

IRAQ NEWS REPORT



Infighting will delay oil deals

Baghdad and oil majors still need to push through short-term deals. Iraq's political elite should step up to the challenge to avoid delays.

In just a matter of weeks, much of the momentum behind Iraq's push to revamp its oil industry has been weekend by political infighting. Just when it seemed that real progress had been made through the signing of long-awaited technical service contracts with international oil companies (IOCs), rifts have again appeared.

In the absence of a federal oil law, the waters have been muddied by disagreements between two of Baghdad's most important government ministries, oil and finance, over the best way to pay the oil majors.

The argument between the two ministries mirrors the wider political infighting between different regions of Iraq, with the Kurdish north and the Shia-dominated south at odds with the federal government over both long-term contracts and the oil law.

The short term contracts between Baghdad and the IOCs still need to be pushed through. With the country's oil revenues at just 2,5 million barrels a day (b/d), the expected 500.000 b/d boost from the service deals is needed more urgently than ever. A further 1,5 million b/d is expected to be added by 2013.

Baghdad's ambition to ramp up production should be applauded. But oil analysts argue that the deadlines it has set for the medium term development of its energy infrastructure are unrealistic.

They would be ambitious, they say, even for a leading crude producer such as Saudi Arabia. For a country suffering from a fractious political climate, it is impossible.

Inevitably, delays have already crept in and are likely to lengthen.

While the public remains suspicious of the intentions of IOCs, oil majors are not to blame for the headaches Iraq is experiencing.

Baghdad must try to unite its own political factions and restart the development of its oil law for the industry to reach anywhere near its potential. The country has an excellent chance to recover, but its political elite needs to step up to the challenge.

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Political row to delay \$3bn service deals

Oil and finance ministries clash over proposals for part cash, part oil payments that break UN rules.

Differences between Iraq's oil and finance ministries over payment terms for international oil companies (IOCs) threaten to further delay negotiations for technical service agreements worth \$3bn.

One senior oil industry executive involved in talks with Baghdad tells that the Oil Ministry has proposed a plan that will involve oil majors being paid partly in cash and partly in oil.

But the proposals, if passed, will contravene UN Security Council Resolution 1483, which states that oil revenues from export sales must be deposited in the Central Bank of Iraq's development fund, which is monitored by an international board.

While all six oil groups set to take part in the service deals buy crude from Iraq, the proposals were almost immediately dismissed by IOCs as breaking the UN resolution, passed following the US invasion of Iraq in

2003. The senior IOC executive says the Oil Ministry is still clinging to the idea, despite being told by the Finance Ministry that the payment scheme is unlawful under Iraq's constitution.

"The development of these agreements has now been caught in an internal political argument", he says.

"It has become a matter of national pride between these two ministries and it will delay the whole project. Contra deals cannot be wagered on the side and that is a point the Finance Ministry has been making".

The delay is expected to last several months.

In early July, oil majors denied claims by the Iraqi government that negotiations for the service deals had broken down because of their demands for a share of the oil produced.

The six groups who are expected to sign deals are the UK/Dutch Shell Group, both by itself and as part of a partnership with BHP Billiton, the UK's BP, the US' Exxon- Mobil Corporation, the US' Chevron in partnership with France's Total, and a grouping of the US' Anadarko Petroleum Corporation, Swill oil trading firm Vitol and the UAE's Dome International.

The executive confirms that Baghdad has now formally requested that oil majors complete the work over just 12 months, compared with the initial two year timeframe.

"It can be done in one year but it involves a change in structure to the contracts", says the executive.

"That all takes time and we will see delays".

Iraq is hoping the technical service agreements will boost its oil production by up to 500,000 barrels a day (b/d) to 3 million b/d in the next 12 months, from 2,5 million b/d.

Earlier this year, Oil Minister Hussain al-Shahristani told that two licensing rounds covering existing fields and

three further large fields will result in the state's oil production soaring to 6 million b/d by 2013.

Iraq is thought to hold the world's third-largest oil reserves, at 115 billion barrels.

Iraq's oil and finance ministries were unavailable for comment.

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