Foreign Policy

Zalmay Khalilzad's not-so-excellent Afghan oil adventure

By Steve LeVine

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The private investment firm of Zalmay Khalilzad, the former U.S. ambassador to Afghanistan and one of the most powerful diplomats in the George W. Bush Administration, is upset that a client has lost an oil deal in the country. Khalilzad's son, Alexander Benard, is on the attack in

Washington, in particular against the Pentagon, which he says acted against U.S. interests by not advising the Afghan government to favor Western companies in the deal.

Khalilzad's firm, Gryphon Capital Partners, represents U.K.-based Tethys Petroleum, which participated in a competitive tender for northern Afghanistan oilfields estimated to hold 80 million barrels of oil. This is not a lot of oil, but given global prices would still generate a good income flow at an estimated production rate of 11,000 barrels a day. In hiring Khalilzad (pictured above), Tethys was paying a native Afghan and one of the Bush Administration's most powerful diplomats -- he was ambassador not just to Afghanistan, but also to Iraq and the United Nations. Trading on his contacts, Khalilzad mounted an aggressive campaign on Tethys' behalf in both Washington and Kabul, I am told.

Yet as of now, the tentative winner is China National Petroleum Corp., according to *Bloomberg*. The deal is on track to be finalized by the middle of this month. And Gryphon attributes this to a tender that it says unfairly favored CNPC, when it should have been engineered to the advantage of companies from the coalition partners who have fought in Afghanistan.

Benard, who is Khalilzad's 28-year-old son, makes the assertions in two high-profile opinion pieces that have appeared the last two days on the websites of *Foreign Policy* and *National Review*. Khalilzad founded and runs Gryphon, while Benard is its managing director.

Given the bitterly partisan political atmosphere in Washington, Benard's pieces provide Republicans another club with which to strike President Barack Obama. But in an email exchange, Benard said he is not attempting to reverse Afghanistan's decision. "We believe it is too late for this tender but we are trying to make sure future tenders in Afghanistan are handled better," Benard told me.

As part of its bid, CNPC agreed to pay a 15 percent royalty on the oil it drills, a 30 percent corporate tax, and to build a refinery, *Bloomberg* reports. An Australian company named Buccaneer Energy came in second, promising a 10 percent royalty. I am told that Tethys' bid was not close to the two top bids.

In April, Tethys CEO David Robson praisedthe "open, transparent and efficient manner" in which the tender process was being run. But after the result was announced, a Tethys spokeswoman told *Bloomberg* that the company could not match the top offers. "CNPC is the representative of a government and it was able to offer terms that were non-commercial," the spokeswoman said.

In his articles, Benard expresses outrage that the tender was not manipulated to award the oilfields to one of the Western bidders. In the *FP*, he writes:

How was CNPC able to win a tender for such a strategic resource in a country where the United States wields tremendous influence? Amazingly, one reason is that the U.S. Defense Department, whose Task Force on Business and Stability Operations, which is charged with resuscitating the economies of Afghanistan and Iraq, designed and oversaw a tender process that played to the strengths of Chinese state-owned companies over Western private ones.

In the *National Review*, Benard is more pointed. He writes:

We ... told the task force that they needed to do more to provide political support to the Western bidder, but the U.S. government stated that it was neutral as to the outcome of the tender -- an incredible position, especially given the strategic importance of hydrocarbon resources in a country where U.S. troops require thousands of gallons of jet-fuel and diesel every day to support ongoing operations. These resources will now be under the effective control of the Chinese government.

The Metallurgical Corp. of China is already developing Aynak, an enormous copper mine in Afghanistan. But its companies have not gotten the only big early resource deals in Afghanistan -- J.P. Morgan is teaming up with a Polish businessman named Jan Kulczyk in a gold deal.

The CNPC bid is part of a gingerly Chinese effort to penetrate Afghanistan commercially without getting mired in the country politically or militarily, according to a good piece by Zhou Xin at *Reuters*. In the *China Daily*, Sultan Baheen, the Afghan ambassador to Beijing, said that the Kabul government hopes to finalize the CNPC deal by the middle of this month. "Chinese investment has been very effective for job creation. I think that is good news for us in Afghanistan and for our Chinese relationship," Baheen told the paper.