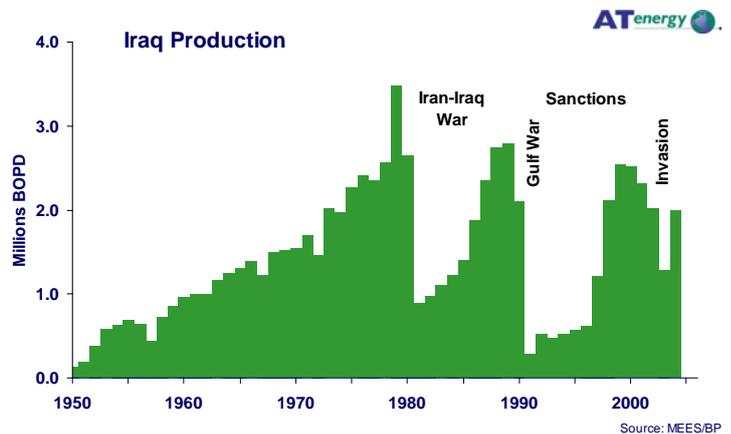


## The Iraq Oil Industry

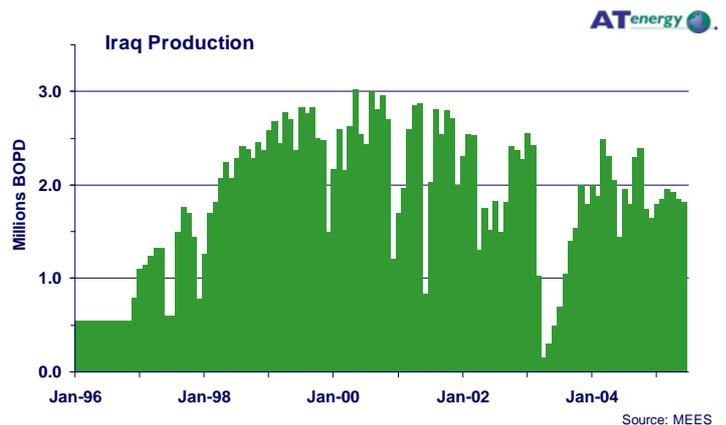
The oil sector of Iraq, like all other sectors, has suffered considerably from continued insecurity, lack of funding and external meddling.

Prior to the Iran-Iraq war, Iraq was producing well over 3.5 million barrels of oil per day and in early 1990 production was heading back up to these levels after the devastation of the southern Iraq oil infrastructure. More significantly, the late 1980s also saw major developments and plans throughout the oil & gas sector; utilising gas for power and other needs (thereby much reducing flaring), improving refining and petrochemicals and preparing to expand the upstream sector through foreign investment to ultimately achieve production of 6.0 million barrels per day.



Following the events of 1990-91, thirteen years of UN sanctions and the extensive looting and sabotage following the 2003 invasion, the oil sector was left in a perilous state with production struggling to reach 2.0 million barrels per day and the refineries unable to meet demand. Efforts by the US to restore production *capacity* to pre-2003 levels of 2.8 million barrels of oil per day were sort of successful but the Ministry of Oil often complained that few individual projects were completed satisfactorily. Production *capacity* today is well below this figure and on good days Iraq could perhaps produce around 2.4 million barrels per day. Exports however, are severely restrained by the lack of a secure pipeline system to the north, which once shipped 1.6 million barrels per day, and by the infrastructure and production in the south – exports are currently below 1.5 million barrels per day.

This is a rather pessimistic picture of the oil sector, but sadly the underlying issues may be far worse. The monthly production graph shows a very clear and unmistakable decline in production. Ignoring political interruptions, the decline in maximum production rates illustrates the lack of maintenance and investment in Iraq's oil fields, temporarily reprieved by US efforts in mid 2004, but badly effected by security issues thereafter. The Ministry of Oil has recently stated that fields in Iraq are declining by 10% per annum – through lack of proper reservoir management, i.e. investment.

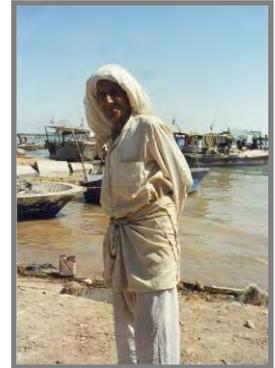


Such production and export difficulties means Iraq is not capitalising on current oil prices, although conversely high commodity prices do mean that revenues are holding up under current export rates. Iraq's revenues this year should be just over US\$20 billion but of course the call on these funds is enormous – the politicians have to juggle the social and political needs against investment for the oil sector to maintain production.

Western companies need to review the oil sector carefully; the immediate question is security and the cost and risks of supplying to the market. There are various ways to mitigate the risks, local support is an essential ingredient to doing business. The oil sector needs a whole range of equipment and services, from specialist parts to major pipeline and drilling services – many official tenders are announced at <http://www.uruklink.net/oil/> (check the “Announcement” tab) although North Oil Company (<http://www.nociraq.netfirms.com/>), South Oil Company and some other operating entities tend to advertise tenders through local networks or approach suppliers or their agents directly. Local representatives can access these opportunities.

Investment opportunities will be plentiful, at the right time. The current climate is far from stable – with new elections in December (hopefully), we would expect to see a new government in place in early 2006 for the longer term. This in turn should lead to better security, economic growth and above all the legislation to allow foreign investment. Currently many international oil companies and some contractors are working with the Ministry of Oil on oil field and more general projects; over 30 Memoranda of Understanding in various forms have been signed, many including extensive training for Iraqi personnel. These initiatives will elevate the status in Iraq of the companies involved but also will provide the ministry with a better understanding of latest technology and project management ahead of tackling the bigger projects when conditions allow.

Our thoughts are with Iraq and its people and we all look forward to the time we can resume normal friendships and good relations.



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