

The Ministry of Oil should withdraw its plan for offering the new 12 oilfields.
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In a rather surprise move the Ministry of Oil-MoO announce its “intention” to offer 12 medium and small oilfields to IOCs for development and production. The most alarming and absurd components of the announcement are the contractual modality and the process of awarding and contracting. **Considering the danger and implications of the announcement I call upon the Ministry of Oil to withdraw this announcement immediately and focus instead on properly manage and monitor what has been contracted already.** Otherwise, the Iraqi upstream petroleum could suffer from devastating consequences at a time when the country is liberating its provinces, especially Mousil from Da’esh.

The offered fields are Sindebad, Um-Qaser, Rachi and Abu-Khema (in Basra Governorate); Kumait, Noor, Umara, Dema and Dujaila (in Missan Province); and Merjan, Kifl and West Kifl-all known as Mid-Euphrates (in Middle Iraq). MoO announcement provides further information which will be addressed in this commentary.

At the outset, this is not a new move at all. After completing the fourth bid rounds, the MoO has at least formally announced three times its intention for new offering. The first was during the former Minister Abdul Kareem Luaibi, who in March 2013 announced a fifth bid round comprising “10 oilfields”, then in October he postponed that round to “next year”. The second was related to the well-known Nassiriya Integrated Project-NIP, which combines the development of Nassiriya oilfields with a 300kbd modern refinery. Though NIP attracted good number of reputable IOCs, the project was put on shelves and related bid round was postponed indefinitely in June 2014. Recently, MoO offered Nassiriya Refinery for private investors, thus NIP is dead! The third is related to linking Ratawi and Bin-Umar oilfields (in Basra) to funding the water-injection Common Seawater Supply Project (CSSP) reportedly negotiated with ExxonMobil and PetroChina (CNPC). Since January this year no further information is publically available on earmarking the two oilfields to CSSP.

The current Minister of Oil made many pledges when he took office among them two of particular relevance to this topic: first, he emphasized the “national efforts” in upstream petroleum development and second, decision will be based on “solid and thorough studies and assessment”. The recent announcement by the Ministry is diametrically opposing to what the Minister has recently pledged.

By offering these 12 oilfields to IOCs “whether as independent (individual) company or as consortium of companies” in addition to what was contracted under the previous four bid rounds nothing meaningful is left for the “national efforts” role in this sub-sector. Moreover, where are these “solid and thorough studies and assessment” which the recent announcement was premised upon? None!

Does Iraq urgently need the “small” capacity addition from these 12 oilfields at this particular time, which characterizes with deepening fiscal crisis of the state and the “lower for longer” oil prices as almost all credible sources suggest for short to medium terms? The answer is absolutely No; but this needs further elaboration.

The first two bid rounds have, contractually, produced unreasonably high production plateau target of more than 12 million barrels per day-mbd by 2017 and to last for seven years before declining. That plateau production target was revised downward significantly, the plateau period and contract duration prolonged and Iraq gave serious fiscal concessions accordingly.. The question then is why the MoO gave so much concession (in terms of reducing State Partner share, increasing the natural decline rate and changing the R-factor) to reduce production plateau target by more than hundreds-folds of the would be added capacity of the now offered 12 oilfields.

Even with the new negotiated production plateau target Iraq has much oil to market and with the “lower for longer” oil prices environment coupled with probable over-supply it might be a daunting mission for Iraq to utilize its production capacity.

At current production level of 4.774 mbd (including KRG’ 546kbd) reserve-production ration (RPR) is well over 82 years at 143 billion barrels of proven reserves-bbpr or over 86 years at 150bbpr (both numbers of proven reserves are formally announced by different Ministers of oil!). If KRG is excluded the RPR becomes 93 years and 97 years respectively. Moreover, it is a well-known fact that Iraq is “under explored” with high “discovery success ratio”; meaning very high probability for augmenting proven reserves significantly in the future.

One could argue that the announcement was a tactical move take prior to the visit by OPEC Secretary-General Mohammed Barkindo, who arrived to Baghdad on 25 October and prior to OPEC meeting on 30 November; Iraq is seeking exemption from production cut similar Iran, Nigeria and Libya. That could be the case, but in my humble view Iraq has much more powerful arguments for exemption than the offering of the new 12 oilfields. The contractual obligations under the four bid rounds, especially those related to “production curtailment” and “take-or-pay” on one hand and the “Double Shock” due to Da’esh (ISIS/ISL) and low oil prices effects are much more convincing as material evidence than the new offering of 12 oilfields.

In addition to the above there are other remarks on the particularities of the offered oilfields, the qualification process of the IOCs, the possible contractual modality, the timeliness of the offer and the human resource implications among others. These are discussed next.

During the second bid round there was much interest by IOCs in the offered green-oilfields and many were awarded.

Among the offered were the Mid-Euphrates oilfields of Merjan, Kifl and West Kifl. They collectively have “First Commercial Production” of 15kbd; expected minimum “Plateau Production Target” was 75kbd; “Oil in Place” was more than 2.2 billion barrels and proven reserves of 547 million barrels.

Yet, there was not a single bid was placed on these three oilfields despite the apparent interest by the IOCs to hold a footstep in the country. At the time of second bid round, December

2009, oil prices were on the move upward. The situation has been dramatically reversed at least since mid-June 2014. Oil prices have been on the decline; IOCs are reducing their capital investment in new capacities and some have changed their regional priorities such as Oryx and the security conditions in the country is more risky than it was in 2009.

Therefore, one could question what makes the Ministry think that these three oilfields could attract interested IOCs.

There could be a “legal barrier” facing one of the offered oilfields. An agreement with Syria was signed regarding the development of AL-Noor oilfield was signed in Baghdad on 2 May 2001 with a production capacity of 50 kbd. The agreement was enforced by a specific law that was published on the official Gazette *Alwaqee Aliraqia* in 2001.

Evidently, that agreement was not implemented. Nevertheless, the related law remains valid until revoked by a new one, which has not been done yet. The revocation of a previous legislation can be done without much difficulties; it has been done for similar case such as for Al-Ahdab.

The announcement lists 19 “qualified companies” that have been “previously qualified by the Ministry” and asks “non qualified” companies who wish to participate to submit the needed information for qualification by 30 November 2016.

Three remarks are due on this matter: first, there are many more qualified IOCs through the four bid rounds and therefore why the list comprises 19 only? What about the others, are they excluded and if so why. Second, there are three of the 19 listed were not qualified for the previous four bid rounds so when and why they were qualified. These are Glencore, SNGN and Crescent (the latter was even blacklisted!). Third, previously, the Ministry adopted a blacklisting policy but it is not clear whether that policy remains or removes under the helm of the current Minister.

The most alarming and absurd components of the announcement are the contractual modality and the process of awarding and contracting. The Ministry asks the IOCs to submit “their own proposals for contractual, commercial and financial terms and conditions..”, and “Bilateral and direct negotiations between the ministry of Oil and the IOCs will be used as a basis for awarding the fields’ development and production contracts to the IOCs after agreement on the terms and conditions of the contracts”. The above contravenes the experience, the process and the basic premises of the Ministry used at least since the preparation for first bid rounds mid-2008. No model contract; no process timeliness; no final tender protocol; no bidding parameters; no open bidding. Simply, the IOCs state what they want not the other way around as what it should. Elementary negotiation principle implies that those who decides the terms and conditions decides the outcomes. Even people with no negotiation experience at all do not surrender this way Mr. Minister! So what is going on at the Ministry of Oil, why and who is behind this demise?

A bilateral and direct negotiation is recipe for CORRUPTION and bad governance; it is really shocking to see such a retreat from the open and very transparent bidding process to behind closed door bilateral negotiation.

What make the matter even worse and devastating are the human resource skills and capacity gaps, especially in international contract negotiations, implementation, follow-up and monitoring.

Considering the danger and implications of the announcement I call upon the Ministry of Oil to withdraw this announcement and focus instead to properly manage and monitor what has been already contracted. If the Ministry fail to suspend this announcement it is a legal, ethical, moral and patriotic obligation of the Prime Minister, the Speaker of the Parliament, all parliamentarians, senior officials of authority and oil professionals to stand fast against the Ministry of Oil and force it to withdraw this shameful announcement. Otherwise, the Iraqi upstream petroleum could suffer from devastating consequences at a time when the country is liberating its provinces, especially Mousil from Da'esh.

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