

# OPEC bulletin <sup>1/09</sup>

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# Iraq puts on a show ... to help secure its oil future

At the end of December 2008, the Iraqi Oil Ministry gave notice of the second bidding round for the long-term development of 11 of the country's oil and gas fields. Following the first licensing round in October, the latest announcement was further evidence that the security situation in the country was continuing to improve day by day, allowing the planned exploitation of the nation's vast petroleum reserves to support the economy. Iraqi Oil Minister, **Dr Hussain Al-Shahristani**, said that within three to four years, from the contracts being completed by the end of 2009, Iraq's oil production could increase by up to 2.5 million barrels/day, almost equivalent to the country's output today. Much of the interest for this oil development was on show at Iraq's first postwar energy expo. Held at the Baghdad International Airport Convention Centre, the event went a long way in boosting the standing of the country's oil industry and attracting prospective partners. The OPEC Bulletin reports from the event.

**M**ajor international oil companies made the trip to Baghdad in December 2008 to attend the country's first significant oil and gas exhibition. The Iraq Energy Expo and Conference, organized by the Iraqi American Chamber of Commerce and Industry, in cooperation with the Iraqi Oil Ministry, drew large crowds and aimed to attract companies to invest in one of the world's largest oil reserves.

Some 70 foreign firms and representatives of other companies took part in the three-day show. They included Russia's Lukoil, Gazprom Neft and Rosneft, ConocoPhillips of the United States, Japan's Nippon Oil Exploration, South Korea's SK Energy, Turkish Petroleum, state-owned giants, such as Indonesia's Pertamina, and many more.

Iraq's Oil Minister, Dr Hussain Al-Shahristani, opened the event by announcing an ambitious plan to produce up to six million barrels/day of oil by 2018, compared with about 2.5m b/d now.

"I hope this exhibition and conference will make a contribution to fulfilling this objective," he told participants at Baghdad International Airport's Convention Centre, where the event was held. He stressed that the develop-



*Dr Hussain Al-Shahristani, Iraqi Oil Minister.*

ment of the Iraqi oil sector would require the involvement of international oil firms.

"Oil represents an important part of Iraq's modern history and its future," Al-Shahristani pointed out, urging participating companies to help improve the country's oil industry, which has suffered destruction caused by decades of war and economic sanctions.

Iraq's Deputy Oil Minister, Dr Ahmed Alshama'a, said the show aimed to introduce "international oil companies [to] the needs of the Iraqi oil sector and [show] how they can render their services to improve it." The show was a step in the right direction, he added.

### **Impressive figures**

Iraq, one of the five founding Members of OPEC, is dependent on oil for more than 93 per cent of its income.

However, even with the price of crude plunging by over 60 per cent from more than \$140/barrel during July 2008, Al-Shahristani said Iraq had nothing to worry about.

The country possessed 115 billion barrels of reserves, he said in his speech. "This is a big number ... but I assure you that it is underestimated." Some Iraqi oil officials have said the country's crude reserves exceed 300bn b.

"We are really impressed," said Ryunsuke Onogi, Executive Officer and General Manager of Nippon Oil Exploration, with reference to the expo. "We are 100 per cent sure it is a good indication of Iraq's progress and the situation is getting better [in terms of] security and legal [issues]."

Iraq's Minister of Industry and Minerals, Fawzi Al Hariri, was similarly upbeat: "Judging from the giant companies that took part in the exhibition, I can say it was a success."

In line with such optimism, representatives of participating foreign companies said they were now likely to be considering opening offices in Iraq.

Alexander Byrikhin, a spokesman for Lukoil Overseas, said the company is looking to have a presence in Iraq and is already working on three projects with the Oil Ministry in technical training for Iraqi oil workers.

### High hopes

Lukoil hopes to revive a deal it struck with Baghdad previously to develop the West Qurna-2 concession in southern Iraq, with an estimated reserve capacity of 6bn b of oil.

"Participation of Lukoil and other Russian companies in the Iraqi energy expo gives [more] evidence of the steady intention of Russian energy giants to take part in the restoration of the Iraqi economy, by making sizable investments in [the] oil and gas industry for the benefit of our friendly nations," said a statement issued by the firm.

Such intentions were echoed by Faisal Al-Thani, Head of Business Development at Maersk Oil's Qatar office. "We are all eager to get our foot in the door and establish a presence here," he said.

Takashi Kikuchi, of Japan's Oil, Gas and Metals National Corporation, was similarly enthusiastic: "This is probably going to be the hottest area in the world in oil and gas exploration."

According to Eric Dangler, whose company, Oklahoma's Taylor Industries, designs custom rigs suited to any oil

extraction needs, Iraq had some of the lowest extraction costs in the industry — about 50¢/b. Dangler showed off photographs of shiny red contraptions that range in cost from \$3m to tens of millions of dollars, depending on how deep they need to dig. In most of Iraq, he said, a relatively inexpensive model will do the job because the oil is accessible.

In Iraq, where outdated equipment is one of the biggest challenges facing the oil industry, officials have said that the workforce also needs to be modernized. With this in mind, several international oil companies have signed memoranda of understanding with the Iraqi Ministry of Oil to train workers. Such training is ongoing.

### Striking deals

Some of the expo's participating companies had either signed joint-venture agreements, or started seriously negotiating with the Iraqi Ministry of Oil to sign deals.

For example, the UK oil and gas exploration and production company, Midmar, confirmed that its associate firm, Mesopotamia Petroleum, had reached a joint-venture accord with the Iraqi Drilling Company (IDC), an affiliate of the Ministry of Oil, during the event. IDC will have a 51 per cent stake in the venture, with Mesopotamia holding four per cent. It aims to bring technology, expertise and new-age drilling techniques to Iraq.

Idriss Muhsen Al-Yassiri, head of IDC, emphasized the need to improve Iraq's drilling capabilities, in order to enhance well recovery and contribute to the capabilities of his company. The agreement still needs the approval of the Iraqi cabinet before it becomes valid. Al-Yassiri said it would be ratified within weeks.

Thomas Redman, Managing Director of Midmar, was looking forward to receiving the go-ahead. "Close cooperation with the Iraqi government will contribute to the future development of the country's expertise in maximizing its oil and gas resources," he affirmed.

Al-Yassiri also said that he was looking for another foreign partner to upgrade IDC's expertise and develop its crew. In addition, he announced during the show that the Iraq-based Oil Serv, with offices in Baghdad and Erbil, would be awarded a service contract.

Oil Serv's Managing Director, Amjad Barzanji, said the multi-million dollar, long-term contract covered logging and cementing services and that the company was chosen among five competing pre-qualified bidders.



Many companies looking to secure investment possibilities in Iraq's oil future had stands at the expo.

Two other firms were negotiating a joint venture and service contract, respectively, Al-Yassiri added, without providing further details.

Japan's Nippon Oil Exploration was also in talks with the Ministry of Oil to construct a refinery worth \$5–10bn and make investments in oil exploration for the same amount, according to news reports.

Nippon's General Manager, Onogi, was quoted as saying during the show that his company had submitted a proposal to the Ministry and that discussions were still ongoing.

## Well on its way

Not to be outdone, several international oil companies are competing for service contracts to develop six super-giant Iraqi producing oil fields and two non-producing gas fields.

Baghdad announced the first bidding round for these fields in June 2008 and it hopes to sign contracts by the end of June 2009. Oil majors, such as Royal Dutch Shell, BP, ExxonMobil, Chevron and Total, are among companies that have shown interest.

Iraqi Oil Ministry officials briefed international oil

companies at a London road-show in October 2008 on the first licensing round for long-term contracts. At the end of December, the Ministry announced the second bidding round for long-term development contracts involving 11 other oil and gas fields.

Recent moves have seen the Ministry of Oil sign a \$3bn contract with the China National Petroleum Corporation (CNPC) to develop the Al Ahdab field in central Iraq. The contract was signed during the previous regime, but it was renegotiated and changed from a production-sharing contract to a service deal.

Baghdad has also signed a preliminary agreement with Royal Dutch Shell to develop the domestic gas infrastructure in southern Iraq. The agreement, when finalized, could be worth up to \$4bn, according to Iraqi oil officials.

While these new investments in the petroleum sector will add to Iraq's economy, they will also ensure adequate capacity for healthy oil supply in the future.

However, in the light of the prevailing climate of very low oil prices, investors and, indeed, the Iraqi government, may decide to re-think the cost-benefit effects of such investments and whether present and future realities support them.

