

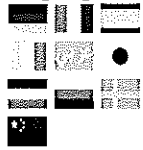
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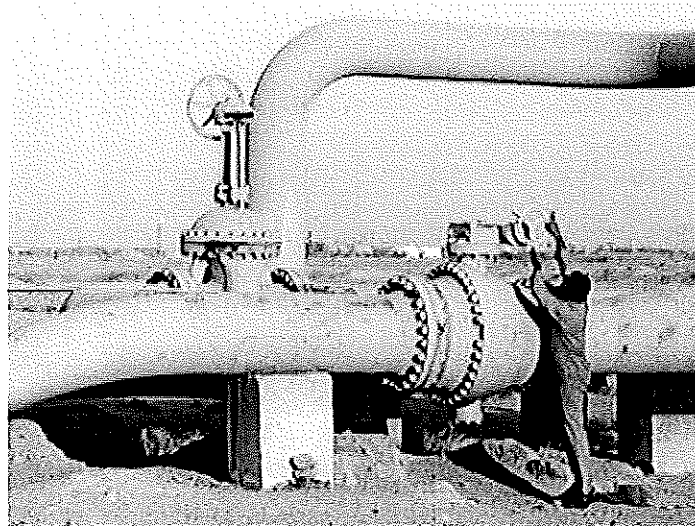
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Substantial Modernisation - Developing Iraq's oil and gas sector

By David Morgan

Tuesday, 26 January 2010 17:44



A major international conference on Iraq's oil and gas industry was held in London last month. "Iraq Petroleum 2009" was organized by CWC Group and held at the Park Plaza Victoria Hotel.

Delegates heard that the Iraqi economy depends primarily on the oil sector which provides approximately 67% of its total domestic product and has a number of other sectors that make up the remaining 33%.

Iraq's oil infrastructure is in need of substantial modernisation and investment; on March 31, 2009, \$2.05 billion was allocated to the Iraqi oil and gas sector to begin this modernisation.

Iraq's government spokesman Dr Ali Al Dabbagh considered the political and security situation in the country. He said, "The circumstances in Iraq are extraordinary, the international community, together with the people of Iraq, must be prepared to take extraordinary measures to achieve lasting success."

He expected that the forthcoming election would create a clearer and more satisfactory political environment, which was widely seen as an essential prerequisite for the full realisation of the rich potential of Iraq's oil and gas sector.

Iraq's production could be increased from around 2.4mnb/d to at least 7.5mnb/d within 7 years dependent on international investment, Seyed Mahdi Hosseini,

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IOEC vice president, told the conference.

An estimated \$20-25bn annual investment from foreign sources is needed to get upstream production up to its targeted objectives.

Thamir A Ghadhban, Chairman of the Advisory Commission, Prime Minister's Office, examined the "way ahead" for Iraq's crude oil production capacity.

The former oil minister told the conference that although more than six years have passed since the end of the war production capacity is still below what was prevailing prior to the change of regime.

"A rapid build up was achieved during the first six months of the rehabilitation period when we revamped our capacity back to 2.5 million b/d," he said.

"However, since the beginning of 2004, production remained around 2 million b/d, and the increase that was witnessed during 2008 and 2009 was mainly due to the unlocking of the northern fields' existing capacity as a result of improved security and securing the export pipelines. It was not due to any substantial additions in oil field production capacity or new field development plans," Ghadhban stated.

Turning to the new role of IOCs in Iraq, he said, they are being invited "to carry a number of well defined tasks starting with providing investment, further develop the oil fields in accordance with approved development plans and shoulder the responsibility for meeting production targets."

He continued: "Transfer of technology, capacity building and training of Iraqi personnel in all facets of skills required for the management and oil operation as well as providing work opportunities for Iraqis and utilization of the national content, are all included. Model contracts in both bid rounds are based on a service type agreement and it's clearly understood that all the IOCs shall work as commercial contractors under the rule of Iraqi Laws.

"In view of the importance of the oil and gas resources to the nation as a whole and the controversy associated with the re-entry of the IOCs, it would be of critical importance that all obligations be met on time in accordance with the contracts," Ghadhban told the conference.

"I would also recommend that IOCs take social corporate responsibility seriously as it will always be conceived by the population as a yardstick for measuring the success of the contracts awarded. The local communities, as the companies will witness for themselves have expectations which I advise taking into consideration as companies go over their investment plans" he concluded.

Another speaker, Luay Jawad, Executive Director, Iraq Energy Institute, addressed Iraq's gas potential and estimated that the probable gas reserves in the country may reach 7.5 TCM.

Delegates heard that Iraq has plenty of natural gas reserves, but it lacks a national strategy to consider the wider value chain required for economic growth.

Energy security should be factored in all plans prior subscribing "surplus" gas for export, according to Luay Jawad.

The speaker urged the promotion of the full utilisation of gas to meet domestic needs and described the "financial losses and missed opportunities" to date.

A spare capacity is required to sustain p p p y q 3% population growth, as well as country's reconstruction plans, which are estimated to cost \$600bn.

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The future of 'Associated Gas' was closely tied to oil production policy and the further development of oil fields.

A minimum of 5.8bcf/d is required as feedstock to meet the domestic needs for a 10 yrs plan including power generation, old/planned industries, and IOR/EOR projects.

On exporting surplus gas, pipelines make more sense than LNG, geopolitically as well as netback, by considering regional countries and EU markets.

Iraq is in desperate need for IOCs to develop its gas, Jawad said, but the majors should rethink their commercial strategy to serve a more realistic and sustainable scenario.

Iraq should learn from the commercially failed IOCs' LNG projects in net importer countries like UAE, Oman and Egypt. LNG may only be applicable to Iraq if technology cost declines significantly while current proven reserves double.

Meanwhile, Dr. Mussab H. Al-Dujayli looked at the main challenges facing the development of Iraq's crude oil potential.

He concluded that the establishment of a new Iraq National Oil Company (INOC) empowered to conclude contracts with IOCs would provide the necessary legal framework for cooperation between INOC and the IOCs.

The expansion of Iraq's crude oil production capacity to about 10 million barrels per day is feasible and desirable, he said.

The development of the country's vast oil potential provides tremendous business opportunities for all qualified companies. Drilling programmes represent the main opportunity, he stated.

Finally, the relationship between regional and federal government constituted one of the big challenges facing the development of Iraq's oil potential. Fair distribution of oil revenue would mitigate this challenge, the speaker thought.

Global Arab Network

This report appears in the Arab-British Chamber of Commerce bulletin

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