

FINAL TRANSCRIPT

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OXY - Q3 2009 Occidental Petroleum Corporation Earnings Conference Call

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PRESENTATION

Operator



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Good morning. My name is Christie and I'll be your conference operator today. At this time, I would like to welcome everyone to the Occidental Petroleum third quarter 2009 earnings release conference call.

(Operator Instructions)

Thank you. Mr. Stavros, you may begin your conference.

Christopher Stavros - Occidental Petroleum Corporation - IR

Thank you, Christie and good morning everyone. I'd like to welcome you to Occidental Petroleum's third quarter 2009 earnings conference call. Joining us on the call from Los Angeles this morning are Dr. Ray Irani, Oxy's Chairman and CEO, Steve Chazen, our President and CFO. Also joining us are Bill Albrecht, President of Oxy's US Oil & Gas Operations. And Sandy Lowe, President of our International Oil & Gas business. In just a moment I'll turn the call over to Dr. Irani to discuss some of the high points regarding the third quarter, as well as developing opportunities which we expect to add to our growth over time.

Steve Chazen will then review our third quarter and nine months 2009 financial results. Also talk about some of our recent acquisition activity, as well as provide an update on Oxy's Kern County California discovery and our California exploration activity. Our third quarter earnings press release, Investor Relations supplemental schedules and conference call presentation slides which refer to Steve's remarks can be downloaded off of our website at www.oxy.com. I'll now turn the call over to Dr. Irani. Dr. Irani, please go ahead.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Thank you. Thank you. Thank you, Chris and good morning, ladies and gentlemen. Thank you for joining us today. This morning, I will give you brief highlights of a few of the positive developments at Oxy during the last quarter. Steve Chazen will provide financial highlights and details shortly. Our worldwide oil and gas production for the 2009 third quarter was nearly 7% higher than the third quarter last year. A significant portion of the domestic increase is from our new discovery in Kern County, California, which we announced last quarter. In the new discovery area, we currently have gross production of approximately 26,000 BOE per day, which is 8,700 BOE per day more than we reported to you last quarter. We continue to be excited about Oxy's growth potential in California.

In the third quarter, we also achieved production growth in the Middle East region, mainly from our operations in Oman and the Dolphin project. We continue to see opportunity in the Middle East and it's a region in which we expect further growth. In the next few weeks, we will launch a joint operating Company to manage the development and production of Bahrain field. As you know, with Bahrain's national oil Company, Mubadala of Abu Dhabi or teaming to dramatically increase the field's oil production from 30,000 barrels a day to 100,000 barrels a day. In addition, gas production is also expected to increase 50% to 2.5 Bcf during the term of the contract. Oxy's net proved reserve additions over the life of the project are estimated to be 450 million BOE.

And as announced last week, Oxy is part of an Eni-led consortium that has been awarded the license for development of the giant Zubair oil field in Iraq. Iraq holds the world's second largest reserves of oil with about 115 billion barrels, second only to Saudi Arabia. Iraq officials have said that they plan to increase the country's oil production from the current level of about 2.2 million barrels a day, to over 10 million barrels of oil. We are now one of the few companies on the ground floor of this world class opportunity. The Zubair field has significant proven reserves, estimated at more than 4.2 billion barrels, and current production of 195,000 barrels of oil a day.

Development of Zubair will be a multi-year, multi-phased project with production expected to reach a plateau of more than one million barrels a day during the next six years. We expect Oxy's net share of peak production from the field to be about 90,000 barrels a day. The project will give us the opportunity to learn, evaluating each phase of the project, and give us the



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insight to effectively evaluate future developments in Iraq. We hope to expand our position over time, and continue our involvement in Iraq, while meeting our standards for security and rate of return. I now would like to turn the meeting over to Steve Chazen to give you our third quarter and year-to-date financial results in greater detail.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Thank you, Ray. Net income was \$927 million in the third quarter, compared with \$2.3 billion in last year's third quarter. Here is the segment breakdown for the third quarter. Oil and gas third quarter 2009 segment earnings were \$1.5 billion, compared to \$3.6 billion for the third quarter of 2008. The \$2.1 billion decrease in the third quarter was due to lower crude oil and natural gas prices, partially offset by higher sales volumes and lower operating expenses. Occidental's average realized crude price in 2009 third quarter was \$62.79 per barrel, a decrease of 40% from the \$104.15 per barrel in the comparable period last year. Oxy's domestic average realized gas price for the quarter was \$3.04 per Mcf, compared with \$9.35 per Mcf last year.

Worldwide oil and gas sales jewel for the third quarter of 2009 were 628,000 barrels of oil equivalent a day, an increase of nearly 7% compared with 588,000 BOE a day in the third quarter of last year. Increase includes 22,000 BOE per day from domestic operations, 16,000 BOE per day from Oman, 10,000 BOE a day from Dolphin, partially offset by 8,000 BOE a day in lower volumes from Argentina. The domestic volume increases occurred in California and the Permian. The California production increase was largely the result of new wells in the Kern County discovery we announced last quarter. Middle East included higher production in Oman and higher production sharing volumes compared to last year's third quarter. The Argentine decrease includes 9,000 BOE a day loss from the strike in Santa Cruz in the third quarter of this year.

Third quarter of 2009 worldwide oil and gas sales volumes decreased 3%, or 21,000 BOE a day from the second quarter of 2009 of 649,000 BOE a day. Dolphin volumes were lower by 10,000 BOE a day resulting mainly from higher catch-up cost recovery volumes in the second quarter. Argentina volumes decreased by 7,000 BOE a day due to in large part to the Santa Cruz strike. Qatar and Libya volumes declined by 8,000 BOE a day due the timing of listings. Mid-Continent and Rockies volume were lower by 4,000 BOE a day which reflects natural decline in gas production. California volumes increased 8,000 BOE a day largely a result of new wells in the Kern County discovery.

Exploration expense was \$56 million in the quarter in line with our guidance of \$50 million. Oil and gas cash production costs excluding production and property taxes were \$10.27 a barrel for the first nine months of this year, a 15% decline from last year's 12 month costs of \$12.13 a barrel. The third quarter of 2009, oil and gas cash production costs were \$10.15 per barrel, essentially flat with the second quarter of 2009's run rate. Taxes other than on income were \$1.75 a barrel for the first nine months of 2009, compared with \$2.62 a barrel for all of 2008. These costs which are sensitive to product prices reflect lower crude oil and gas prices in the first nine months of this year. In the third quarter of 2009 these taxes decreased to \$1.73 a barrel, compared to the second quarter of 2009 rate of a \$1.82, due to reductions in the 2009 to 2010 property taxes.

Chemical segment earnings for the third quarter of 2009 were \$72 million, compared to \$219 million last year's third quarter. The third quarter 2009 results reflect the continued weakness in the US housing, automotive and durable goods sectors resulting in lower margins for caustic soda, polyvinyl chloride, and lower volumes of chlorine, caustic soda, potassium hydroxide and polyvinyl chloride. Midstream segment earnings for the third quarter of 2009 were \$77 million, compared to \$66 million in the third quarter of 2008. The increase in earnings was due to higher margins in the marketing business, partially offset by lower NGL realized prices in the gas processing business. The worldwide effective tax rate was 37% in the third quarter of 2009, compared with our guidance of 40% to 42%. Decrease in rate reflects tax benefits resulting from our relinquishment of international contracts and a higher proportion of expected total year domestic source pretax income. Occidental generally records no tax benefits of foreign expense exploration until the lease is relinquished.

Now let me turn to Oxy's performance during the first nine months. Net income was \$2 billion in the first nine months of this year, compared to \$6.4 billion last year. Capital spending for the third quarter of 2009 was \$746 million, and \$2.6 billion for the first nine months. We currently anticipate total year 2009 capital spending to be \$3.7 billion. The \$100 million increase from our



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last estimate is allocated to domestic oil and gas operations. Portions of the increase will be used to complete 130 previously drilled wells in the Piceance basin. This work will be completed in first quarter of 2010 and expected to add about 40 million a day to our production.

Cash flow from operations for the nine months of 2009 was \$3.8 billion. We used \$2.6 billion of the Company's cash flow to fund capital expenditures, and \$600 million on acquisitions and foreign bonuses. These items amounted to \$3.2 billion of cash use. We also used \$794 million to pay dividends. And in the third quarter we used \$691 million to retire senior debt maturities which was funded from the second quarter issuance of \$750 million of senior notes due in 2016. These and other net cash outflows decreased our \$1.8 billion cash balance at the end of last year by \$200 million, to \$1.6 billion at the end of this past quarter. Third quarter free cash flows after capital spending, dividends and taxes, but before financing and acquisition activities was about \$700 million. As a result of the reduction in debt in the third quarter, our debt-to-cap ratio came down to 9%, which is the same level reported last year. The weighted average basic shares outstanding for the nine months was 811.1 million. Weighted average diluted share were 813.9 million.

As we look ahead in the current quarter, we expect oil and gas sales volumes to increase to about 650,000, 660,000 BOE a day, at around current prices. The fourth quarter production is expected to reflect increases from California, Argentina and the Middle East, North Africa. With regard to prices, at current prices \$1 a barrel change in oil prices impacts oil and gas quarterly earnings before income taxes by about \$39 million. The average third quarter WTI oil price was \$68.30, and NYMEX gas price was \$3.60 per Mcf, a swing of \$0.50 per million Btus in domestic gas prices has a \$23 million impact on quarterly earnings before income taxes. The current NYMEX gas price is around \$4, around \$5 per Mcf.

Additionally we expect exploration expense to be about \$100 million for seismic and drilling for our exploration programs. For the chemicals segment, we expect continued weakness in the US housing, automotive, durable goods sectors in the fourth quarter. The fourth quarter is traditionally the weakest quarter for this business. Chemical earnings for the fourth quarter expect to be between \$20 million and \$40 million, as close to breakeven level we had estimated last quarter. We expect increases in chlorine, caustic soda and polyvinyl chloride prices. These increases are not expected to fully offset the higher feed stock and energy costs. We expect our combined worldwide tax rate for the fourth quarter to be in the range of 40% to 42%, depending on our split between domestic and foreign sourced income. Our third quarter and US and foreign tax rates are included in the Investor Relations supplement.

Turning now to acquisitions, last month we announced the acquisition of Phibro from Citicorp at a price that approximates the liquidation value of Phibro's assets. As the most recent information, the vast majority of Phibro's assets consist of cash and marketable securities. The exact amount of the purchase price will be determined at closing which is expected this quarter. We expect our investment in Phibro will average about \$250 million depending on their cash needs from time to time. They will operate as a stand-alone entity, while our current trading operation will continue selling our physical production. Our policies on hedging and risk management, or physical production remains unchanged. Phibro has an extensive system of risk controls which will be overseen by Occidental employees. The quality of Phibro's risk control and management can be seen by the lack of any losing years since 1997, when they were bought by Citi. With time we expect to use Phibro's excellent reputation in the Middle East and elsewhere to enhance our position in the region. Property acquisition activity has picked up recently. We expect to close several hundred million dollars of property acquisitions in the fourth quarter.

Turning now to California exploration. Excluding the Kern County discovery discussed in last quarter's conference call, over the course of little over a year we have drilled 36 exploration wells seeking nontraditional hydrocarbon zones in California. Of these wells, 11 are commercial and 10 are currently being evaluated. We expect to drill an additional seven exploration wells this year. Oxy holds 1.1 million acres of net of fee minerals and leasehold in California, which have been acquired in the last few years to exploit these opportunities. Discoveries similar to the Kern County discovery are possible in this net acreage position.

Additionally, we will continue to pursue shale production which is expected to produce oil on this acreage. The Kern County discovery which is near Elk Hills is not below any producing zones. In this area we are currently producing from 10 wells, approximately 105 million cubic feet of gas a day, at 8,500 barrels of liquids a day, which is 8,700 BOE a day higher production



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than we disclosed last quarter. Cumulative gross production since the start of production to the end of September has been 8.5 Bcf of gas, and 765,000 barrels of liquids. All of this production comes from conventional zones. While there is oil production from shale zones in this area, the bulk of the future production will come from conventional wells. During 2009 we expect to drill an additional 11 wells. In the next two quarters, the focus of our drilling will be on drilling oil wells, as we seek to further define the oil zone. Copies of this press release and our quarterly earnings are available on our website, or through the SEC's EDGAR system. We are now ready to take your

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Thank you. And your first question comes from Robert Kessler with Simmons.

Robert Kessler - *Simmons & Company International - Analyst*

Good morning, gentlemen. Wanted to see if you could elaborate on a few things with respect to your Kern County activity. One thing, on Elk Hills, you've disclosed previously that you're going to bump up against some processing capacity limits there. Can you update us with respect to the timing of expansion and the likely cost? And at what point might we start to flatten out in terms of the California production growth, as that becomes a bottleneck, or can you keep growing for the next few quarters without that being a limiting factor?

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

We still have some more room in our facilities, in gas handling. At the current rate of growth obviously we're probably going to run out some time, but we have plans to bring skid mount facilities in to handle the gas. We're also slowing down some of the less economic activities in the Elk Hills area, to create more room for this. We don't have any idea -- we can't tell you how big the facility is at this point, since we still have fair number of unknowns about how much gas we're going to need to process. So that's part of -- one of the delay is, we just don't know how big a plant to build. The numbers we told you last week may be a little low. So I think what we're -- where we are is, as far as the growth that we would expect continued growth for a few more quarters. We just don't know at this point how -- where it's going to wind up. It continues to do extremely well.

Robert Kessler - *Simmons & Company International - Analyst*

Sure. And then as you shift your focus more towards the oily of the wells, you've been of course, around two thirds gas so far, any expectations for average well productivity? It's been quite strong with a gas weighted wells. Do you expect a similar rate of production on, say a barrels of oil equivalent basis, even with the oil wells?

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

Now the oil zone is fundamentally is, has less permeability than the gas zone. The gas zone is a very permeable zone. The oil zone is a little less, but again, of course you're getting a little more money for the oil on a BOE basis. So probably will turn out to be more economic to drill the oil wells, right now than the gas wells. But the gas wells are very prolific as you can see. We can probably boost the production of the gas wells even further from the existing wells, if we let -- if we open it up further.

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Robert Kessler - *Simmons & Company International - Analyst*

Can I pin you down on a number in terms of a barrels per day from an oil well in that area.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

It varies considerably. We have some wells that are making several thousand a day of oil, and some wells that are less productive. So a few hundred barrels a day -- so there's a fair amount of variation between the wells. And that's why we're focusing on it over the next couple quarters so that we can figure out where the better parts are. It's a little more complicated than the gas zone which is fairly easy to engineer.

Robert Kessler - *Simmons & Company International - Analyst*

Okay. Thanks for the color.

Operator

Your next question comes from Michael Jacobs with Tudor Pickering & Holt.

Michael Jabobs - *Tudor Pickering & Holt - Analyst*

Good morning, everyone.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

Good morning.

Michael Jabobs - *Tudor Pickering & Holt - Analyst*

Just wanted to follow up on the last line of questions on Kern County. Last quarter you disclosed the resource estimate of 150 million to 250 million barrels from six wells. And as you delineated the field with four additional wells, how big do you think the resource could be today?

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

I don't want to go into re-engineering every quarter. Got the wrong conference call, I think for that. So I think we'll hold with this range for now, and we'll update you as the rest of the year progresses.

Michael Jabobs - *Tudor Pickering & Holt - Analyst*

Okay. And as you continue to step out, are you seeing pretty consistent well productivity, or are results tapering off a bit?

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Steve Chazen - Occidental Petroleum Corporation - CFO, President

The gas wells continue to perform, gas condensate wells continue to perform extremely well. And so we don't see any tapering there. Oil, a little more variable but that was built into our models. So I don't see any reason to monkey with the estimates at this point.

Michael Jabobs - Tudor Pickering & Holt - Analyst

Okay. And just moving to the Permian, over the last couple quarters you've spent less and less capital, but this quarter you saw sequential uptick in production. Are you doing anything differently in the Permian? Or have you been able to selectively add producing properties over the last six months?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

We've added some properties. Capital's being deployed a little more efficiently. So I think we're getting clearly more bang for our buck. And I think some of this you're seeing as a result of last year's program that's sort of flowing through. So I think you've got a little more selective investment this year, a little bit of acquisitions, and some from last year.

Michael Jabobs - Tudor Pickering & Holt - Analyst

Okay. Just one --

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Bill might have some more color.

Bill Albrecht - Occidental Petroleum Corporation - VP, Pres of Oxy Oil & Gas - USA

One other thing I would like to add to that is that we've increased our CO2 purchases by about 100 million a day or so. And we're starting to see some additional response from our increased CO2 injections.

Michael Jabobs - Tudor Pickering & Holt - Analyst

That's good color. Thank you. Just one last follow-up. When you talked earlier, Steve, about making further acquisitions, is that also in the Permian? Or can you give us a little bit of context where?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

There's some deals that we have agreed to and some that are still in the advanced tire kicking phase, so there's no real color at this point. We just want to alert you of the fact that the activity had picked up and in our traditional areas. So it's basically going to be California and the Permian.

Michael Jabobs - Tudor Pickering & Holt - Analyst

Great. Thank you.

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Operator

Your next question comes from Paul Sankey with Deutsche Bank.

Paul Sankey - Deutsche Bank - Analyst

Hi, good morning gentleman. You have a few things here that increased your volumes outlook I guess. Could I ask you a couple specifics about the Middle East, and then a more general one? The specifics, you said I think 30,000 a day in Bahrain to 100, but didn't give a time frame. And then, to Iraq, you also mentioned Iraq to a million growth over the next six years. I wondered when you expected the first oil there. And why the more general question is, will you be upgrading your volume forecast, I think you're up 5% to 8% guidance. I wondered if there was upward pressure on those numbers based on what you're seeing today.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Perhaps one by one. With regards to Bahrain, you will see production next year starting in January, actually. So there will be production showing up from Bahrain in 2010, and increasing over time as we develop the field. So that's one. With regards to the Iraq development, it's going to be in test track. Now, we haven't yet signed the agreement totally, so we have to get the agreement buttoned down. The agreement has to be approved by the Council of Ministers, and then by Parliament where we don't expect in any of those a problem. But when you're dealing with any kind of government, particularly a place like Iraq, you can't predict when exactly it's going to happen.

They're anxious to move ahead. They need the money, over-simplified, because the US cannot just keep banking the Iraqi government, either with social programs, or in their defense and security agencies. So we talked about over the next six years, because we didn't want to get into yet, predicting quarter by quarter what's going to happen. So I doubt that you're going to see any meaningful production out of Iraq showing up on Oxy next year. But I think 2011 you will start seeing it will build up.

Paul Sankey - Deutsche Bank - Analyst

Great. And then the overall volume target I believe is 5% to 8% growth.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

I think we'll stay with the 5 to 8% overall target for now. As we develop our plans for the next couple years, we'll update you probably next quarter, as to where we think we're going the next couple years.

Paul Sankey - Deutsche Bank - Analyst

Great. And then my second, if I could. Just wondering about Phibro, how is that going to appear in the earnings? Is it going to be better realizations? Is it going to be its own line? Is it going to be in corporate and other?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

No it's going to go in midstream.

Paul Sankey - Deutsche Bank - Analyst

So it will be hidden within the midstream results?

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Steve Chazen - Occidental Petroleum Corporation - CFO, President

I think hidden is probably not the right word, placed in there. It's the same -- there's a fair amount of volatility in midstream already, but it's clearly not a corporate and other item.

Paul Sankey - Deutsche Bank - Analyst

Do you have a guesstimate as to what we should be putting in on a quarterly basis?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Well -- if I were -- without being -- I really don't know. But I would put in sort of \$100 million after tax per year.

Paul Sankey - Deutsche Bank - Analyst

Per year?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Yes.

Paul Sankey - Deutsche Bank - Analyst

Okay.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

There's going to be more quarterly volatility, but that segment already has got its share.

Paul Sankey - Deutsche Bank - Analyst

And I guess the guidance, or least the fact of what they've earned over the past five years was more like 300, and I think it was \$375 million per year.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

I'm not really predicting it. I'm just saying that if I were in your shoes, what number would I put in there as sort of a safe number.

Paul Sankey - Deutsche Bank - Analyst

Fair enough. Thank you, gentlemen.

Operator

Your next question comes from Arjun Murti with Goldman Sachs.



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Arjun Murti - Goldman Sachs - Analyst

Thank you. Just to follow up on Iraq. I believe you said 4.2 billion barrels opportunity. Do you have an estimated CapEx, either gross or net to get to those reserves?

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Well, first of all, this is a production sharing agreement, Arjun. And if you look over the life of the contract, you get large numbers. The way the contract is, which I don't want to go into great detail, has a good feature on cost recovery in the beginning of the contract. So actually the exposure in terms of risk capital is fairly limited. And as we said, it's a multi-phase project, so we would be learning as we go on. But it does have a good cost recovery in it. And most important, I can tell you that the project we believe will meet our hurdle rate in terms of rate of return, any way you want to look at it, IRR, return on capital employed. So Iraq as we have said before is a huge basin. We got one of the most productive fields. Few companies, mostly larger than us, are in there. BP as you know got in. There are others vying for West Qurna. And we feel that our participation in Iraq will be useful and profitable for the Company and its shareholders long-term.

Arjun Murti - Goldman Sachs - Analyst

Dr. Irani, thank you for that color. It is an existing and producing field as you mentioned. The cost recovery and the production sharing contract, that's very interesting that this has that. I assume because it's producing, you will get to initially get some production and cash flow, unlike many fields where you have to wait four or five years for the CapEx to be spent, and the production to come on. And I assume it's the increment over what it's producing now.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

You get your cost recovery from production above the current production.

Arjun Murti - Goldman Sachs - Analyst

Yes.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

You can't take something they're producing already.

Arjun Murti - Goldman Sachs - Analyst

Right.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

So -- but the fact is, I mean, when we say over 4.2 billion barrels in total, we believe there's more.

Arjun Murti - Goldman Sachs - Analyst

Yes.

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Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

And there's a lot of opportunities. I mean, this is the heart of the oil fields in Iraq, close to export ports. It's right next to the Southern Oil Company, which is currently doing most of the production, and operated by the Iraqis. It would be cooperating with that. And the cost recovery feature and the tax rate, which has been improved, makes this project attractive. I mean, just the reserves and the opportunities long-term are overwhelming. And we feel that we will participate without undue risk.

Arjun Murti - Goldman Sachs - Analyst

That's really helpful. If I could try a final one. You've already been very helpful, and I appreciate it. The press will widely report that companies will get paid \$2.00 or somewhere around \$2.00 a barrel. Should we think of that as more the profit oil type per barrel metric and there's a cost recovery measure or is that just mixing up a whole bunch of terms.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

I really don't want to get into all the details of all of that. Clearly, we know what we're negotiating from. All I want to share with you, the project will meet our hurdle rates for projects overseas.

Arjun Murti - Goldman Sachs - Analyst

That's really helpful. Thank you very much.

Operator

Your next question comes from Doug Leggate with Merrill Lynch.

Doug Leggate - BAS-ML - Analyst

Good morning, everybody.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Merrill Lynch, huh?

Doug Leggate - BAS-ML - Analyst

Yes, hard to keep up with now days. It's hard. You'll have to send me a schedule. (LAUGHTER). Couple questions, Steve. I'm going to kick off right with a follow-on with Arjun, if I may. The CapEx budget that's been talked about, \$10 billion in the first six years, is what ENI is talking about. You haven't said what your share of that's likely to be. Can you give us an idea?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

I think Ray can probably answer that.

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Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Well, the shares are still being negotiated among the different folks. And we're going to share part of our share probably with Abu Dhabi, and there may be others coming along. So we don't know what ENI is going to share numbers with who. I think you're looking at Oxy in the 25% to 30% range.

Doug Leggate - BAS-ML - Analyst

So Mubadala is going to be part of this project as well, Dr. Irani?

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Pardon me?

Doug Leggate - BAS-ML - Analyst

Mubadala is going to be involved in this project as well.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

We have had discussions with Abu Dhabi and it's too early to put color on it. Abu Dhabi said they would take any percentage that we would be willing to share with them.

Doug Leggate - BAS-ML - Analyst

Great.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

All of that will be subject to the Iraqi government approval. At this time, I don't see a problem with that approval. But nevertheless I'm just sharing with you all we can at this stage.

Doug Leggate - BAS-ML - Analyst

Got it. If I could jump over to California, the -- in the last conference call you suggested, Steve, that you hadn't yet seen any decline rate on the wells. Is that still the case?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Yes,.

Doug Leggate - BAS-ML - Analyst

If I look at the 11 exploration wells, I think you very carefully used your words selectively in your slide pack, in saying you continue to pursue shale opportunities, which suggests those 11 exploration wells are non-shale opportunities.

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Steve Chazen - Occidental Petroleum Corporation - CFO, President

That's right.

Doug Leggate - BAS-ML - Analyst

Can we take from that, then, you've also said it's outside of Kern County, the existing discovery rather. Can we take from that then there are already additional discoveries over and above the 150 to 250 range that you've given us?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Yes.

Doug Leggate - BAS-ML - Analyst

Okay. (Laughter) Just wanted to check. And finally --

Steve Chazen - Occidental Petroleum Corporation - CFO, President

We write these things deliberately. I know it looks random.

Doug Leggate - BAS-ML - Analyst

(Laughter) Okay, but are you prepared to give us some indications to what those 11 exploration wells indicate, by way of --

Steve Chazen - Occidental Petroleum Corporation - CFO, President

No, not really. It's still early on them. They're clearly not the magnitude of this. And so we're announcing 10 million-barrel discoveries, so I think we'll put off doing that until later.

Doug Leggate - BAS-ML - Analyst

Great. And final one from me, just in jumping again around the world back to Bahrain. First though, I guess when you signed the agreement when things are in place, is there a fixed margin on the base production, and in the PSE on the increment? or can you give us some color as to how that project has been structured?

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Bahrain you're talking about?

Doug Leggate - BAS-ML - Analyst

Yes.

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Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Well, you'd be happy to know that I have to go to Formula One races in Abu Dhabi at the end of the month, end of next week. The king of Bahrain will be there, the crown prince, of course all the interested people in Formula One will be there from the region. But the returns in Bahrain are attractive. Again, as you recall, the partners, Oxy, 48%, Mubadala Abu Dhabi, 32%, government of Bahrain is 20%, production sharing agreement, there are fees for current production, PSA for production above the current production. I'm telling you that these terms will be a factor.

Doug Leggate - BAS-ML - Analyst

Got it. That's it from me.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

You wind up with a fee for the existing production. You wind up with a production sharing contract for each of the gas and oil which is sort of done a little differently. It will not model -- it does not model easily.

Doug Leggate - BAS-ML - Analyst

Okay.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

The way I would look at it is a return on investment for now.

Doug Leggate - BAS-ML - Analyst

Okay. That's very clear. Thanks, Steve.

Operator

Your next question comes from Pavel Molchanov with Raymond James.

Pavel Molchanov - Raymond James - Analyst

Thanks very much. You mentioned several hundred million dollars of property acquisitions for Q4. Can you talk about what the geographies are? And secondly, have you signed any agreements, or are you just anticipating closing those deals down the road?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

I think we said earlier, that they're in the traditional areas in the United States. So it will be California, and the Permian would be normally where we bought. I think some of them are -- have been agreed to, and others are in the advanced tire kicking phase. So that's why I didn't say exactly what it was. I said it was a range.



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Pavel Molchanov - *Raymond James - Analyst*

Thank you for that. And can you mention, is this currently producing properties, or is it undeveloped acreage?

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

Generally we buy things that are combinations, in other words, they have production and other opportunities on them. We're not just interested in buying just production.

Pavel Molchanov - *Raymond James - Analyst*

Got it. Thanks very much.

Operator

Your next question comes from Faisal Khan of CitiGroup.

Faisal Khan - *Citigroup - Analyst*

Good morning.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

Good morning.

Faisal Khan - *Citigroup - Analyst*

Wonder if you can give us an update on your activities in Libya, some of the drilling activities you have going on over there. Are you still continuing to invest capital there or is that kind of slowing down a little bit?

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

Sandy, why don't you. The exploration program -- I'll do the exploration. Sandy can talk about the development activities. In exploration, we're in the seismic phase now, not much drilling. We expect to pick up the drilling at the end -- early into next year. So exploration activities are really in defining prospects. Sandy can talk about the development activities.

Sandy Lowe - *Occidental Petroleum Corporation - President, International Oil & Gas*

Yes, thank you, Steve. At the moment, we're still in the process of having our development plans negotiated and approved. So we expect to have that in the middle of next year. As Steve points out, most of the activity at the moment is getting ready for new exploration.



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Faisel Khan - Citigroup - Analyst

Got you. And then just you also talked about ramping up I guess in the Piceance basin in next year. Can you talk about the economics you're seeing there and are you looking at the forward curve, or are you looking at kind of lower cost structures in that basin?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Well, we're going to complete these wells that we already drilled, and they'll be on early next year. Based on the current, call it the forward curve, if you will, we would probably start -- take one rig up early next year and begin actually drilling wells early next year. If the curve holds, we'll put a second well, second rig to work in the middle of next year. So we think that the -- while we're not as buoyant as some about gas, gas prices, the gas market, the current curve would allow us to drill profitably in the Piceance.

We reduced costs considerably in the last few months as we've been down. So we worked on that to see if we can get our operating costs down. I think we've been successful with that. Drilling costs have come down with more efficient rigs that we have there. I think we're in pretty good shape. But obviously \$4.00 gas is not a -- doesn't work at \$4.00 gas but as we pass \$5.00 get to \$6.00, I think we're excited about the opportunities there. Should be a fair amount of production next year from it.

Faisel Khan - Citigroup - Analyst

Okay. Great. And then just on the California for a second, you said the current discoveries in Kern County are not producing below a current zone that you're producing out of. Could you remind us where the lowest producing zone is, in terms of depth.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

What's the lowest producing?

Bill Albrecht - Occidental Petroleum Corporation - VP, Pres of Oxy Oil & Gas - USA

The antelope shale, Stephens.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

7,000.

Bill Albrecht - Occidental Petroleum Corporation - VP, Pres of Oxy Oil & Gas - USA

7,000 to 8,000 feet, yes.

Faisel Khan - Citigroup - Analyst

Great. Thanks. I appreciate the time.

Operator

Our next question comes from Doug Terreson of ISI.

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Doug Terreson - *ISI Group - Analyst*

Hi, guys. How are you all?

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

Nice to hear from you again.

Doug Terreson - *ISI Group - Analyst*

Well, thank you. It's good to hear from you too. I just had a couple questions on Bahrain. First, whether or not \$1.5 billion of gross investment is still the relevant figure. I might have missed it, I think that Ray mentioned what he thought production might be and timing. And so if you could just repeat that if he's already said it, I would appreciate it.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

The -- the investment numbers we gave you are still right.

Doug Terreson - *ISI Group - Analyst*

Okay, good.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

For the five year period. Obviously, like all of these projects if you run them out over 30 years, you can get some impressive numbers.

Doug Terreson - *ISI Group - Analyst*

Sure.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman, CEO*

We can have huge numbers, if you look. But we're trying to give you the first five years because clearly, doing that kind of time period, and when we talk about Iraq, whatever investments we make we will turn cash positive during that period so --

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

In Bahrain.

Dr. Ray Irani - *Occidental Petroleum Corporation - Chairman, CEO*

Yes.

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Steve Chazen - Occidental Petroleum Corporation - CFO, President

So I think on that, we haven't really given the details of the production growth, because we haven't started yet. So I think we would give Sandy just a little time to figure this out.

Doug Terreson - ISI Group - Analyst

That's reasonable. Okay, guys, thanks a lot. I look forward to working with you again.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Thank you. Good to hear from you.

Doug Terreson - ISI Group - Analyst

You're welcome.

Operator

Your next question comes from Monroe Helm of CM Energy Partners.

Monroe Helm - CM Energy - Analyst

My questions on Iraq have been pretty much answered. Maybe you can tell us what you think were the advantages that you brought to the party that got you a position in Iraq, relative to the other competition.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Our very strong position in the Middle East. If you fly to Baghdad, which I did recently, you can see it doesn't take long to fly from Baghdad to Oman, or Abu Dhabi, or any of those other places. We have a strong position. We've performed in every country we have taken. And so very strong operational record that we have. Sandy, who is on the phone with me, has done a fantastic job. The Iraqis are very interested in having a production increase fast. Of course that depends on the security situation and many other things. So, frankly, it's just our record in the region.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

We are in the enhanced oil recovery business. I mean that's sort of what we do. As far as the project itself is concerned, putting aside anything else, I mean this is sort of what we do. We say we're in the Middle East. We say we don't take exploration. There is no exploration risk. We do say we take engineering risk. Which is to say, we think its going to cost \$100 and it costs \$200.00, but we think this is manageable there. So I mean, it is sort of what we do. And it's a big opportunity over time. And I think the exposure here is modest for the Company. And if it craters, the exposure is pretty low. So I think if you just viewed it as exploration, it would be an attractive risk return ratio.

Monroe Helm - CM Energy - Analyst

Right. Just following up on that real quick, all the ownership interests haven't been determined, has the operatorship been determined? And how do you all anticipate working with these other companies?

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Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Sandy, will you comment on the joint operating company, and how we deal with these elsewhere in the whole region?

Sandy Lowe - Occidental Petroleum Corporation - President, International Oil & Gas

The joint venture agreement has not been finally negotiated yet. But we are in the -- Eni is the leader of the consortium and the Iraqi South Oil Company is involved heavily. And we're actually meeting next week to finalize the joint operating agreements. We have joint operating agreements in Bahrain. We have it with Dolphin, and we have multiple partners in Oman. So this is nothing new for us and we're very active and cooperative partner, and we expect to be so in Iraq.

Monroe Helm - CM Energy - Analyst

Okay. Thanks.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Thanks, Monroe.

Operator

(Operator Instruction)

Your next question comes from Bob Morris of CitiGroup.

Bob Morris - Citigroup - Analyst

Morning, Steve.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Good morning.

Bob Morris - Citigroup - Analyst

A question on --

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Are you active there now?

Bob Morris - Citigroup - Analyst

Well, we're getting active.

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Steve Chazen - Occidental Petroleum Corporation - CFO, President

Oh, okay.

Bob Morris - Citigroup - Analyst

I've got a pulse --.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

I know you still had a pulse.

Bob Morris - Citigroup - Analyst

In Kern County, how many rigs are running in that discovery area that have drilled those 10 wells?

Bill Albrecht - Occidental Petroleum Corporation - VP, Pres of Oxy Oil & Gas - USA

Thanks, Steve. Rights now we're running two.

Bob Morris - Citigroup - Analyst

Two rigs.

Bill Albrecht - Occidental Petroleum Corporation - VP, Pres of Oxy Oil & Gas - USA

Two rigs, yes.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

For this kind of drilling.

Bob Morris - Citigroup - Analyst

Right. Okay and I know you said that going forward you would focus on the oil shales.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

No, no, not the oil shales. Oil zone.

Bob Morris - Citigroup - Analyst

The oil zone.



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Steve Chazen - Occidental Petroleum Corporation - CFO, President

You can view the production there as in three pieces at this point. An oil zone, a gas condensate zone, and then the shales. We're not talking about the shales, because compared to the rest, it's -- while it's real nice, compared to the rest it doesn't have the kind of impact. So classic oil zone, a gas -- classic actually gas condensate zone, and the shales.

Bob Morris - Citigroup - Analyst

Okay. And in focusing on the oil zone, you've had pretty robust production from the gas zones, you mentioned economics on those last quarter. Is there any reason why you wouldn't dedicate one of those rigs or add another rig to continue to drill on the gas zones, given the strong economics there?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

We're drilling another gas well, as we look to extend the size of the field, the aerial extent that we believe is there. The oil is really -- we know the gas is there, so the oil is really more profitable right now.

Bob Morris - Citigroup - Analyst

Okay.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

And there's no hurry. The gas isn't really going anywhere.

Bob Morris - Citigroup - Analyst

Okay.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Is been there for millenia, so I suspect it will last for another six months. The wells are draining -- are pulling a sizable area without any decline. So we're really not in any real hurry on the gas. But we are continuing to build out that -- the gas zone to see how big it is, because we need to figure out how big a plant to build.

Bob Morris - Citigroup - Analyst

So you plan on just maintaining the two rig program for now?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Maybe. We may add a third rig.

Bob Morris - Citigroup - Analyst

Okay. All right. Good. Thank you.

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Operator

Your next question comes from David Wheeler of AllianceBernstein.

David Wheeler - AllianceBernstein - Analyst

Good morning.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Good morning.

David Wheeler - AllianceBernstein - Analyst

I just wanted to follow up on the California. I recognize that the conventional discoveries are the priority near term. But I wanted to get a little more color on the shale zones. Have you over the past three quarters drilling become more positive regarding the prospectivity of that play? It sounds like you may, given some of the comments on the slides. What economics -- or oil price is required to make the shale play out there viable?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

I don't think it's really changed. We've always been pretty positive. The drilling results sit well with our models. So I don't think -- we've always been fairly bullish about it. So I don't -- initially that's why we went into the big acreage position was really for the shales. What oil price, I don't really know, \$25.

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

Currently prices it's very profitable.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

It doesn't cost that much to drill and be productive. It's hard to say what the exact oil price is. Remember, most of this, there's no royalty either. So you wind up with pretty good economics. So I mean, I wouldn't worry about us losing some for price. But I think that it's just a matter of how fast you want to develop it. And also, looking out for our acreage position to make sure we acquired everything that we need to acquire as we go.

David Wheeler - AllianceBernstein - Analyst

Okay. And on the conventional play, you mentioned that some of the additional discoveries have been smaller. Are there -- I guess it's hard to identify prospects on seismic in this play, but do you anticipate drilling any larger prospects?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Just takes a while to clear, to get your permits and that sort of thing, because we didn't really start the permitting process until recently. It just takes longer to get ready, so there really isn't any real order to it. We're looking for more of this, and we'll continue to do that. And we'll drill them when we get the permits, we're ready to go.



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David Wheeler - AllianceBernstein - Analyst

Thanks very much.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

We don't want to talk about a well being drilled in the fourth quarter, and call next quarter saying how was the well.

David Wheeler - AllianceBernstein - Analyst

Thank you.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Thanks.

Operator

Your next question comes from Kate Lucas of Collins Stewart.

Katherine Lucas - Collins Stewart - Analyst

Hi, good morning.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Good morning.

Katherine Lucas - Collins Stewart - Analyst

I just have a quick question about Libya, just following up. You mentioned that currently your development plans are still being approved. And I'm wondering as you think about your overall position in Libya, are you comfortable with your current position as it is? Or if an opportunity came up to grow your presence via acquisition, would that be something you would entertain as well?

Dr. Ray Irani - Occidental Petroleum Corporation - Chairman, CEO

No, we're not looking for acquisitions in Libya. As we have said, the development portion of it has been slower than expected, because the government has not been speedy in its allocating resources to the whole oil sector.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

It's very difficult to acquire in Libya.

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Katherine Lucas - *Collins Stewart - Analyst*

Okay.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

I mean, if you even thought about it, remember, they went through this thing with the Canadian Company so it's not like buying stuff in West Texas, by any stretch of the imagination.

Katherine Lucas - *Collins Stewart - Analyst*

Okay. Great. Then if I could just quickly as a point of clarification, your -- the increase to your CapEx budget and then the several hundred million of acquisitions expected in the fourth quarter. The acquisitions are incremental to the increase in CapEx, is that correct?

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

CapEx is drilling, and that sort of activity. Acquisitions are acquisitions.

Katherine Lucas - *Collins Stewart - Analyst*

Great. Thanks very much.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

Thank you.

Operator

(Operator Instructions) And you have a follow-up question from Monroe Helm of CM Energy Partners.

Monroe Helm - *CM Energy - Analyst*

I apologize if you've already addressed this, because I got on the call a little bit late and I haven't seen the slides.

Steve Chazen - *Occidental Petroleum Corporation - CFO, President*

I hope you don't give me the cold.

Monroe Helm - *CM Energy - Analyst*

Could you talk a little bit about the strategy behind acquiring Phibro. Are you going to utilize them to get more aggressive in hedging your own production? or I know you bought it on the cheap, but what's really the -- what really do you hope it to do for your Company going forward? What's the main attraction?



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Steve Chazen - Occidental Petroleum Corporation - CFO, President

I think there are two attractions. One it's obviously very profitable business, so we like profits. The second point is that no, we're not -- we're not going to hedge. Our base -- current production is essentially unhedged and will stay that way. They're not really hedgers, actually. Never goes short so I don't know how you would be a hedger without ever going short. So I think what he does is he looks for opportunities to trade, to gain advantages. He's a fundamentalist, looks for opportunities to make small gains or even large gains.

It's going to be a standalone operation for quite a while, until we figure out, to see how it goes. They do have a superb reputation, especially in the Middle East. And so we see opportunities there to make -- to use their name and their skills to help us get more business there. And that's really the -- if you want to think of the strategic part of it, that's it. That's going to take a while. We've got a lot of calls from people in the Middle East that are interested in meeting with them, and talking about trading. They're sort of an independent trader on like a BP or something which uses the oil. So I think it will put some advantages, but it's basically for the money.

Monroe Helm - CM Energy - Analyst

Thanks again for your answers and congratulations on the Iraqi deal.

Steve Chazen - Occidental Petroleum Corporation - CFO, President

Thanks.

Operator

Your next question comes from Mark Caruso of Millenium Partners.

Mark Caruso - Millennium Partners - Analyst

Good afternoon, guys. Just a quick clarification. Did I miss the numbers -- did you quantify the actual dollar amount for the property acquisitions?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

No, we said several hundred million dollars.

Mark Caruso - Millennium Partners - Analyst

Okay. The second, is another large company in the space has talked about having some packages available, some stuff is in your backyard. And there's also some other projects in the Middle East, and I just didn't know if that was something that would interest you. Or you guys are going to stick with sort of the core area as you sort of look around?

Steve Chazen - Occidental Petroleum Corporation - CFO, President

We look at lots of things, practically everything. And so you should expect that we'll stay with our core areas and not do something out of the core areas. But we look at lots of things and whether they have packages in the Permian, certainly looking at any

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Permian or California packages, if there was a package that worked for us in Iraq we might look at that. We look at lots of stuff to get some idea of the markets. I don't think I would read much into all that.

Mark Caruso - *Millennium Partners - Analyst*

Great. Thanks.

Operator

Thank you. At this time there are no further questions. Mr. Stavros are there any closing remarks?

Christopher Stavros - *Occidental Petroleum Corporation - IR*

Thank you all for joining us on the call this morning, and if you have any follow-up questions please call us in New York. Thanks very much.

Operator

Thank you. This does conclude today's conference call. You may now disconnect

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