



**PICTURE CAPTION** An Iraqi oil worker adjusts some controls at an oil refinery in the southern Rumaila area BP

**Fawzia Sheikh** discusses the geopolitical environment in post-Saddam Iraq as the government begins doling out contracts

# WHAT NEXT FOR IRAQ?



As multinational military forces have left Iraq, international petroleum companies have eagerly descended – seduced by the long-term potential of vast oil reserves off-limits to foreigners for decades. Yet lingering violence, legal questions and political

uncertainty make doing business in this country a gamble.

In the first international oil auction held June 2009, widely seen as a failure, the Iraqi government awarded a firm contract to only a

consortium of British Petroleum and the China National Petroleum Company to further develop the Rumaila field over 20 years. Iraq recently forged an initial agreement with a group comprising Exxon Mobil and Royal Dutch Shell to develop the West Qurna field, and one with an ENI-led consortium of Occidental Petroleum and Korea Gas for the Zubair oilfield.

Under ratified deals, firms stand to gain a mere US\$2 profit on each barrel added to production because the Iraqi government wants to convey “they’re not going to let the oil companies take

**PICTURE CAPTION** Iraq's proven oil reserves of 112 billion barrels are the world's second largest, behind Saudi Arabia

over," said Robert Ebel, a senior adviser in the energy and national security programme at the Centre for Strategic and International Studies (CSIS), a Washington-based think tank.

The operator of each 20-year service contract, which may be extended for five years, "will still make a rate of return in the double digits," said Ruba Husari, founder and editor of the Web site [iraqoilforum.com](http://iraqoilforum.com), via e-mail from Baghdad. The country's proven oil reserves were last estimated at 115bn barrels. These massive reservoirs, and the low costs linked to such an uncomplicated operation, essentially make it "easy oil" for firms, Husari said.

Iraq will boast some six million to 10m barrels a day over the next several years, analysts say. This scenario illustrates why oil companies perhaps are now more willing than last summer to gain an initial foothold in the industry on the government's strict terms and thus build a long-lasting relationship that may lead to a production-sharing contract "for some discovered-but-yet-undeveloped oilfield," Ebel said. "It's a hopeful assumption; I don't know how realistic it is."

Yet as companies salivate over Iraq's potential, legal and political issues are still making doing business problematic. The war-ravaged country's "weak and ill-defined legal structures," and uncertain moves by the next government elected in January, may result in cancelled service contracts, warned David Bender, an analyst in the Middle East practice of the Eurasia Group's Washington office.

Through conversations with oil firms, Bender has gleaned that Iraq is probably not "quite at the point in which legal details are the most important aspect" and is focussed instead on the larger political process. As a result, he said, members of a newly elected government, influenced by their own interest groups and 'power politics', may annul contracts despite the associated penalties.

Finalising a long-awaited hydrocarbon law governing the oil industry will be a top priority of the next government, said Mishkat al-Moumin, an adjunct scholar at the Washington-based Middle East



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Institute and Iraq's environment minister from 2004 to 2005. Ideally, the legislation will outline investing in new oilfields, establishing a council to manage petroleum issues and offering a mechanism allocating oil revenues, she added.

The absence of an agreement to share oil revenues with the northern Kurdistan Regional Government continues to plague Baghdad, which never recognised as legal the Kurds' independent oil deals with smaller companies. "If you get an oil law in place, will the Kurds accept that oil law or will they say: 'You're not giving us enough share of the income that you get from our oil,'" questioned Ebel, the CSIS analyst.

Although it is too early to measure the internal impact of opening up the oil industry, in five years oil money will likely flow down to ordinary Iraqis, al-Moumin predicted. The Iraqi government is now debating whether to distribute cheques to citizens allocating their fair share or to broadly invest in infrastructure and services, she said.

As the central government and international companies geared up for a second oilfield auction, Eurasia Group's Bender expected firms this time to be undeterred by initially meager profits, and increasingly tempted by what may become "the most lucrative, exciting oil market in the world." **ep**

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