

# **Iraq's Oil - A Game Changer, No More**

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The first volume of my chronicle book, published in October 2021, covers the development in the upstream petroleum in Iraq prior to 2011 and has a subtitle “Grand Opening for Big Push Strategy”. The subtitle reflects the mood, sentiments, actions and views that prevailed then both inside and outside Iraq, expecting Iraq to be a game changer in the international petroleum scene; that was premised on the concluded service contracts pursuant to the bid rounds, particularly the first and the second, as evidenced by the contents of volume one of the book.

One year later, i.e., in 2011, signs of powerful restraints began to emerge and thoughts for revising downwards the unrealistic, unattainable oil production targets were contemplated; many views and opinions covered by volume 2 of the book were explicitly or implicitly advocating such revision. Hence, the subtitle for this second volume reflects that dramatic shift from high expectations originally formulated after concluding the above mentioned contracts; it is “A Game Changer, No More”.

The fundamentals, the structural features and the chronic imbalances of the Iraqi economy remain and even deepen. The Iraqi petroleum sector seems to be moving further towards sectoral imbalance, i.e., fast growing upstream subsector, while slow midstream subsector and stagnating downstream subsector.

As mentioned in volume one of this book, the structure of the Iraqi economy is lopsided with heavy dependency on export of natural raw material, i.e., crude oil. The modest unbalanced growth that was accumulated by the end of 1970s began eroding and all economic accomplishments had washed-away, gradually, since then. Four decades of wars, sever sanctions, political tyranny and America-led occupation pushed the country into the brinks of a failed state.

The post occupation sectarian political sharing system, known in Iraq *al-muhasasa*, brought the most devastating manifestation of “resource curse” in the form of formalized legalized high level corruption, or Kleptocracy. When upstream petroleum became, once again but more urgently, the only sector capable for funding annual state budget for social welfare, reconstruction and development, it became the target for the corruptors, the Kleptocrrats and domestic politics abuse.

Also, under the then prevailed political order, upstream petroleum redevelopment and development were sought through active and substantive participation of the international oil companies- IOCs.

One year after the invasion, Iraq pursued in 2004, what seems analytically and proven factually, a Grand Opining Big Push Policy in its petroleum sector by offering IOCs and foreign investors unprecedented opportunities to having access to and expansion in, particularly, upstream petroleum sub-sector.

Between 2004 to end 2008, the Ministry of Oil- MoO concluded over 40 memoranda of understanding/cooperation (MoU/Cs) with IOCs from 23 countries, with overwhelming dominance of the US (9); Japan and Norway (4 each); China, UAE, UK and Canada (2 each) and one company from each of other 16 countries.

These MoU/Cs contributed in formulating and development of a model contract, and by the time they were terminated MoO succeeded, through direct government-to-government talks (with China), in converting Al-ahdab oilfield from production sharing to service contract.

The first bid round, for producing (brown) oilfields, was held end June 2009, followed by the second bid round for discovered but not commercially developed (green) fields on December 2009 and a third one for free-gas fields in October 2010.

120 IOCs participated in the qualification process for the bid rounds, 55 from 27 countries were qualified: Japan (9); USA (7); Russia (5); China and UK (4 each); Australia, India and Italy (2 each), and 19 other countries with one company each.

The outcome of the three bid rounds and Al-ahdab are: 14 oilfields contracted to 15 IOCs from 12 countries; total contracted/ targeted plateau production was 12.3mbd and their total proven reserves ca. 67 billion barrels (58% of the country's proven reserves at that time). Three gas fields were contracted to 3 IOCs from 3 countries with total plateau production of 820 mcf and proven reserves of 11.2tcf.

2011 demonstrates the early results and consequences of first bid round contracts on oil production of related oilfields, but the data from Part Four in this volume reveals more on the unbalanced development in Iraqi petroleum sector.

The data shows that national annual daily production increased by 12.71% from 2.359 kbd in 2010 to 2.658 kbd in 2011; the increase was slightly attributed to southern oilfields with their combined production increased by 13.04% compared to 11.68% in the northern and midland oilfields.

Much of the increase in the southern oilfields came from those fields covered by the first bid round; the trigger for cost recovery and remuneration fee in their service contracts was to attain a 10% increase of each field' base-line production-BLP, including a 5% annual natural decline on the contracted BLP.

Oil exports and oil prices increased significantly in 2011 compare with a year earlier, and the combined impact of such increase is a dramatic increase in oil export revenues by 60%. Total oil exports increased from 1.891million barrel-mb in 2010 to 2.166mb in 2011, generating revenues of \$52.2billion and \$83billion respectively.

Refinery products in 2011 increased from 196mb in previous year to 207mb; that represents ca. 5.7%, while the corresponding annual increase on the demand side on petroleum products was more than 9.2%, when total demand on petroleum products increased from ca. 189mb to more than 206mb between 2010 and 2011.

Hence, petroleum products supply-demand misalignment continues; it is a consequence of outdated refinery configuration that produces more of the heavier products, which has less

domestic demand, than light products, which are on increasing demand. This is a manifestation of failed sectoral petroleum policy.

Total associated gas production increased by 10.6% in 2011 over 2010, corresponding to oil production increase by 12.71%. But gas flaring problem aggravated further causing more damage to the environment, health consequences on the people living in the vicinity of oilfields, wasted valuable source of energy and, accordingly, inflicted tremendous loss to the Iraqi economy.

Two ratios measure that bad situation, which in a way manifest policy failure; flared to produced gas was 51.31% in 2010, increased to 59.35% a year later, and total annual volume of flared gas increased by 28%, from 267000mmscf in 2010 to 341723mmscf in 2011. My estimation shows that gas flaring costs Iraq \$2.525billion in lost revenues in 2010 and that loss increased by 77.6%, to \$4.483billion in 2011. That dramatic increase in the fiscal losses was attributed to the combined effect of increases in both oil prices and volume of flared gas.

Oil supplies to refineries increased in 2011 to a total of 2.07 million barrels, a 8.7% over 2010; and this means an increase in daily supplies from 522kbd to 567kbd.

This diversion of crude oil from export to domestic consumption means opportunity cost, in terms of lost/ foregone oil export revenues (FOERs), which increased from \$14.413billion to \$21.732billion in the two years respectively; and this means 50.8% increase in total foregone oil revenues. That 50.8% jump was a combined effect of 8.7% increase in refinery supplies and a 38.8% increase in oil export prices.

In a further perspective, those foregone oil revenues constitute 27.61% and 26.19% of oil export revenues of 2010 and 2011 respectively; the foregone oil export revenues could be taken as indication to “gross and preliminary” estimation of fiscal subsidies to domestic consumption of petroleum products.

Very little progress occurred in electricity generation plants in the country as the increase in their oil supply was less than 1% in 2011 over 2010; total oil supplied for power generation increased from 23.351mb in 2010 to 23.581mb in 2011.

Iraqi oil has traditionally three major oil market destinations: the Americas, East Asia and Europe. All three markets are supplied from the southern export terminals in Basrah province on north Arabian Gulf, while oil from the north (Kirkuk blend) goes to Americas and European destinations only through the Turkish port of Ceyhan.

Data shows that for a third year in a row a persistent pattern in marketing Iraqi oil: the shares of American and European markets were on the decline, while East Asian markets were on the rise. Americas' markets share went down from 28.8% in 2009 down to 25.8% in 2011, and the same trend was for the European destinations when their share declined during same period from 27.1% to 21.9%. Against that, Asian markets significance for Iraq increased from 43.5% in 2009 to 52% in 2011.

Much of that dramatic change in market configuration was due to increased oil production from middle and southern oilfields and, accordingly, oil exports from southern terminals.

Approximately 66% of oil exported from the south went in 2011 to Asian markets compared with 57.8% in 2009, while export to the Americas declined from 32% to 26% between 2009 and 2011 and to Europe from 10.2% to 8.3 during that period.

The shift in oil export destinations has also consequences on price differentials between these markets and, thus, the “netbacks” margin in export revenues for Iraq. Type of crudes, export outlets and market destinations explain such price differentials.

The expansion in the Iraqi upstream petroleum prompted bilateral and trilateral pipeline initiatives.

Iraq and Jordan reiterated their, rather old, agreement to construct oil pipeline to increase supplies to Jordan.

Also Turkey proposed building pipeline running from Iraq’s giant southern oil fields to the Turkish Mediterranean and even suggests Turkish pipeline operator, Botas, could build the line in 18-24 months at a cost of about \$2 billion.

Syria and Iraq held serious discussions about repairing an old oil pipeline to allow 200-300kbd of Iraqi crude to be exported from the Syrian Mediterranean port of Baniyas by 2013, as revealed after Iraqi Oil Minister Abdul Kareem Luaibi visited Damascus in February.

Iranian and Syrian ministers signed a memorandum of understanding on the export of Iranian gas to Syria in January. They also considered a proposal to build a natural gas pipeline through Iraq to connect the countries by concluding a trilateral agreement.

Over the last twenty years I have been compiling various, but related and relevant, documents, reports, studies, data and statistics and, accordingly, I have now very large, well organised, structured thematically and updated regularly, at least weekly, Database.

Moreover, I developed and maintained relatively large network of contacts comprising senior government officials at different levels, parliamentarians, professionals, scholars, research institutions, academics, civil society organisation and media among others; such networking proved to be invaluable source of relevant insights, confidential materials and views from “inside the box”.

My Database includes separate annual reports, exclusively, on the oil sector the first covers 2010 and earlier years and the latest is for the current 2022; these annual reports are the core of the archival efforts comprising well referenced, accurate, and verifiable data and sources. While archiving each annual report I read, commented and make different remarks on each item included in each annual report. Contents of parts two and three of this book are extracted from the annual report for 2010 and earlier years, but without incorporating my comments and remarks made on them then; I do not want to influence the readers’ understanding of these items with my own views.

Also, my Database comprises significant statistical data and time-series on different aspects of petroleum sector, which I compile, regularly, from formal and credible sources, both Iraqi and non-Iraqi.

In the same way, I followed closely the related development in the country and had my own contributions through various research work, analyses, publications, presentations, consulting assignments and commentaries among others.

My prime purpose for preparing this second volume of the book is to make it convenient reference for those interested in Iraqi petroleum sector, to understand the complexity of related issues and the discourse that prevailed in 2011 and positions taken by different parties; what, when by whom and, probably, why!!

This book is the second in a series on the development in the petroleum subsector or “Volume 2” and I intend, hopefully, to publishing further volumes covering years 2012 onward; I have done already the basic research and have the needed documents and statistics in my Database.



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As was the case with volume 1, this volume 2 provides four different perspectives on Iraqi petroleum issues that prevailed during the period covered by the book: my own, other Iraqis, international views and statistics; it was structured according to these perspectives respectively in its four parts. Hence, the book is premised on “evidence-based research” that was thoroughly done, mostly during 2011 but also covers a couple of earlier years.

For those years prior to 2011, as was the case since then and as mentioned above, I compiled and documented my own Database, the oil annual reports and numerous thematic and issue specific folders.

Part one of the book comprises a selection of my own essays and research work, i.e., my perspectives.

Each of my “Essays..” has its own methodology, structure, assumptions, analysis, discussion and consulted references; information on each essay was provide, when and where it was published and the web-link to access it, if that is permissible by the related websites.

Part two of the book comprises views of and positions taken by some selected well-known Iraqi oil professionals, senior government officials and others aiming at presenting a balance of wide spectrum of different, and sometimes opposing, views positions and affiliations; these are presented in a form of own articles and interviews. They reflect the richness and diversity of opinion that shaped the discourse among Iraqis at that time and, consequently, enriched the value of this book. Official views, expressed, through detailed interviews and statements, by senior government officials and decision makers reflect the political vision and economic aspiration of the dominant political parties, groups, religious/ politicized individuals and different associations and gatherings of professionals, notably oil experts and professionals inside and outside the country. This part includes also other articles written by non-Iraqi oil professionals; they were included due to their relevance to Iraq upstream petroleum.

Part three comprises outside foreign and international standpoints and contributions to the debate about Iraq’s petroleum and its prospect; a large number of items compiled from many and different external sources includes reports, studies, articles and media reporting among others, most if not all, were written by non-Iraqis.

This part adds the third perspective of the book; how the outside world looked to Iraqi petroleum matters, what was their preoccupation, how did they understand or failed to understand, analyse, debate the issues and foresee the implications. It is really amazing to revisit the then prevailed insights and wisdom!!

Part four provides the statistical perspective through many tables, which are extracted from my Database; these include the most important statistical data pertaining to petroleum sector for 2011. The purpose is to supplement the expressed views with the “material evidence” in the form of data and statistics.

Important improvements and additions were introduced to this part in this volume. Number of tables increased, brief statistical notes were provided and, whenever possible, previous years were covered to facilitate comparing data.

A new item was added to this part and it is a summary of its financial statements for 2009, 2010 and 2011 for the Development Fund for Iraq- DFI.

Similar to what was mentioned in Volume 1, I would like to make the following remarks and caveats.

Methodologically, the book is chronicle/archival of some of what was written, debated and published in 2011 and, a few belongs to, earlier years. Hence all items included in parts one, two and three are reproduced “as is/was”, i.e., exactly as they were published in 2011, except

the necessary editing to unify the text of the book to comply with publisher guidelines and requirements.

Therefore, it is vital to emphasise that the book is NOT about 2011 written from 2022 perspectives or in retrospective; rather it is on 2011 or earlier, as the case may be, as was written in 2011.

Each and every item included in parts two and three of the book has its source, the web-link, date of publication and the date I accessed it and compiled it in my Database. Sources, for the tables of part four of the book, are also provided. This is vital for verification, acknowledgement of copy right and helpful for further research on Iraqi petroleum.

A note of caution is due regarding websites availability; some websites do not exist anymore, some are changed to other identification, others are not accessible, for whatever reason, and some require subscription or fee for access.

Arabic names sometimes are written in English slightly different; examples are many, Ahmed: Ahmad, Al-Ahdab: Ahdab, Basra: Basrah, Missan: Misan or Maysan, Dayala: Diala or Dyalah, Omer: Umer, Fakka: Fakah or Faqa, among others.

Intentionally and for logistical reasons, I excluded items and materials written in Arabic.

The book is a fruition of almost two decades of constant follow-up, research, direct involvement, networking and archiving. I encountered too many challenges during the course of those years, but with patient and determination I managed to overcome them; this second volume of the book is the testimony for perseverance!

**I would like to sincerely and wholeheartedly thank Walid Khadduri for his kind “Preface” of the book; much appreciated Akhi Abu Amin.**

My thanks also are due to the International Journal of Contemporary Iraqi Studies- IJCIS, Iraq Oil Report-IOR, Middle East Economic Survey-MEES, Iraq Business News- IBN for the kind permission to re-publish their articles.

I pursued similar permission from Reuters, Energy Intelligence Group (PIW, IOD, OD, Energy Compass), Middle East Economic Digest-MEED and Upstream Daily Newsletter; they confirmed my request but, so far, I did not receive their final answer; I assumed they had no objection.

Any feedback on the this volume of the book is welcome and highly appreciated

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