

Developing Majnoon Oilfield by National Effort- Important Move in the Right Direction

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The Ministry of Oil-MoO approved on 21 December a set of measures relating to the development of the super giant Majnoon oilfield after Shell relinquished it back to Iraq; these are summarized as follows:

- 1- Forming a National Operating Administration-NOA, attached to Basra Oil Company-BOC, for managing the development of Majnoon oilfield;
- 2- The take-over from Shell should be completed by end March 2018, with the continuation of some Shell' employees until end June 2018 if need be to ensure smooth and orderly transition;
- 3- Increase field production capacity to (more than) 400 thousand barrels per day (kbd) during the coming years;
- 4- One of the priorities of NOA is to reduce production cost per barrel by (more than) 30%, and this constitutes the basic criterion for ensuring spending and production efficiency;
- 5- NOA should organize *Iraqisation* process through replacing departing foreign workers by Iraqies from BOC or others.

At the outset, it is necessary to emphasize the importance and correctness of this decision and the need to support it; as the development of upstream petroleum sub-sector by national effort constitutes vital pillar for the Iraqi economy and the development of institutional, structural and human capacities in the sector itself. Particularly, as this decision came against the background of IOC failure to meet its contractual obligations or due to changing its priorities in or outside Iraq.

In addition to my emphatic strong and absolute support for the Ministry of Oil on this action regarding Majnoon oilfield, I find it timely to highlight some related basic issues that MoO and other authorities, especially the Council of Ministers and the Parliament, should pay attention to and take the necessary action on them.

First: Shell's Contractual Obligations

Majnoon contract, signed on January 17, 2010 and entered into force in the following month, comprises many indicators, timelines, regulatory provisions and elaborated contractual conditions.

It became abundantly clear that the consortium (of the contracting companies: Shell, which is the operator and Petronas of Malaysia) have not been able to meet their contractual obligations in a significant magnitude and impacting manner, causing serious material damage to Iraq' national interests.

In a first formal communication sent to Shell in July 2013, the Ministry of Oil stated that the financial losses incurred to Iraq was estimated at more than \$4.6 billion; two follow-up formal letters were sent to Shell, the last was a few months ago. We are now at end 2017, meaning

that the magnitude of Iraq's losses accumulated much higher than the amount mentioned above.

One could argue, if Shell thought MoO claims are weak contractually, why it did not pursue the international arbitration option; similar to what Dana Gas & Partners have done against KRG in LCIA?

Therefore, MoO is requested and indeed obliged to issue clear comprehensive and transparent statement on the case and whether Shell has paid the penalties and how much or not. Such a statement should be made sooner than later but it should be before end March 2018.

Second: Shell's Obligations as the Operator

Under the contract, Shell has additional obligations to comply with by virtue of its being the operator of the oilfield within the consortium even in case of relinquishment to the Government or assigning its participating interest to a third party.

These additional obligations of Shell (being the operator) are toward the Iraqi side and also toward its other partners under the Joint Operating Agreement- JOA, which is an annex to the signed contract.

It is therefore very important to pay attention to and implement the contractual provisions relating to this issue, since Shell obligations remain valid and effective even beyond the time Shell exits the oilfield.

Third: What about Petronas?

The Ministry made no mention to Petronas - Shell's partner in Majnoon field. This raises many questions: will this company remain or not? In case it decide to remain then will it keep its participation interest, reduce it or increase it? In case of increasing its share, will it become the operator or not?

Information from international oil sources on this subject is very scarce but indicates that Petronas is probably leaving. Knowing the position of Petronas is vital because that impact effectively the flow and completion of the transitional phase. Hence, the Ministry of Oil has to resolve this matter and declare it officially as soon as possible; especially since the transition period was reduced from 30 June to 30 March next year.

Fourth: Information Obtained by Shell on Majnoon

In an intervention dated 14 September 2017, I warned that Shell could use the data, structures, and other technical information it obtained from the Ministry of Oil and through its work as the operator of Majnoon in its plans to develop Azadegan field in Iran; as there could be possible geological relationship or similarities between the two fields.

It is necessary that the Ministry prevent Shell from using such information, unless Shell fully compensates for that since the Ministry of Oil has paid the cost of such information.

Fifth: Shell's Justifications and its Participation in West Qurna 1

Shell has confirmed more than once that its relinquishment of Majnoon field is due to its focus on Basrah Gas Company-BGC. The Ministry's amended statement (December 21) confirmed this matter!

Let's assume that this justification is true. Does this mean that Shell will leave West Qurna 1 as well? If so, did the company officially notify the Ministry and the rest of its partners in WQ1 consortium? If so, will Shell relinquish its stake to the Ministry or it will "assign" it to a third party? Will/is this third party a partner in the current consortium or it is a new partner? In the case of the new partner, has it been approved by the Iraqi side and accepted by the rest of the partners?

Ironically, while Shell refers to BGC, it did not reduce associated gas flaring from this field until mid-February 2016, when gas began flowing (at 70 mscfd) to the treatment plants in Basrah for power generation purposes. It is worth mentioning that contract for the second licensing round (which applies to Majnoon field) obliges companies to utilize associated gas and in return receive similar remuneration fee per a produce barrel of oil equivalent .

The status of Shell in WQ1 have to be finalised quickly so that the development of this oilfield would not be interrupted.

Sixth: Majnoon Production in the Interim Period

The Ministry said that oilfield production in the coming years will increase to (more than) 400kbd.

Available information indicates that the field is currently producing 235kbd, up from 50kbd when the contract was signed. Thus, due to Shell's failure in fulfilling its contractual obligations, current production is only 13% of the plateau production specified in the signed contract.

Under a drilling contract signed by Shell with Halliburton earlier this year, it expects to increase production to around 400kbd in three years; the Ministry appears to have adopted this level of production and its time framework.

The question that the Ministry needs to answer clearly is whether this production represent a new plateau instead of the contracted one or even the proposed (between 1 or 1.2 million barrels per day) when discussing the amendment of the contract with Shell, which was not finalised. Or this is a transitional plateau that might be reviewed later.

Seventh: Reducing Production Cost

The Minister directed the new national administration to reduce producing cost a barrel by (more than) 30% and consider this as the basic criterion for ensuring spending and production efficiency.

This issue requires more data, information and careful assessment based on the already made and recovered capital investments by the consortium, in addition to their remuneration fees and operating cost. Without knowing the structure and components of actual costs, it becomes difficult to reduce production cost at such a rate.

Moreover, this directive may practically, implies that production costs provided and recovered by Shell were inflated deliberately (known as gold-plating), which constitutes unethical business practice contravening the foundations of good practices confirmed by the contract for Majnoon development. If so, why the accounting and auditing departments at the Ministry did not address such a costly malpractice?

In view of the importance of wells drilling program in achieving the said production target over the next three years, it is necessary to know whether the contract signed with Halliburton

remains, amended or terminated and replaced by other companies (including the Iraqi Drilling Company) at a lower cost but within the same timetable? And how feasible is this?

Therefore, it is necessary to account for all payments, types and timing since the signing of the contract until now; and in light of this, it becomes possible to know the extent of reducing the cost in the field.

Incidentally, it is worth mentioning that the Minister had, previously, stated that the cost of production in this field is very high and I (in June 2017) responded by questioning the validity of his cited estimate for this giant field; neither him nor the Ministry presents data supportive to his high cost estimation!!

Eight: Iraqisation program

The new national administration might face difficulties in executing this target for the following reasons:

First, there is acute shortage in availability of workforce with required skills in the upstream petroleum sub-sector;

Second, foreign workers presence in this oilfield is rather high (almost four-folds what was permitted in the service contract) constituting 55% of total employment (according to latest available data at end 2015);

Third, Basra local authorities has previously resisted (or even prevented) employing people from outside the governorate.

The Ministry and the new NOA for Majnoon should adopt gradual approach to insure orderly replacement and should compel Basra local council to revoke its discriminatory directives against employing Iraqis from other governorates.

Ninth: Is the National Operation Administration Transitional or Permanent

The Ministry did not specify the term of NOA as interim or permanent, if it is temporary, then for how long, why and which companies that will be entrusted to continue developing the field after the end of the interim period?

This issue is very important issue and has many aspects that must be addressed and taken into account.

- 1- If NOA was able to achieve the production target on time and reduces production costs, why should the field be offered again to foreign companies? This, in fact, reminds us of the debate that prevailed among oil professionals (especially within the then South Oil Company (now BOC)- and some of them are at the Ministry, such as the Minister, one of his deputies and some Director Generals) prior to first bid round 2008/9; they objected fiercely to the inclusion of super-giant brown fields in that round arguing they could develop these by national efforts.

Moreover, does a temporary setting provide the needed incentives for NOA staff and employees to work hard when they know beforehand that their efforts will eventually passed on to foreign company?

Also, what are the guarantees that production costs will not increase again when the development of the field is referred to foreign companies?

- 2- Which foreign companies are currently interested in this oilfield? On more than one occasion, the Minister mentions some companies that expressed interest in developing the field after Shell exiting it. These are Total, Chevron, CNPC, Eni, CNOOC and Kosmo Energy. He said both Total and Chevron were in the lead.

It is relevant to make the following remarks concerning these two companies- Total and Chevron:

- I- Both companies are blacklisted by the federal government and the Ministry as a result of their contracts with KRG; as such contracts are considered unconstitutional, illegal and contrary to the national interest. For Chevron, it contracted with KRG after failing to win or participating in any contract through the four bid rounds of the Ministry. Total, on the other hand, signed a contract with KRG only after CNPC-lead consortium had signed the contract for the development of Halfaya field (with 25% participation interest for Total). As a result, Total was excluded from participating in the development of the Nassiriyah oilfield and allowing it only to participate in the implementation of the refinery within the Nassiriyah Integrated Project (NIP), which was postponed unreasonably.
- II- The promotion of these two companies looks like rewarding for standing against the policy of the federal government above mentioned, which remains enforceable regarding the illegality and unconstitutionality of KRG contracts. And here one must question the reasons and motives and who stands behind the promotion of these two companies within the leadership of the Ministry? One could also speculate on the root of this promotion in the memoranda of understanding (cooperation)-MoUs that were signed between them and the Ministry of Oil, which cover Majnoon oilfield, and who was in the Iraqi Steering Committee overseeing the implementation of these two memoranda? The MoU with Chevron was signed in July 2004 and continued until November 2008. The second was signed jointly with the two companies in November 2007;
- III- Total (as operator with 57% participating interest) submitted a competitive offer for Majnoon field during the second licensing round; but its offer failed in both indicators: remuneration fee and plateau production. Both, Total and Chevron recently stated that they will not accept the terms of the contract with Shell. Surprisingly, the Oil Minister's statement on 2 November 2017 responded by saying there is a "new contract for Majnoon oilfield";
- IV- The call to or offer a new contract for Majnoon oilfield is the ultimate confusion and loss of compass and could not serve the national interest at all; it could, by domino effect, result in negative expensive consequences on all contracts of the licensing rounds, which ultimately serve the interests of foreign companies at the expense of the Iraqi interest. As I mentioned previously on more than one occasion (either alone or in partnership with brother Tariq Shafiq) that the Ministry of Oil under the Minister Abdul Karim Luaibi gave many significant concessions to foreign companies resulting in financial commitments with lasting effects costing the country millions, if not billions, of dollars over the duration of contracts without benefiting Iraq anything in return. Do those in power at the Ministry want now to make more concessions to those companies that are black-listed according to the adopted policy of the government and the ministry itself? And here must emphasize the fact that Shell failed to implement its

contractual obligations even when the price of Iraqi oil exceeds \$ 100 a barrel; thus refuting what IOC/Shell defenders claim on low price effects!!

In conclusion, I call on the Minister/Ministry of Oil to:

- Stop offering a new contract for Majnoon oilfield; it creates confusion, causes uncertainty and damaging.
- Do not promote or reward IOCs that have contracts with KRG against government declared policy; avoids raising legitimate suspicions on motives behind such promotion.
- Provide all technical, financial and logistical support to Majnoon National Operation Administration and make it **permanent entity** to ensure its success and continuity; this enhances national efforts' efficiency, effectiveness and role.

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