US ADMINISTRATORS IN IRAQ WERE ALREADY REHABILITATING EXISTING OILFIELDS. THE US IS REPORTED TO HAVE TOLD THE UK "NOT TO BEHAVE LIKE THE ENGLISH" BUT RATHER TELL THE ADMINISTRATION IF IT HAS PARTICULAR INTERESTS. MR REGAN SAID THE CONSORTIUM WOULD TRAVEL TO WASHINGTON NEXT WEEK TO BRIEF THE AUSTRALIAN EMBASSY (DHOM BAXTER) AND STATE DEPARTMENT. SIR MALCOLM WOULD BE SEEKING AN APPOINTMENT WITH VICE PRESIDENT CHENEY WHEN THE OPPORTUNITY AROSE. MR REGAN ADDED THAT THE KEY CONTACTS IN BAGHDAD WERE MR PHILIP J CARROLL (CHAIR OF THE ADVISORY COMMITTEE TO THE MINISTRY OF OIL AND FORMERLY HEAD OF SHELL IN THE US) AND MR THAMIR GHADHBAN (CEO OF MINISTRY OF OIL). MR CARROLL WAS ASSISTED BY MR FADHIL OTHMAN, AN IRAQI EXILE WITH PREVIOUS EXPERIENCE IN SOMO (THE IRAQI STATE OIL MARKETING ORGANISATION). MR REGAN ADDED THAT MR GHADHBAN HAD REMARKED TO THE

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CONSORTIUM THAT ITS NAME WAS NOT BEING MENTIONED BY US ADMINISTRATORS AS A BIDDER. HE ASSESSED THAT MR CARROLL WAS THE MOST ABLE TO INFLUENCE PENTAGON PLANNERS ON THE GROUND IN IRAQ OF THE CONSORTIUM'S CLAIMS.

10. MR DOWNER SAID HE WOULD BE HAPPY TO TALK TO THE US ABOUT THE HALFAYAH BID. HOWEVER, THE CONSORTIUM NEEDED TO APPRECIATE THAT THE FIRST PRIORITY WAS TO ESTABLISH SERVICES (WATER, SEWERAGE, FOOD DISTRIBUTION) AND RESTORE SECURITY TO BAGHDAD. EXISTING OILFIELDS WERE PUMPING, STORAGE TANKS WERE NEARING CAPACITY, AND A FRESH UN SECURITY COUNCIL RESOLUTION WAS NECESSARY TO SELL THE OIL AND OBTAIN REVENUES FOR THE POTENTIAL IRAQI GOVERNMENT. ONCE THE SANCTIONS REGIME IS LIFTED, EXISTING OILFIELDS CAN BE DEVELOPED THROUGH THE IMPORTATION OF TECHNOLOGY. THE COALITION WAS MOVING AS FAST AS IT REASONABLY COULD TO ESTABLISH THE INTERIM IRAQI AUTHORITY (IIA). THIS COULD SLIP PAST LATE MAY/EARLY JUNE. THE QUESTION OF NEW OILFIELDS WOULD BE A VERY SENSITIVE ONE. IT PLAYED INTO SENSITIVITIES OVER THE WAR. THE COALITION HAD BEEN CLEAR THERE WOULD NOT BE BLOOD FOR OIL. THE AUSTRALIAN GOVERNMENT SAID SINCERELY THAT IT HAD NOT JOINED COALITION FORCES ON THE BASIS OF OIL. WISE JUDGEMENT SUGGESTED IT WAS THE IRAQIS THEMSELVES WHO NEEDED TO BE AWARDED OIL CONTRACTS.

11. THAT SAID, MR DOWNER AGREED HE WOULD RAISE THE MATTER BOTH IN WASHINGTON AND IN BAGHDAD WITH PAUL BREMER. HE WOULD ALSO HAVE IT RAISED WITH THE OIL MINISTRY IN BAGHDAD. HE DID NOT EXPECT THEM TO OBJECT TO THE CONSORTIUM'S CLAIM. NO DOUBT THOSE CHARGED WITH THE ISSUE IN WASHINGTON HAD BEEN SCRUTINISING COMMERCIAL INTERESTS IN THE OILFIELDS. IT WAS THEREFORE WORTH REGISTERING THE BHP BILLITON/BRITISH DUTCH/TIGRIS BID. MR DOWNER SAID HE BELIEVED THE US ADMINISTRATION WOULD BE CAUTIOUS.

12. MR WALKER GAVE A PRESENTATION ON BHP BILLITON'S OTHER GLOBAL INTERESTS (INCLUDING AN UNSUCCESSFUL US\$20 MILLION INVESTMENT IN IRAN, ALGERIA, EGYPT, AND BRUNEI/MALAYSIA). HE THANKED MR DOWNER FOR THE ASSISTANCE OF THE AUSTRALIAN GOVERNMENT - THROUGH DFAT AND AUSTRADE - IN THESE MARKETS.

XC.

CM. HITCHMAN

LIMITED DISTRIBUTION TO THE FOLLOWING ADDRESSES

ACTION: DR.A.CALVERT (DFAT)

INFO: PRIME MINISTER

MIN FOREIGN AFFAIRS

MINISTER FOR TRADE

DR.P.SHERGOLD(DPMC)

MR C R JONES (ONA)

+++

ACTION: MS.V.OWEN(MAB)

IRAQ TASK FORCE

INFO: DR.A.CALVERT(SEC)

MR.P.GREY(D/S)

DR.G.RABY(D/S)

MR.P.O'SULLIVAN(D/S)

MR.P.VARGHESE(D/S)

FOREIGN MINISTER'S OFFICE

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MS . Z . MCCARTHY ( EXB )

MR. R. WELLS (PMD)

MR. R. HILLMAN (TDD)

MR. B. GOSPER (OTN)

MR. I. KEMISH (PCD)

MR. B. HAMMER (PMB)

MR. B. DAVIS (DG-AUSAID)

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