



# THE OIL & GAS YEAR

The Who's Who of the Global Energy Industry

ARTICLES | INTERVIEWS | VIEWPOINTS | MARKET ANALYSIS | RESOURCES | PROJECTS | MAPS | INVESTOR SPOTLIGHTS

IRAQ 2014



www.theoilandgasyear.com



## Onwards and upwards

Abdul Kareem LUAIBI BAHEDH  
Former Minister of Oil

## The right legislation

Thamir AL GHADHBAN  
Chairman  
IRAQI PRIME MINISTER'S ADVISORY COMMISSION

## Potential energy

Kevin DENNEHY  
Country Manager  
BP IRAQ



# Building futures in Iraq

Five years ago BP became the first International Oil Company to return to Iraq. It was a bold decision but one we were proud to make.

As well as working with the Ministry of Oil and South Oil Company at Rumaila, we also work with the North Oil Company on the redevelopment of the Kirkuk field.

We have invested billions of dollars in new equipment and systems and put our global experts to work. This investment in money and expertise has increased revenues to Iraq by more than 50%: revenues that help Iraq re-build its economy.

We believe Rumaila is a model of what can be achieved. It is now one of the largest producing fields in the world. The safety record has improved significantly, and our commitment to developing Rumaila's people delivers hundreds of thousands of hours of training for the local workforce every year.

Our philosophy in Rumaila and, most recently in Kirkuk, is based on the knowledge that everybody involved has something positive to contribute. We are privileged to be working with the Iraqi people: they bring a significant depth of knowledge and an extraordinary determination to succeed. BP is bringing world class technology, processes and systems. Together we are laying the foundations for long-term success in Iraq.

Much remains to be done, but we are determined to help build a brighter future for Iraq and all those involved.



## Modernizing Rumaila

Helped discover Kirkuk in 1927 and Rumaila in 1953	1st IOC to re-enter Iraq in 2009	98% of profit generated from Rumaila goes to Iraq	Delivering more than 40% of Iraq's oil exports	\$8 billion investment in Iraq (\$4 billion BP net)	55% increase in production (from 900,000 to 1,400,000 bpd)	100 new wells drilled and 1,000+ improved and monitored wells	1,800 km <sup>2</sup> surveyed using the world's most advanced 3D seismic technology	100 million m <sup>2</sup> of land restored to use – the world's largest commercial UXO land clearance programme	530,000 man hours of training in 2013 alone	\$750 million contracts awarded to 361 Iraqi companies (2012 – 2013)
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### 16 Diplomacy & Politics

With proven oil reserves of 141.35 billion barrels, Iraq is a land of plenty. For the country to reach its full potential, the incoming government will have to tackle a host of issues, ranging from its dispute over a revenue-sharing law with the Kurdistan Region of Iraq to stemming increasing sectarian violence and putting a stop to the rise of the Islamic State of Iraq and the Levant, which is a tall order.



### 26 E&P: Super-giants

Iraq is home to seven super-giant oilfields, four of which are currently being developed. West Qurna-2 started commercial production in March 2014, followed by Majnoon a month later. With production being ramped up at Rumaila and Halfaya, the country is making an effort to reach its output target of 8 million barrels of oil per day by 2020. Associated gas is going to be captured as part of what is the largest flaring reduction programme in the world.

## 6 THE YEAR IN REVIEW

- 7 INTERVIEW: Abdul Kareem Luaibi Bahedh, **Former Minister of Oil**
- 9 INTERVIEW: Thamir Al Ghadhban, **Iraqi Prime Minister's Advisory Commission**
- 11 THE YEAR'S AWARDS
- 12 IRAQ AT A GLANCE
- 13 THE INVESTORS INDEX
- 14 THE YEAR IN ENERGY

## 16 DIPLOMACY & POLITICS

- 17 ARTICLE: *Reap the rewards*. More than four months after the Iraqi national elections, the country's new government is ready to get to work
- 17 IN RESERVES: *Proven oil reserves in Iraq at five-year intervals*
- 18 VIEWPOINT: *Road maps for foreign investment* Sami Al Araj, **National Investment Commission**
- 18 IN COMPARISON: *Iraq's doing business ranking*
- 19 INTERVIEW: Luay Al Khatteeb, **Iraq Energy Institute, Brookings Institution, Doha Centre**
- 20 ARTICLE: *Restructure and invest*. Integrated National Energy Strategy Technical Assistance Project for Iraq | The implementation, completion and results
- 22 INTERVIEW: Baroness Nicholson of Winterbourne, **Iraq Britain Business Council**
- 23 MARKET ANALYSIS: Terry Willis, **Energy Industries Council**
- 24 INTERVIEW: Wang Yong, **Chinese Ambassador to Iraq**
- 25 INTERVIEW: Mowafak Mahdi Abboud, **Iraqi Ambassador to Abu Dhabi, UAE**

## 26 EXPLORATION & PRODUCTION: SUPER-GIANTS

- 27 ARTICLE: *On the shoulders of super-giants*. Iraq is home to no less than seven super-giant oilfields, four of which are instrumental for reaching production targets
- 28 IN PRODUCTION: *Iraq associated gas production plan*
- 29 MAP: *Iraq upstream and midstream 2014*
- 30 GEOLOGY REPORT: *Formation of Basra's super-giants*

- 32 ARTICLE: *Flaring as seen from space*. The extent and intensity of gas flaring in Iraq is best illustrated by an image taken from outer space
- 33 COMPANY PROFILE: **Basrah Gas Company**
- 34 COMPANY PROFILE: **South Gas Company**
- 35 COMMENT: *East Baghdad oilfield*. The super-giant underneath the capital
- 36 COMPANY PROFILE: **South Oil Company**
- 37 INTERVIEW: Paul A. Theys, **ExxonMobil Iraq**
- 38 PROJECT HIGHLIGHT: *West Qurna-2*
- 39 RESOURCE: *West Qurna-2 gas turbine power plant*
- 40 COMPANY PROFILE: **Lukoil Overseas**
- 40 IN PRODUCTION: *Iraq crude oil output*
- 41 INTERVIEW: Marc Hornbrook, **Rumaila Operating Organisation**
- 42 INTERVIEW: Kevin Dennehy, **BP Iraq** | *Need for qualified engineers*. Increased production requires more technicians
- 44 ARTICLE: *The Rumaila produced water reinjection project*. The need for reinjection to maintain output
- 45 INTERVIEW: Hans Nijkamp, **Shell Iraq Petroleum Development**
- 46 PROJECT HIGHLIGHT: *Majnoon oilfield*
- 47 COMPANY PROFILE: **Total E&P Iraq**
- 47 IN PRODUCTION: *Iraqi oil production comparison*
- 48 PROJECT HIGHLIGHT: *Halfaya oilfield development*

## 50 EXPLORATION & PRODUCTION: SMALLER FIELDS

- 51 ARTICLE: *Small but mighty*. The less sizeable oilfields in Iraq, often giant fields in their own right, still pack a punch. With production underway at Garraf and since June also at Badra, things are looking up for the country
- 52 PROJECT HIGHLIGHT: *Zubair oilfield development*
- 53 INTERVIEW: Ahmed Abdel Fattah, **EGPC**
- 54 COMPANY PROFILE: **Eni**
- 55 COMPANY PROFILE: **Kuwait Energy**
- 56 COMMENT: *The elusive fifth licensing round*. Expectations are high for Iraq's next licensing round, despite delays
- 57 INTERVIEW: Myeongnam Kim, **KOGAS**
- 59 PROJECT HIGHLIGHT: *Badra field development*



64

## Oilfield Services

Iraq's super-giant and giant oilfields require work on an equally large scale. As the government has set an ambition production target of 8 million barrels of oil per day by 2020, the country will be looking to oilfield services majors to play their part in reaching this goal by reworking Iraq's brownfield fields and tackle its untapped assets. Chief among these opportunities are the greenfield work in Majnoon and the brownfield efforts at the Rumaila field.



86

## Banking & Finance

As oil revenue provides more than 90 percent of Iraq's GDP, the country's budget is very much exposed to, and dependent on, volatile oil prices. In addition, Iraq faces several obstacles that need to be addressed in order to maintain economic growth. Among these are the need to diversify the economy, the ailing financial structure and the misallocation of funds. A dependable financial system could be the answer.



96

## Engineering & Construction

Three wars and years of sanctions have hampered progress in Iraq over the past three decades. It has left civil infrastructure and oil and gas facilities in shambles. The government is committed to restoring and rehabilitating its oil and gas infrastructure, as well as to constructing new refineries and power plants. In 2014 alone, the country will invest as much as \$145 billion in oil and gas projects, which bodes well for contractors operating in the Iraqi market.

- 60 COMMENT: *The Subba and Luhais oilfield development.* While the development of the nearby Rumaila field takes the spotlight, work is ongoing work in the Subba and Luhais oilfield
- 61 PROJECT HIGHLIGHT: *Garraf oilfield*
- 62 COMPANY PROFILE: *Petronas Carigali Iraq*

### 64 OILFIELD SERVICES

- 65 ARTICLE: *An uptick in oilfield services.* Development of Iraq's super-giant oilfields will require extensive oilfield services for the foreseeable future
- 66 IN DEGREES: *API gravity range for Iraq's super-giants*
- 67 COMPANY PROFILE: *KCA Deutag*
- 67 IN RIGS: *Number of rigs in Iraq and the Middle East, November 2013-April 2014*
- 68 COMPANY PROFILE: *Schlumberger*
- 70 COMPANY PROFILE: *Baker Hughes*
- 72 COMPANY PROFILE: *Xodus*
- 73 COMMENT: *Iraq's enhanced oil recovery methods.* Enhanced oil recovery processes such as water reinjection are being employed at Iraqi field
- 74 INTERVIEW: *Emmanuel Gayan, Veolia*
- 76 COMPANY PROFILE: *GE Oil & Gas*
- 77 COMMENT: *Common Seawater Supply Project.* Treated seawater for reinjection is necessary increase production in Southern Iraq
- 77 INVESTOR SPOTLIGHTS: *Novomet, NT&S Oilfield Services*
- 78 COMMENT: *Japan's technical support for produced water treatment.* Joint projects with Japan for water treatment
- 79 MARKET ANALYSIS: *The importance of understanding reservoir properties*
- 80 COMPANY PROFILE: *Technology Partners*
- 82 COMPANY PROFILE: *OptaSense*
- 83 COMMENT: *Increased importance of pipeline optics.* Optics technology is enhancing pipeline security.
- 84 INVESTOR SPOTLIGHTS: *OFS Services, ENRAQ, Güney Yıldızı Petrol*
- 85 COMMENT: *Iraqi-Kuwaiti tensions and slant-drilling in the Rumaila.* Allegations of directional drilling

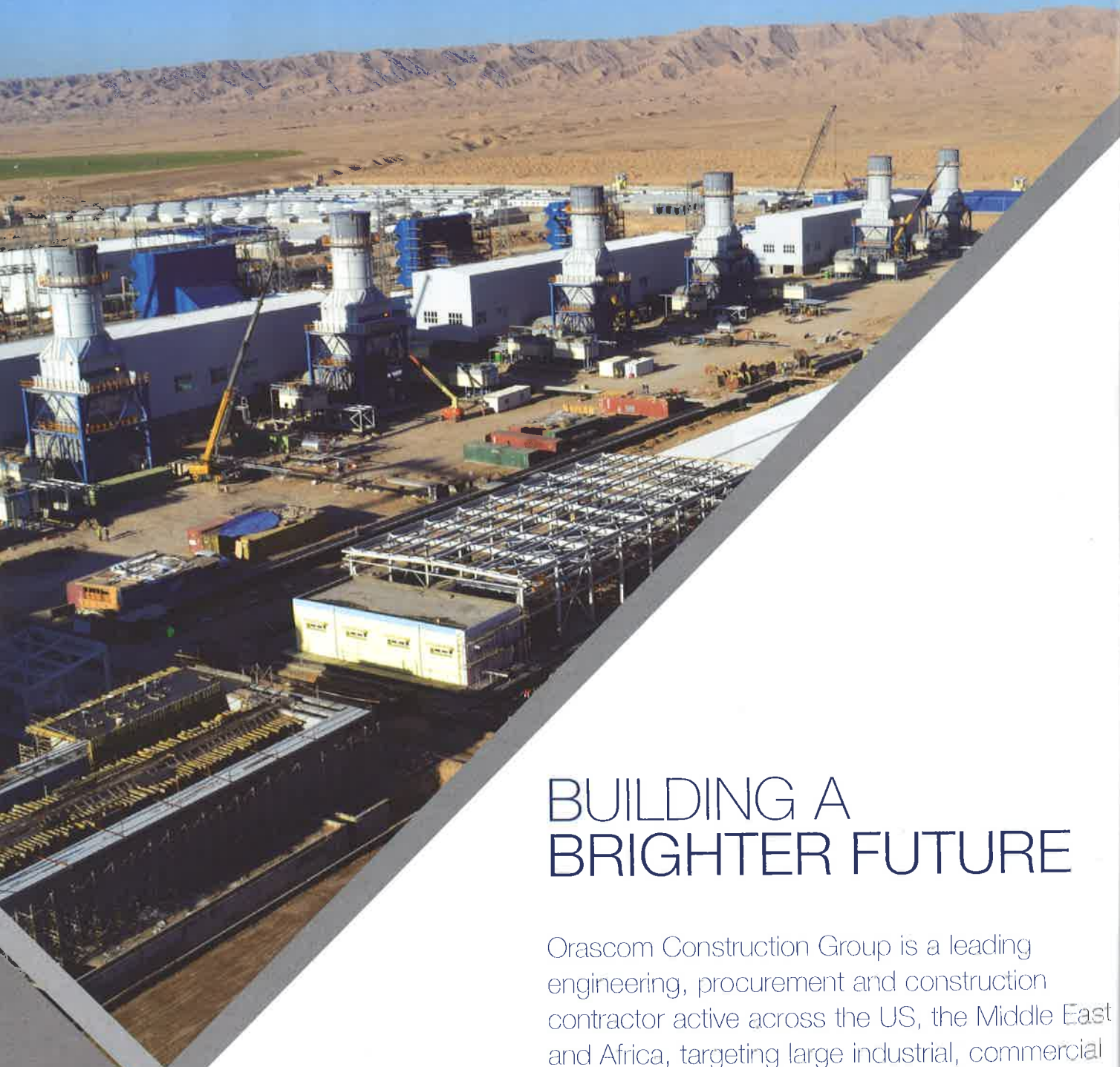
### 86 BANKING & FINANCE

- 87 ARTICLE: *Sector overview.* In order to attract foreign investment, the banking sector in Iraq requires systematic reform
- 88 INTERVIEW: *Ayman Abu-Dhaim, National Bank of Iraq*
- 89 MARKET ANALYSIS: *Khaled Fouad, GroFin*
- 90 INTERVIEW: *Gavin Wishart, Standard Chartered*
- 91 VIEWPOINT: *Development spread.* Dennis Flannery, Citibank
- 92 INTERVIEW: *Ismail Maraqa, Neil O'Keeffe, PwC*
- 93 VIEWPOINT: *Not alone.* Hilda Mulock Houwer, KPMG
- 94 INTERVIEW: *Saman Rasool, Deloitte*
- 95 INTERVIEW: *Sean Korney, Baker Botts*

### 96 ENGINEERING & CONSTRUCTION

- 97 ARTICLE: *From the ground up.* Work ramps up as the government is revamping old power plants and refineries, in addition to constructing new facilities
- 99 INTERVIEW: *David Buchan, Wood Group PSN*
- 100 COMPANY PROFILE: *Technip*
- 101 COMMENT: *Zubair contracts in 2014.* Eni issues contracts for development of the Zubair oilfield
- 102 COMPANY PROFILE: *Petrojet*
- 104 INTERVIEW: *John Walsh, Kentz*
- 105 INVESTOR SPOTLIGHTS: *Al Tafaweq Company for General Contracts, Samsung Engineering*
- 106 INTERVIEW: *Oğuz Kirkgöz, ENKA*
- 107 COMMENT: *Turkish Companies in Iraq.* Turkish businesses turn their attention east
- 108 INTERVIEW: *Levent Kafkaslı, Tekfen Construction*
- 108 IN VALUE: *Major construction contracts in Iraq*
- 109 COMPANY PROFILE: *WorleyParsons*
- 110 COMPANY PROFILE: *KBR*
- 111 COMMENT: *Chinese involvement in Iraqi oil and gas.* The Chinese up their game in Iraq
- 112 INTERVIEW: *Mohammed Khudairi, Khudairi Group*
- 113 COMPANY PROFILE: *Eversendai Offshore*
- 114 COMPANY PROFILE: *Penspen*
- 115 VIEWPOINT: *A state of transition.* Wadié Habboush, Habboush Group





## BUILDING A BRIGHTER FUTURE

Orascom Construction Group is a leading engineering, procurement and construction contractor active across the US, the Middle East and Africa, targeting large industrial, commercial and infrastructure projects for public and private clients. We are based in Cairo, and traces our roots in the construction industry back to 1950.

We have been commissioned to construct the Baiji Power Plant, an Engineering, Procurement and Construction (EPC) contract for a 6X160 MW Simple Cycle Power Plant.

We take pride in our shared achievements on every project and welcome the contribution our success makes towards social and economic progress in our region. We pride ourselves on the groundbreaking quality and nature of our work.

- 115 **IN INVESTMENT:** *Foreign direct investment in Iraq*
- 116 **INTERVIEW:** Bob Ledford, **AECOM**
- 116 **IN TOTAL:** *Water allocations in Iraq in 2012*
- 117 **COMPANY PROFILE:** Drake & Scull International
- 118 **COMMENT:** *Millennium Development Goals as opportunities. Water management policy*
- 119 **INVESTOR SPOTLIGHTS:** GAMA, AMCO General Contracting

## 120 MIDSTREAM & PIPELINES

- 121 **ARTICLE:** *Well connected. With only one operational pipeline, Iraq aims to overhaul and expand export infrastructure*
- 122 **PROJECT HIGHLIGHT:** *Iraq-Jordan pipeline*
- 123 **MAP:** *Iraq-Jordan pipeline*
- 124 **COMPANY PROFILE:** SNC-Lavalin
- 125 **PROJECT HIGHLIGHT:** *Iraq Crude Oil Export Expansion Project*
- 126 **ARTICLE:** *Iranian gas exports to Iraq. Improved relations bode well for the neighbouring countries*
- 126 **IN PRODUCTION:** *Iraq natural gas production*

## 128 LOGISTICS & PORTS

- 129 **ARTICLE:** *Iraq's internal conflict. Iraq's ports face infrastructural, security and bureaucratic problems*
- 126 **IN EXPORTS:** *Major oil export infrastructure capacity*
- 131 **INTERVIEW:** Samir Berqdar, **Agility Logistics**
- 132 **MARKET ANALYSIS:** Davey Kirk, **AI Futtaim Integrated Services**
- 134 **COMPANY PROFILE:** North America Western Asia Holdings
- 135 **INVESTOR SPOTLIGHTS:** Rumaila Energy Park, Bernekon, Naouri Group, Hilal Al Basrah
- 136 **INTERVIEW:** Fouad Al Monem, **Hill International**
- 138 **COMPANY PROFILE:** Smit Lamnalco
- 139 **COMMENT:** *Basrah Light crude exports. As output of Basrah Light crude goes up, it remains cheap to produce*
- 140 **COMMENT:** *The importance of the Port Sector Rehabilitation Project. The Umm Qasr and Khor Al Zubair ports are being upgraded to increase capacity*
- 141 **COMPANY PROFILE:** ALE Middle East
- 142 **COMPANY PROFILE:** SKA International Group
- 143 **COMMENT:** *Basra International Oil & Gas Hub. Iraq establishes the world's second oil and gas freezone*

## 144 DOWNSTREAM

- 145 **ARTICLE:** *Downstream's increased capacity. Iraq eyes becoming a net exporter of refined products by constructing new refineries and overhauling older facilities*
- 146 **IN CAPACITY:** *Actual and planned refining capacity in Iraq, 2012*
- 147 **INTERVIEW:** Abass H. Legen, **State Company of Southern Fertilisers**
- 148 **MAP:** *Iraq's refineries*
- 149 **PROJECT HIGHLIGHT:** *Nasiriyah integrated project*

- 152 **PROJECT HIGHLIGHT:** *Karbala refinery*
- 154 **COMPANY PROFILE:** South Refineries Company
- 155 **INVESTOR SPOTLIGHTS:** North Refineries Company, Midland Refineries Company, Rotork, UB Holding
- 156 **ARTICLE:** *Iraq's power generation crisis. Iraq attempts to halt rampant power outages and revive power generation*
- 156 **IN OUTPUT:** *Electricity production by resource in Iraq, 2012*
- 157 **COMPANY PROFILE:** Baghdad Company for Gas Turbines
- 158 **COMPANY PROFILE:** Orascom Construction Industries
- 158 **IN TIME:** *Establishment timeline of selected power plants*
- 159 **COMPANY PROFILE:** ABB
- 160 **COMPANY PROFILE:** Cummins
- 160 **IN INVESTMENT:** *Energy master plan cumulative investment, 2013-2017*
- 161 **INVESTOR SPOTLIGHTS:** MICTA, Schneider Electric

## 162 SERVICES & SUPPLIES

- 163 **ARTICLE:** *At your service, Iraq. Iraq needs better infrastructure and to streamline bureaucratic procedures in order for companies to capitalise on opportunities*
- 164 **INTERVIEW:** Mike Shepherd, **Alderley**
- 165 **COMPANY PROFILE:** Emerson Process Management
- 166 **VIEWPOINT:** *A local edge. Ammar Khalid, International Development Company for Oil Equipment*
- 166 **INVESTOR SPOTLIGHTS:** KSB Middle East, Inter Group
- 167 **INTERVIEW:** Mike Gilbert, **United Safety**
- 168 **COMPANY PROFILE:** Stirling Group
- 169 **INVESTOR SPOTLIGHTS:** RMSI Medical Solutions, FrontierMEDEX Group
- 170 **VIEWPOINT:** *A collaborative effort. Mike Pearce, MPPM*
- 170 **VIEWPOINT:** *The 30-year void. David Doig, OPITO International*
- 171 **VIEWPOINT:** *The absence of a skilled workforce. Ali Agha Jaffar, Field Energy Services*
- 171 **INVESTOR SPOTLIGHTS:** Al Majal Training & Career Development, Oil & Gas Skills
- 172 **INTERVIEW:** Joss Leufancois, **Aldelia**
- 173 **COMPANY PROFILE:** Schwob
- 174 **COMPANY PROFILE:** GCC Services
- 175 **INVESTOR SPOTLIGHTS:** Kelkan Contracting, Al Ateia Group, SPIE Oil & Gas Services, Iraq Gate Insurance

## 176 EXECUTIVE GUIDE

- 177 **ACCOMMODATION**
- 179 **EVENTS**
- 181 **ACKNOWLEDGMENTS/ADVERTISERS**
- 183 **RESOURCE:** *Al Basrah Oil Terminal*
- 184 **IN BRIEF**

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## THE YEAR IN REVIEW

### 7 **Onwards and upwards**

Abdul Kareem LUAIBI BAHEDH  
Former Minister of Oil

### 9 **The right legislation**

Thamir AL GHADHBAN  
Chairman  
IRAQI PRIME MINISTER'S ADVISORY COMMISSION

## Onwards and upwards

Iraq's Ministry of Oil governs oil production in all areas of the country outside of the Kurdistan Region of Iraq. It operates through four state-owned companies, namely the South Oil Company, Midland Oil Company, North Oil Company and Missan Oil Company. In the first quarter of 2014, proven oil reserves in federal Iraq were estimated to be 141.35 billion barrels.

**What is being done to increase Iraq's production to the government's target of 8 million barrels of oil per day (bopd) by 2020?**

In August 2014, production was 3.09 million bopd. Output continues to increase at Rumaila, Iraq's largest oilfield, where production is around 1.3 million bopd, with estimated reserves of 20 billion barrels still to be recovered.

Rumaila, operated by BP, accounts for more than 40 percent of Iraq's daily production total. Additionally, commercial production by Lukoil

“Federal Iraq has its own objectives, that should be very clear to all oil-related companies and industries operating here.”

began in March 2014 at the country's second-largest field in southern Iraq, West Qurna-2, above 280,000 bopd as of mid-August 2014.

Production targets have already been achieved at the Halfaya, Garraf, Majnoon and Al Ahdab fields and their future is promising. Halfaya is expected to increase production to 400,000 bopd by the end of 2016. At Garraf, the 2017 production forecast of 230,000 bopd is well within reach. Garraf is in Thi Qar in southern Iraq and has 1.3 billion barrels of estimated reserves.

Developed by Petronas in partnership with the Japan Petroleum Exploration Company and the North Oil Company, Garraf began commercial production in August 2013 with a flow rate of 35,000 bopd. By July 2014, output had already exceeded 70,000 bopd.

The expected production for Majnoon during the first half of 2014 is around 220,000 bopd. Additionally, Al Ahdab has estimated reserves of 1 billion barrels. In the second half of 2014 we expect Phase I production at the Badra giant field to be 60,000 bopd and plateau at 170,000 bopd within three years. As noted, a significant increase in production will occur in 2014 and

continue indefinitely, since we have only recently finalised various development plans and programmes for these fields.

With assistance from the North Oil Company, Sonangol made large investments in the Najmah and Qaiyarah fields, both of which were to produce more than 100,000 bopd in 2013. However, in February 2014, Sonangol decided to abandon the two oilfields due to security concerns. Also, in federal Iraq, BP signed a letter of intent with the North Oil Company to invest \$100 million in Kirkuk, starting work in October 2013.

**What are Iraq's long-term plans for the production and marketing of hydrocarbons?**

The current technical service contracts for the fields in operation or development – which were awarded in the two licensing rounds of 2009 – have been revised. Amendments were made for lower-plateau production targets whereby an agreement with the super-majors and majors was reached to achieve stable and sustainable long-term production. This included extending both the time needed to reach plateau production and subsequent contract length for the international oil companies, as well as cost recovery and service fees provided by Baghdad.

In January 2012, the Ministry of Oil announced the discovery of the 1-billion-barrel Dima oilfield, which increased the estimate of federal Iraq's proven oil reserves to around 141.35 billion barrels. Our long-term vision is to achieve a production capacity of 8 million bopd by 2020. To facilitate this increase, we may establish additional state-owned oil companies.

In order to ensure that Iraqi oil is competitive internationally, we have decided to finalise storage agreements in Asia and Europe to facilitate the movement of our crude in international markets. These steps will increase the security of the oil for our buyers in the US as well as Asia's refineries in India, China and South Korea. Furthermore, around 20 percent of Iraqi crude exports find their way to Europe.

**Are federal Iraq and the Kurdistan Regional Government closer to an agreement on a hydrocarbons law that satisfies both sides?**

Both parties have an interest in reaching a settlement on this issue, and we have been very



**Abdul Kareem  
LUAIBI BAHEDH**  
*Former Minister of Oil*

### IN FIGURES

Iraq's proven oil reserves

**141.35 billion  
barrels**

Iraqi output in August 2014

**3.09 million bopd**

Iraq's 2020 production target

**8 million**





Iraq will need a centralised effort if it is to reach its lofty production goal of 8 million bopd by 2020

“To ensure the stability of the working environment, the government provides an oil police force of 30,000 officers, in addition to a soldiered battalion.”

been over the past few years to reach an agreement that is both acceptable and agreeable regarding the law. Federal Iraq has its own objectives, that should be very clear to all oil-related companies and industries operating here.

First, there must be unified management for production and operational activities because the oil industry is an integrated industry from production to petrochemicals to export. The whole supply chain is linked, and there must be a centralised plan to oversee all of these activities.

Second, revenue distribution and control over export outlets must be clarified in national legislation, so that there are clear regulations on these issues. These two areas are not only technically important for the Iraqi hydrocarbons industry but also strategically important for strengthening the national cohesion of Iraq itself.

#### What is the role of new infrastructure in furthering Iraq's development?

Infrastructure is essential to industry growth and Iraq's position as an exporter. It is important to clarify that the field area is the sole responsibility of the international oil companies working in the area. The ministry is responsible for receiving oil produced on those fields. To accomplish this, we plan to construct a pipeline network with tanks in addition to the Khor al Amaya and Al Basra oil terminals. This is exactly what has been done in Basra in the past several years, bringing this area's export capacity to several million bopd and exporting the majority of Basrah Light crude.

The Kirkuk-Ceyhan pipeline became operational in January 2014, carrying 5.9 million barrels that month to aid increased exports. Baghdad hopes that the Kurdistan Regional Government will contribute up to 400,000 bopd via the State Oil Marketing Organisation and the pipeline. In March 2014, only 28,500 bopd had been moved with only the Kirkuk-Ceyhan line in operation.

In the west, the construction of an oil pipeline from Basra to Aqaba in Jordan and a possible extension into Syria will be completed in 2018.

The downstream sector is important for reducing Iraq's reliance on imported refined products. We are concentrating on new refineries and revamping the current facilities. The construction of the \$6.04-billion Karbala refinery led by Hyundai Engineering & Construction and

part of a South Korean consortium will have a capacity of 140,000 bopd. The groundbreaking by Hyundai in February 2014 was a major step in realising this target. Also, the bidding for the planned Nasiriyah Refinery will be held in 2014. The Nasiriyah Integrated Project is designated for the 300,000-bopd refinery and giant oilfield, which has estimated reserves of 4 billion barrels. These developments remain strategically important for the country.

#### What is being done to implement water and gas injection and reduce gas flaring?

In 2012, we awarded US engineering and construction company CH2M HILL a \$10-million contract for water injection at Iraq's southern oilfields. The contract is part of a larger, \$4-billion agreement to eventually treat and distribute as much as 2 billion litres of seawater per day that will be used for enhanced oil recovery via water injection at Iraq's reservoirs. To maintain the stability of production, certain fields will require water injection, while others will require gas injection. We are moving forward with both initiatives, and we expect the first stage of these efforts to be completed in 2018.

We only flare gas from three of Basra's oilfields: North Rumaila, West Qurna-1 and Zubair. The reduction of this flaring – the South Gas Project – is now under the control of the Basrah Gas Company joint venture, which is the largest gas-flaring reduction project in the world. The \$17.2-billion project, with 16 compressor stations in use and six scheduled to be completed by mid-2014 will allow Iraq to increase gas production to 56.6 mcm (2 bcf) per day by 2017. We are looking to turn Iraq into a major gas exporter by utilising associated gas from this project.

#### What is the government doing to ensure safety in Iraq for foreign companies while continuing to attract foreign investment?

Most of the oil activities in Iraq are concentrated in the central and southern regions, both of which are quite safe. To ensure the stability of the working environment, the government provides an oil police force of 30,000 officers, in addition to a soldiered battalion.

We have also been purchasing equipment to supply the necessary protection and security for our projects, such as surveillance cameras and radar systems and even aircraft. We also have fibre-optics in place to protect pipelines, integrated servers and other vital oil projects. ■

## IN FIGURES

Planned capacity of Iraq-Jordan/Iraq-Syria pipeline system

**2.25 million bopd**

Scheduled for completion

**2017**

Cost of the Basra Gas Company

**\$17.2 billion**

## The right legislation

The key to Iraq's short-term energy future, especially at the approach of a new prime minister's term, will be to ensure that laws in support of the oil and gas industry are passed. Job creation and the development of energy-related industries, coupled with the right legislation, could turn Iraq into a haven for doing business, especially in its resurgent upstream and downstream sectors.

**What progress has Iraq's oil and gas industry made? Where would you like to see the country head under the new government? What will this government concentrate on?**  
I would like to see peace, tranquillity and stability in the country, as they are the key drivers for progress in Iraq. The country is poised to take off with all the fundamental factors for progress already in place. We have the resources and the oil revenue. We have already begun developing the oil and gas industry. It is progressing steadily and with it our oil revenues are increasing accordingly.

We have opened up the hydrocarbons industry, as well as other sectors, for foreign in-

**“What is needed is comprehensive planning that does not concentrate strictly on oilfield development alone.”**

vestment by laying down laws and regulations to attract investors. Political stability is key in combatting terrorism, but modernising the public sector and combatting corruption are also important factors.

**Are the recent increases in oil production and exports experienced by Iraq sustainable in the medium term? Has the country reached the limits of its potential?**

They are sustainable, although Iraq's oil and gas industry can do much better. We are behind schedule for the planned targets that we so desperately need to achieve. The factor that makes such production and export rates sustainable to start with is having the oil resources in place and the required infrastructure.

What is needed is comprehensive planning that does not concentrate strictly on oilfield

development alone. It should tie in with infrastructure, pipelines, offshore terminals and water-injection facilities. This is where the Ministry of Oil needs to make a push in order to cater in time for the increases in production and exports we will witness down the line. Comprehensive planning would prevent bottlenecks that inevitably would stymie the rise in production in the medium term.

**How will a hydrocarbons law and a revenue-sharing law affect relations between the federal government in Baghdad and the Kurdistan Regional Government?**

I was personally party to the negotiations of these two laws. Their drafts were written on my laptop. They are important and essential laws, irrespective of the criticism that some have voiced. They are the result of compromises. They are not perfect for everybody.

When you consider all the political differences and diversity in Iraq, they were the best we could arrive at in 2006 and the beginning of 2007. Unfortunately, we could not manage to legislate those laws. The hydrocarbons law is already in parliament and it went through a first reading. Its legislation process would have continued, had it not been for the single-dimensional view of some parties.

Two other related laws are the law for the establishment of the Iraqi National Oil Company and the law for the reorganisation of the Ministry of Oil. Had that package of four laws been adopted and passed, we would have been in a much better state now because they would have regulated the relationship between the federal government, the Kurdistan Region of Iraq and the local governorates.

I hold the view that the coming government should tackle this particular matter at the beginning of its term and push for the legislation of those laws early on.

**How can Iraq incorporate lessons from the Middle East and North Africa region and its GCC neighbours in developing and expanding the country's downstream capabilities?**

We have been unfortunate because of three wars since 1980 and 13 years of harsh sanctions. Iraq was at the early stages of downstream



**Thamir AL GHADHBAN**  
*Chairman*  
**IRAQI PRIME  
MINISTER'S ADVISORY  
COMMISSION**

### IN FIGURES

Estimated reserves of the Rumaila oilfield

**17.5 billion barrels**

Rumaila production

**1.3 million bopd**

Expected contribution of Rumaila to total Middle Eastern oil output by 2016

**10 percent**





Iraq will implement the Integrated National Energy Strategy, which addresses concerns in the oil and gas industry

development, building refineries, petrochemical plants and gas-processing plants when it was struck by those misfortunes.

However, the lesson learned is that we have to concentrate on comprehensive planning, benefit from consultants and project management experts, as well as bring in the highest executives of top firms, contractors and services companies in the world.

We should also encourage local content and the development of the Iraqi private sector. The establishment of joint ventures

“We need to concentrate not only on increasing production in the oilfields, but also minimising the imports of oil products.”

between Iraqi and foreign companies would be good for the country's downstream capabilities. Co-operation between our national companies, public companies and foreign investors would also help.

**How can Iraq be more accommodating and inviting for foreign investors as well as facilitate the ease of doing business related to the oil and gas industry?**

We have been successful in accomplishing a number of these goals through the awarding of first-class oilfields such as Rumaila and West Qurna to international oil companies. The former contributes more than 40 percent to Iraq's total production. The latter, West Qurna-2, is a greenfield that started to produce its first commercial oil in March 2014.

These fields and the dozen of others that were awarded have opened up the industry and greatly benefitted Iraq. We have also already laid down the foundation for promoting

foreign direct investment in Iraq through the establishment of the National Investment Commission and Investment Commissions of the Governorates through the legislation of Law No. 13 in 2006. There is a package of laws that should be adopted to remove obstacles and bring in regulations in order to better facilitate doing business in the country.

We inherited a regulatory environment that was designed for a regime with a centralised government that did not really promote investment. Therefore, the modernisation of Customs and tax regulations, as well as the financial system, is also needed.

As a governing institution, we also must make the environment in Iraq business-friendly in order to benefit our people and the civil servants the country employs.

**What is the prime minister's vision for 2014 and 2015? What are the most pressing issues he needs to address in the energy industry?**

As far as energy is concerned, a committee that I headed has drafted Iraq's Integrated National Energy Strategy. The strategy was endorsed by the Council of Ministers in April 2013. The prime minister wrote to all ministries to abide by its recommendations.

We also need to improve the security of the pipelines to Turkey. The Kirkuk-Ceyhan pipeline is the number-one priority. In addition, we need to accelerate plans for electricity generation in order to ensure that there will not be any stoppages and that supply is growing in tandem with demand.

When it comes to the energy industry, security in the south has been good and is improving. We need to concentrate not only on increasing production from the oilfields, but also minimising the imports of oil products. This means building new refineries and expanding existing facilities.

Additionally, the country has to stop gas flaring. This is why we have created a joint-venture company, the Basrah Gas Company. This entity should accelerate its efforts in order to capture flared gases to ensure the products of associated gas can be incorporated into the value chain and put to use.

**What are Iraq's plans with respect to national content development? How will the government make sure young Iraqis find jobs?**

There is a clause in all contracts signed by the Ministry of Oil and the international oil companies regarding employing Iraqis who have similar skills as compared with foreigners. There is also a clause on building capacity and training, with \$5 million per contract per year allocated to ensure this occurs. We have already begun work on an oil and gas university in Basra, which will be expanded over time.

National content is of the utmost importance because Iraq is a young nation, with more than 50 percent of its population that is less than 40 years old. Additionally, every year, 500,000 people join the Iraqi workforce. We need to diversify our economy and promote industries that are human-capital intensive. ■

## IN FIGURES

Estimated reserves of the West Qurna-2 oilfield

**12.9 billion barrels**

West Qurna-2 investments by operator Lukoil in 2013

**\$5 billion**

**MAN OF THE YEAR****Abdul Kareem LUAIBI BAHEDH**

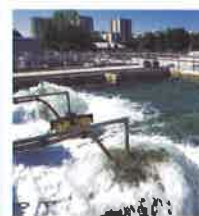
Former Minister of Oil **Abdul Kareem Luaibi Bahedh** has overseen 35-year highs in oil production and exports for Iraq with ambitious short and medium-term targets within reach. The country, sitting on the world's third-largest unproven reserves, now ranks second only to Saudi Arabia in OPEC in terms of production. In August 2014, average production was 3.09 million barrels of oil per day (bopd), with exports of 2.37 million bopd that month. The minister has been a strong proponent of increased spending in the upstream sector, but is also in a position to use his influence through joint management committee structures and control of Iraq's midstream and downstream assets.

**UPSTREAM DEVELOPMENT OF THE YEAR**

Following an extensive redevelopment project completed by Shell and Petronas and under the aegis of the Ministry of Oil's Missan Oil Company, the **Majnoon super-giant oilfield** is on track to become the third-largest producing field in the country. Iraqi Deputy Prime Minister Hussain Al Shahrastani officially re-opened Majnoon in September 2013. Output from the field at the end of 2013 was more than 200,000 bopd. This is a significant increase from 45,000 bopd in 2010 because of maintenance work carried out. In April 2014, Majnoon exported its first shipment of oil.

**ENVIRONMENTAL CONSULTANT OF THE YEAR**

Still relatively new to the Iraqi market, French company **Veolia Water Solutions & Technologies** was awarded a five-year, \$115-million contract in January 2014 by the Iraqi Ministry for Municipalities and Public Works to provide fresh water for the city of Basra, home to 2.3 million people. Daily production of fresh water at the Basra reverse-osmosis plant will be 200 million litres. The project's desalination unit construction created 300 jobs. An additional 50 vacancies will open up for the facility's operation. Complete with its own electricity generators, the plant will be fully autonomous.

**EPC COMPANY OF THE YEAR**

In April 2014, the Abu Dhabi unit of French engineering firm **Technip** was awarded a contract for the front-end engineering and design of the expansion of the Ar Ratawi natural gas liquids production facility at North Rumaila. It is the first of the greenfield gas processing facilities that are part of the Basrah Gas Company project. The facility has the capacity to produce 15 mcm (530 mcf) of LPG, natural gas and condensate to be used for power generation. In June 2013, Technip was awarded a \$71-million contract for work on the 140,000-barrels-per-day Karbala refinery.

**POWER GENERATION COMPANY OF THE YEAR**

Cairo-based **Orascom Construction Industries** is close to finalising a 1.014-GW power plant in Baiji, with final completion expected in the fourth quarter of 2014. The \$363-million project will result in one of Iraq's largest power plants. The first 169-MW generator has already been fired up. Germany's Siemens is under a services agreement for a duration of four years until 2018 to monitor and upgrade the facility's turbines. Baiji will be a dual-fuel power plant that can use both gas and heavy fuel oil as feedstock, the latter being more readily available.

**LOCAL CONTRACTOR OF THE YEAR**

Established in May 2004, the **Baghdad Company for Gas Turbines** has projects with all of Iraq's national oil companies, supplying spare parts and performing engineering, procurement and construction services, in addition to rehabilitation work. It is installing a turbine generator set in the West Qurna-1 field's DS7 power station and carried out similar work in the Mullah Abdullah power plant, where it worked on 11 such sets. The Baghdad Company for Gas Turbines is presently working on rehabilitating pump station 2, part of the Iraq Crude Oil Export Expansion Project.







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## GEOGRAPHY

- **Official name:** Republic of Iraq
- **Population (July 2014 estimate):** 32,585,692
- **Area:** 438,317 square kilometres
- **Capital city:** Baghdad
- **Climate:** mostly desert; mild to cool winters with dry, hot, cloudless summers

## GOVERNMENT AND ECONOMY

- **Official languages:** Arabic, Kurdish
- **Legal system:** Parliamentary democracy
- **Head of government:** Prime Minister Haider Al Abadi
- **Currency:** Iraqi dinar (\$1:IQD 1,164)
- **GDP purchasing power parity (2013 estimate):** \$249.4 billion
- **GDP per capita (2013 estimate):** \$7,100
- **Labour force (2011 estimate):** 7.9 million
- **Unemployment (2012 estimate):** 16 percent
- **Current account balance (2013 estimate):** \$12.85 billion
- **Foreign currency reserves (December 2013 estimate):** \$71.24 billion
- **Annual government budget (revenues):** \$99.52 billion

- **Annual government budget (expenditures 2013 estimate):** \$97.42 billion
- **Ease of doing business ranking:** 151/189 (2014)
- **Industries:** petroleum, chemicals, textiles, leather, construction materials, food processing, fertiliser, metal fabrication and processing
- **Exports (2013 estimate):** \$91.99 billion
- **Major export partners:** US, India, China, South Korea, Canada, Italy, Spain

## OIL AND GAS INDUSTRY

- **Proportion of petroleum and petroleum products in exports:** around 99 percent
- **Share of petroleum and petroleum products in budget revenue:** around 90 percent
- **Imports (2013 estimate):** \$66.61 billion
- **Oil exports August 2014:** 2.37 million barrels of oil per day
- **Proven crude reserves (2014 forecast):** 141.35 billion barrels of oil
- **Proven gas reserves (2014 forecast):** 3.16 tcm (111.58 tcf)
- **Electricity imports (2013 estimate):** 9.8 billion kWh

Source: CIA World Factbook 2014, World Bank, Economist Intelligence Unit, EIA

# The Iraq 2014 Index



do business easily, suggesting in almost every discussion that the two were intertwined and might be so for the medium term. More than 75 percent of respondents stated business was “difficult.” In fact, none of those interviewed mentioned doing business in Iraq was “very easy.”

There were similar results when interviewees were posed the question of how easy starting an oil and gas business in the Iraqi market is. Three out of five respondents stated that it was “difficult,” and the remainder were split in saying it was either “extremely difficult” or “easy.” On average, it takes a little less than a month to start a business in the country, according to information from the World Bank.

**Optimism for Iraq was high in the first TOGY investors index.** However, responses were given before parliamentary elections on April 30 and the escalation of sectarian violence in June 2011 in particular.

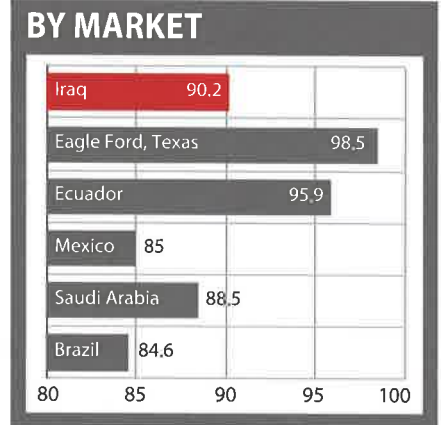
Although the level of violence in the country in the months leading up to April 2014, the time this survey was concluded, had already claimed the lives of 2,630 Iraqis, respondents at the time were definite in labelling Iraq as a difficult place to do business but overwhelmingly stated that it was a good time to invest in the country, both now and in the next 12 months.

**SNAPSHOT OF CHALLENGES:** Respondents were mindful of security and the ability to

**MARKETPLACE:** Despite difficulties in doing business in Iraq, the index score of 90.2 is only two percentage points lower than the Kurdistan Region of Iraq 2013 index and on par with the Oman 2013 index.

When asked to describe the policies of Iraq’s government vis-à-vis the oil and gas industry, more than 75 percent of respondents said Baghdad was pro-business but restrictive. Sixteen percent answered that the Iraqi government was anti-business but accommodating, with the remaining responses being “pro-business.”

In terms of transparency, 67 percent of the 44 investors responded Iraq was “not transparent,” while 17 percent described it



as “transparent,” compared with a minority of 14 percent labelling Iraq as “corrupt.”

**ABOUT THE INDEX:** The TOGY Investors Index measures confidence among oil and gas investors as expressed in their level of spending in any given market. The index is valued based on responses to a survey of the local market conducted by TOGY. The survey consists of five additional questions in which participants are asked to provide positive or negative responses. A reading above 50 percent represents a positive perception among investors, while below 50 percent indicates a more pessimistic outlook. The Iraq 2014 index is based on a survey of 44 different investors conducted between November 2013 and April 2014.

## RESPONSE

**How would you describe the policies of this government vis-à-vis the oil and gas industry?**

Pro-business	6.98 %
Pro-business, but restrictive	76.74 %
Anti-business, but accommodating	16.28 %
Anti-business	0 %

**How would you rate the ease of starting an oil and gas business in this market?**

Very easy	0 %
Easy	18.18 %
Difficult	61.36 %
Extremely difficult	20.45 %

**How would you rate the ease of doing business in Iraq’s hydrocarbons market?**

Very easy	0 %
Easy	9.09 %
Difficult	77.27 %
Extremely difficult	13.64 %



**How would you rate the level of transparency in this oil and gas market?**

Very transparent	2.38 %
Transparent	16.67 %
Not transparent	66.67 %
Corrupt	14.29 %

**How would you rate the level of political and economic stability in this oil and gas market?**

Highly stable	0 %
Stable	25.58 %
Unstable	53.49 %
Highly unstable	20.93 %

**Source:** Survey conducted by The Oil & Gas Year in Iraq between November 2013 and April 2014



2013



**15** Exports from Iraq's southern terminals average 1.67 million bopd in the first half of the month. Two berths at the Al Basra Oil Terminal begin to receive tankers again.



**2** Deputy Prime Minister Hussain Al Shahrastani reaffirms Iraq's intention to ensure that oil is exported across the Iraqi-Turkish border to fulfil Turkey's oil and gas needs.

2014



**28** PetroChina purchases 25 percent of ExxonMobil's stake in the West Qurna-1 oilfield project. The field has a projected production rate of 1.6 million bopd.



**31** Iraq exports a total of 72.57 million barrels of oil in December or \$7.47 billion in collected revenue. Oil futures trade at an average of \$102.90 per barrel. Iraq's sweet oil costs around \$2 to extract per barrel.

**26** According to an IEA report, Iraq's yearly oil revenues for 2013 are \$89.22 billion, compared with \$94.02 billion in 2012.



**14** Azerbaijan and Iraq's foreign ministers meet to discuss production plans for the Southern Gas Corridor, with a scheduled start in 2017 and export by 2018.

**24** The federal government and KRG agree to send 100,000 bopd through federal pipelines to Ceyhan, Turkey, in a move of good faith by the KRG.

**30** Iraq's second-largest oilfield, West Qurna-2, officially comes online with 120,000 bopd of initial production.



**23** Foreign Minister Hoshiyar Zebari meets with Chinese Foreign Minister Wang Yi to discuss further Chinese investment in Iraq's oil and gas market.

**14** Oil production reaches an average of 3.62 million bopd in February, a 35-year high.

**29** Lukoil decreases its plateau production target in exchange for extending plateau production from 13 years to 19.5 years.

**10** The federal government announces it will double exports to Jordan to 20,000 bopd, providing the country with almost 20 percent of its daily demand.



**30** Preliminary results from parliamentary elections see incumbent Prime Minister Nouri Al Maliki retain power.



**05** Exports via the northern pipeline to Ceyhan are suspended in April due to sabotage.

**05** Gazprom Neft announces the start of production drilling in the Badra field.

**20** Brent crude trades near a nine-month high \$115 per barrel due to fears of supply disruptions from Iraq.

**25** Gazprom Neft announces first deliveries of crude from the Badra oilfield to the central gathering point's reservoirs, from where it will be moved to the Al Basra Oil Terminal.

**09** A new power-sharing government under the leadership of Prime Minister Al Abadi is approved by Iraqi lawmakers.



**14** Al Maliki steps down, handing the reins to Haider Al Abadi, who is tasked by President Fuad Masum to form a new government.



**11** The Kurdish Regional Government announces it has taken control of the Kirkuk and Bai Hassan oilfields

**04** BP extends its technical services agreement for the Rumaila field to by five years 2034.

**06** Petrofac signs a contract worth \$535.8 million and CPECC is rewarded with a \$425-million contract for services at Rumaila.

**11** Total exports from single-point mooring buoys equalled 2.57 million barrels in March.

**02** Turkey will market 1.5 million barrels of oil from storage tanks, proceeding whether or not a deal between Erbil and Baghdad is struck.

**01** - Production from the super-giant West Qurna-2 field hits 280,000 bopd, up from the initial flow rate of 120,000 bopd in March.

**19** Lukoil Overseas says that the first oil cargo from the West Qurna-2 field has been shipped from Basra. The batch is headed to a refinery in Sicily.



## DIPLOMACY & POLITICS

### 17 Reap the rewards

#### 18 Road maps for foreign investment

Sami Al ARAJI

Chairman

NATIONAL INVESTMENT COMMISSION

#### 19 Reason for optimism

Luay AL KHATTEEB

Director | Visiting Fellow

IRAQ ENERGY INSTITUTE | BROOKINGS INSTITUTION, DOHA CENTRE



## Reap the rewards

The second-largest oil producer in OPEC is run by a recently elected power-sharing government headed by Prime Minister Haider Al Abadi. His newly established cabinet must reconcile Kurds, Sunnis and Shias, as well as invest in the country's energy industry. If Iraq can manage this, the potential for increased production and renewed dealings with OPEC are on the horizon.

About 62 percent of the Iraqi electorate turned out for national parliamentary elections on April 30, the first nationwide polling in Iraq since US troops pulled out of the country in December 2011. The prime minister at the time, Nouri Al Maliki, led the predominantly Shia State of Law Coalition, belonging to the country's majority sect. Maliki won 92 seats with an additional three seats allotted for ministers affiliated with his coalition.

The former prime minister finished first in 10 provinces in the Shia-dominated south. In Baghdad alone, his list won 1.1 million votes. Despite this, calls for Maliki's ouster after serving two terms at

**OPEC Secretary-General Abdalla El Badri said the oil export bloc would wait until 2015 to discuss output targets with Iraq, which has not participated in the quota since 1990.**

the country's prime minister led to the appointment of Abadi, the sexagenarian Islamist Shia, on August 11, 2014. Abadi was approved by Iraq's parliament four weeks later on the night of September 8, 2014.

**CABINET RESHUFFLE:** The *New York Times* reported on the same day that Maliki will be kept on as one of the country's vice presidents, although mostly in a ceremonial role. Ibrahim Jaafari, the leader of the National Reform Alliance and Maliki's predecessor as prime minister, was named foreign minister. Another former prime minister, Ayad Allawi, and Osama Al Nujaihi, were also named vice-presidents. Adel Abdul Mahdi was named as the Minister of Oil, replacing Abdul Kareem Luaibi Bahedh.

The Kurdistan Regional Government approved the cabinet reshuffle, outlining several promises to be kept by the government in place, including an oil export and revenue sharing agreement and providing support for Peshmerga forces in the future.

**RELATIONS WITH OPEC:** The OPEC cartel will now await imminent discussions with Abadi and Abdul Mahdi in being able to press reset on doing business

with Iraq. In April, Bloomberg quoted OPEC Secretary-General Abdalla El Badri as saying the oil export bloc would wait until 2015 to discuss output targets with Iraq. Since its invasion of Kuwait in 1990 Iraq has not participated in the quota system that applies to the cartel's 11 other members.

Reuters reported that OPEC recently missed two of its monthly average production targets of 30 million barrels of oil per day (bopd) in May and June 2014, producing 29.78 million bopd and 29.7 million bopd respectively. The following months placed OPEC back on course to reach its fourth quarter targets, producing 30.15 million bopd in August 2014, up from 30.06 million bopd in July 2014. Platts reported that although Iraq reached a 35-year production high in April 2014 with 3.3 million bopd, volumes have since fallen to 3.09 million bopd as of August.

The process of setting OPEC quotas is notoriously opaque, and the only member country that could shift production either way to accommodate increased Iraqi output is Saudi Arabia. While incoming Minister of Oil Abdul Mahdi might envision the possibility of increased production for Iraq, how the global market would be able to absorb the country's increased output, is another matter altogether. ■

## FIGURES

**TURNOUT IN THE APRIL 2014 ELECTIONS WAS 62 percent**

**ABADI WAS APPOINTED PRIME MINISTER ON August 11**

**IRAQ'S NEW CABINET WAS APPROVED ON September 8**

## RESERVES

Proven oil reserves in Iraq at five-year intervals, 1981-2013 (billion barrels)



Source: US Energy Information Administration



Sami AL ARAJI

## Road maps for foreign investment

Facilitating entry into the country, the **National Investment Commission (NIC)** is the primary point of contact for Iraq's foreign direct investors. The commission's goal is to accelerate the country's economic development. NIC chairman Sami Al Araji discusses the ways the Iraq's economy can step up to its full potential with the help of the oil and gas industry.

Over the next decade, Iraq's GDP will grow by close to 15 percent per year, faster than any other country in the region, according to IMF projections. Economic growth will be driven by the country's oil and gas industry. In August 2014, oil production figures were 3.09 million barrels of oil per day. Although 60,000 barrels per day less than in July, this output is important for attracting future international investors. Its output will help ensure that major projects shaping Iraq's infrastructure and driving its reconstruction will take place in 2014.

The country has overcome many challenges and it has sustained economic expansion since 2010, with 10.2-percent GDP growth in 2012 and 4.2 percent in 2013. Despite a slowdown, the IMF said Iraq's economic growth would continue for the next five years. This would raise per-capita income and position Iraq as a middle-income country.

**ENERGY POLICY:** The NIC is looking for ways to ensure that major infrastructure projects find the necessary funds to proceed, while liaising with international firms to improve the business climate. The NIC's proximity to the private sector allows it to make policy and regulatory recommendations and introduce investors. Beyond the oil and gas industry, the government is starting projects to restructure Iraq's banking industry to support international oil companies with the help of multinational banks.

In February 2014, the NIC, independent consultancy Allurentis and UK government department UK Trade & Investment published the fifth edition of *The New Iraq: Discovering Business 2014*. The report stated that "capital expenditure in the oil and gas industry alone will reach nearly \$39 billion in 2014 and total \$622 billion by 2030." The publication supports the rebuilding of the country as a vibrant economy that will attract a wide range of investment. The report also said, "The oil industry in Iraq is set to be the fastest growing in the world and significant opportunities are already being seized both in extraction activities and support services."

**MAJOR TASK AHEAD:** As the country becomes a market economy, there will be a need for a more diverse and expanded private sector. The work of foreign oil companies

is progressing. The global economy has seen an uptick from the successful licensing of major oilfields that are for development. The December 2013 Iraq National Energy Strategy forecasts that the oil and gas industry is approaching a best-case scenario of more than \$6 trillion in revenue. It also estimates 250,000 new jobs and an additional 9 million jobs will be created indirectly over the next 20 years.

The country has overcome many challenges and it has sustained economic expansion since 2010, with 10.2-percent GDP growth in 2012.

**GRAND PLANS:** In September 2013, the Ministry of Planning launched a \$357-billion National Investment Plan covering the five-year period of 2013-2017. The plan included increasing energy output and goals to reach the production target of 8 million barrels of oil per day by 2020, an output level that is to be sustained for a duration of 20 year.

The National Investment Plan forecasts Iraq will become a major oil and gas centre in the region. The development of the Al Faw Grand Port near Basra as a major container terminal, the first phase of which is scheduled for completion in 2018, in addition to planned railway links to Turkey, will ensure that Iraq will be an important conduit between Asia and Europe. Foreign investors are instrumental to achieving these goals. However, for that to happen, international firms require a business road map into the country. ■

### COMPARISON

Iraq's doing business ranking for small and medium-sized enterprises, 2013-2014

	2013	2014
Ease of doing business	155	151
Starting a business	168	169
Getting credit	177	180
Protecting investors	127	128
Paying taxes	65	63

Source: The World Bank 2013-2014 \*survey is out of 189 countries' economies



## Reason for optimism

Disputes within Iraq between Baghdad and Erbil will only cease when both parties agree on a revenue-sharing law that guarantees fair distribution of oil wealth among all Iraqis. This is outlined in the country's constitution. With the help of a far-reaching hydrocarbons law, the future for Iraq is optimistic and manageable.

**Why has the federal government of Iraq's enactment of a hydrocarbons law been delayed when the Kurdistan Region of Iraq already has implemented its own law?**

The issue is not about conflicting draft laws, but rather about the structure of the new federal state. Federalism in Iraq is an issue that has yet to be understood by all contesting factions. The Kurds see it through a confederal lens because they enjoyed 12 years of de facto autonomy even before the 2003 regime change. The Arabs view it from a perspective of centralism because their mindset is still controlled by the shadow of the past and legacy governance.

Once both parties agree to respect the constitution and adhere to federalism, all pending legislation will pass quickly and smoothly. An acceptable federal hydrocarbons law can only happen following future negotiations and once we have all parties – including the federal government and regional and provincial authorities – equally involved in decision-making according to Article 112 of the Iraq constitution.

**What role is a future hydrocarbons law going to play in the enactment delay?**

The public and observers have always believed that the hydrocarbons law is the main problem between Baghdad and Erbil. This is absolutely not true. It is the revenue-sharing law to guarantee fair distribution of wealth among all Iraqis that matters. Once we have a revenue-sharing law and a federal independent commission to handle the distribution of revenues, all disputes will disappear. The hydrocarbons law is a management tool to maximise the revenues, while the revenue-sharing law is the instrument to distribute them justly between all Iraqis.

**Could the Kurdistan Region of Iraq's prosperity lead to a more fragmented Iraq in which regions would begin to seek greater autonomy over their oil and gas resources?**

The prosperity of the Kurdistan Region should only add more value to the rest of Iraq, as long as its development is carried out in a federal context in order to replicate the success in other provinces. Autonomy over oil and gas for current and future regions has to be carefully compliant with federal laws as enshrined in Article 111,

which states, "Oil and gas are owned by all the people of Iraq in all the regions and governorates." Provinces and regions might add value in the development of the resources in accordance with federal laws while accommodating regional and provincial plans to maximise the revenues for all Iraqis and sustain long-term investment as per Article 112 of the constitution. The distribution of the revenues is a federal task to ensure the fairness of revenue sharing, simply because the natural resources across the country belong to all Iraqis regardless of their locality.

**What is the importance of a united Iraq for the future of its oil and gas industry?**

A united Iraq would bring prosperity to all its regions and provinces, maximise returns from oil and gas and enable economic diversification across the country. Upstream development would help bring about a vibrant economy.

The Kurdistan Regional Government is not necessarily impeding the development of Iraq's oil and gas industry. All multinational operators are already doing what they are contractually obliged to do with the federal and regional authorities. The Kurdistan Regional Government could be seen as withholding the revenue earned due to a lack of an agreement over exports from the north. This has denied Iraq further revenues, which are badly needed for the reconstruction campaign required to rebuild the country.

**What do you foresee happening once the Kurdistan Region and Federal Iraq are able to reach a mutual agreement?**

Once Baghdad and Erbil agree on the structure, authority and affiliation of the Federal Oil and Gas Council that will govern and regulate the hydrocarbons industry, as per Article 112, all other issues will be trivial and can be resolved fairly quickly. This will be the core political issue to resolve and agree on as a condition before the formation of a future federal government.

It will take time for Iraq to liberalise its model contract. However, once a Federal Oil and Gas Council is put in place to regulate Iraq's energy industry, policy-level issues will be resolved and petroleum investments could lead to mergers and acquisitions between most operators in the Kurdistan Region and the rest of the country. ■



**Luay AL KHATTEEB**  
Director  
**IRAQ ENERGY INSTITUTE**  
Visiting Fellow  
**BROOKINGS INSTITUTION, DOHA CENTRE**

“The public and observers have always believed that the hydrocarbons law is the main problem between Baghdad and Erbil. This is absolutely not true.”

### IN FIGURES

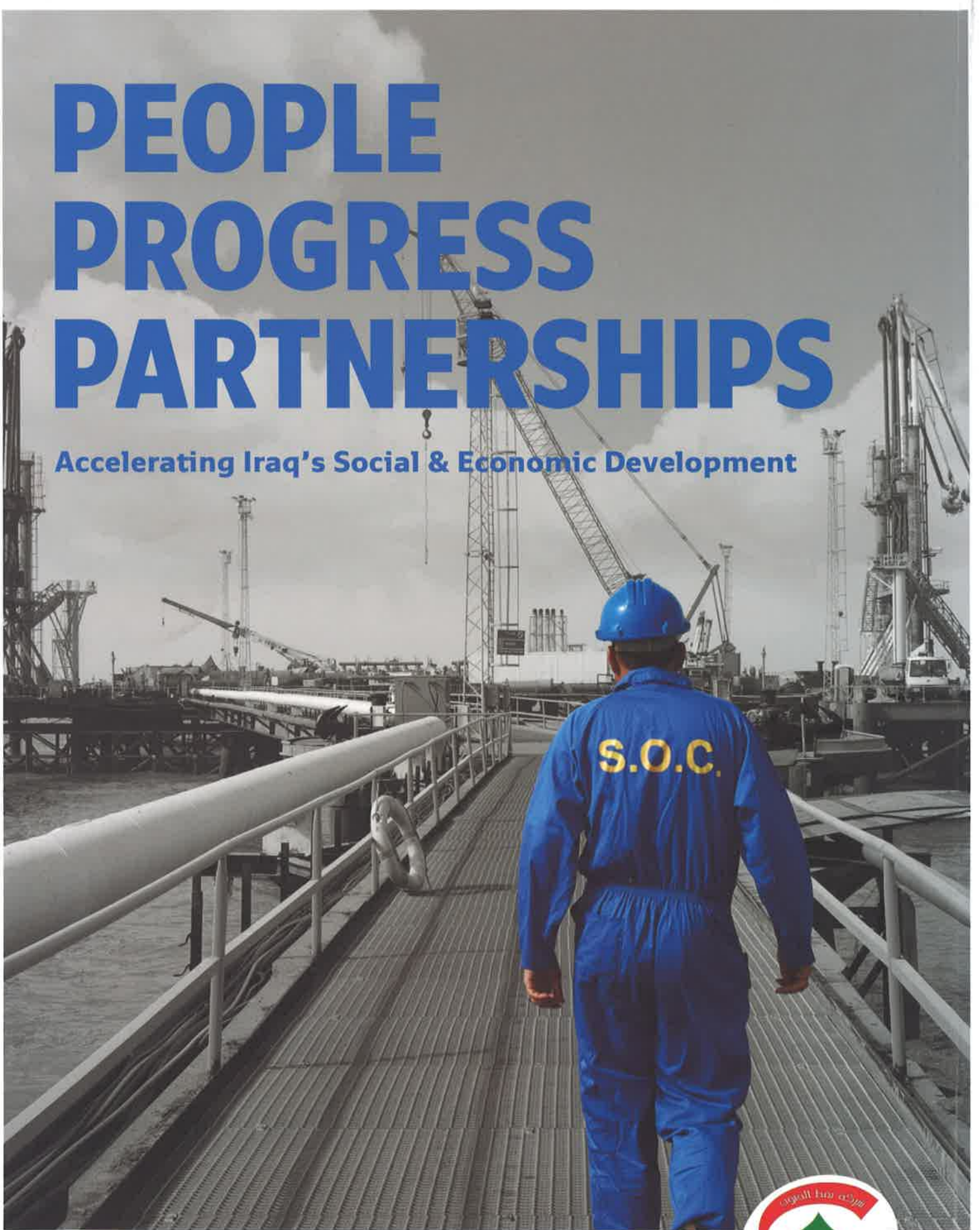
Body to govern and regulate the hydrocarbons industry

**Federal Oil and Gas Council**

Constitutional articles involved  
**Articles 106, 111 and 112**

# PEOPLE PROGRESS PARTNERSHIPS

Accelerating Iraq's Social & Economic Development



At the South Oil Company, we are leading the way with ambitious plans for the rehabilitation and development of Iraq's oilfields alongside our world-class partners for the benefit and prosperity of Iraq's people - our most valuable asset. [www.soc-basrah.com](http://www.soc-basrah.com)

*Energy for Prosperity*