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SUBJECT: ILSA: DUTCH, SHELL ON YADAVARAN, IRAN, SAKHALIN II

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B. THE HAGUE 02316

1. (SBU) Summary. The Dutch government supports targeted sanctions against Iran but not actions that limit Shell's activities there. Shell does not plan a final Yadavaran investment decision until 2008 and will keep State abreast. The government continues to follow negotiations between Gazprom and Shell over Sakhalin II, Shell's big natural gas project. End Summary.

2. (U) Econoff raised U.S. concerns about the Iran's Yadavaran oilfield project with Ministry of Foreign Affairs (MFA) officials John Roosegaarde Bisschop, Gulf States division head, and senior policy officer Loek ten Hagen on December 15. On December 18, Econoff discussed Yadavaran and developments at Sakhalin II with John Crocker, Shell's head of international government relations.

Iran Policy and Relationship with Shell

3. (SBU) MFA's Roosegaarde Bisschop responded with three main points on Iran. First, he said MFA supports a UNSC resolution with teeth, meaning reversible sanctions targeted against the assets and travel of individuals associated with Iran's nuclear program. Iran had crossed the line. The Dutch, he said, fully support the P5 discussions, as part of a dialog aimed at a diplomatic solution. Harsher measures -- such as omnibus sanctions or those complicating Shell operations -- are not on the table and would be very difficult to get through the UN, he said.

4. (SBU) Second, regarding Shell, Roosegaarde Bisschop noted that Shell briefs MFA on a regular basis about the Pars gas field development, but not Yadavaran. While MFA shares advice to ensure that Shell's activities fall on the safe side politically, the ministry refrains from voicing approval or disapproval over Shell projects, he said. MFA has become more involved with Shell, he said, because the energy security situation has forced shell to look at markets where the

political environment is hazardous.

5. (U) Third, Roosegaarde Bisschop noted that French and Italian oil companies were much more advanced in their efforts in the Iranian energy sector. He asked whether we had reached out to these countries with the same message.

No Final Decision on Yadavaran Until 2008

6. (SBU) In response to reftel A points, Shell's Crocker said that a deal on Yadavaran had been imminent for months. He added that Shell had recently seen a sense of urgency on the Iranian side and some signs that the Chinese were ready, but the two had yet to come to agreement. If they do agree, Crocker continued, Shell would examine it and decide whether to issue a statement of interest. After that it would take Shell 12-18 months of analysis to decide whether to invest. Such a decision would be taken in 2008 at the earliest, he said, adding that Shell would notify State -- which he visits on a regular basis -- before any decision is made.

7. (SBU) Crocker expressed concern about USG efforts to discourage investment in Iran's energy sector. In the short run, he said, the volume of oil produced in Iran will remain unchanged, whether or not Shell participates in Iran oil projects. This is because phase I oil extraction -- a period that normally lasts 10 years -- is not tricky, and the Iranians and Chinese have the requisite technology to proceed on their own. It is from the second phase onward, Crocker added, where the exclusion of foreign oil companies will have an impact. Since this is beyond 2020, it might make life difficult for ordinary Iranians at a time when the political environment hopefully may be more friendly toward the west, Crocker said. That said, he added that Shell views its relationship with the USG as important and that the company is very conscious of how its actions are perceived.

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Sakhalin II: Shell on Possible Gazprom Participation

8. (SBU) On Sakhalin II, Crocker offered thoughts on Gazprom's potential involvement and helpful USG actions. First, Crocker said Shell had always thought having a Russian partner was a good idea, and had offered, in exchange for other assets, a 25% stake to Gazprom before discussions were disrupted by the potential revocation of Shell's Sakhalin II environmental permit (reftel B). The Russians, however, had offered less than 30% of what Shell considered fair. Talks have made some progress in the last week. Gazprom's participation could now go either way, Crocker said, adding that Shell is open to a Gazprom stake at a different level as long as it was a commercially viable and defensible to shareholders. Failing this -- and if the Russian government continued to use all means to apply pressure -- Shell would be prepared to go to international arbitration.

9. (SBU) Second, Crocker said G8 countries should emphasize to Russia that its treatment of Shell does not fit within internationally accepted norms. Crocker hoped that the G8 message would include a discussion of the potential delays to Japanese, Korean, and U.S. consumers. A failure to deliver

would hurt these countries as consumers and Russia as a supplier. In one to two weeks, these countries may need to issue strong public statements to Russia -- but for now the messages should be delivered privately, Crocker said.
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