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The Scramble for Iraq’s ‘Sweet oil’

By Nicole Johnston

With proven oil reserves of around 112 billion barrels and up to another 150 billion barrels of probable reserves, Iraq is the greatest untapped prize for international oil companies.

To put that in context, if Iraq does turn out to have around 300 billion barrels of oil, it will rival the world's biggest producer Saudi Arabia - which has around 160 billion barrels of proven reserves.

So it is little wonder that giant international oil companies are lining up to get back into Iraq after the industry was nationalised in the 1970s and the oil majors were kicked out.

On June 30 major companies - including Exxon, Shell, BP and Total - will gather at Iraq's oil ministry in Baghdad for a two-day meeting to take part in the first bidding round for oil service contracts.

However, what the oil companies will be entitled to if they secure a contract has become one of the most controversial elements of the bidding process.

The companies want a long-term share of the oil they produce under a Production Sharing Agreement, which allows them to book reserves in advance and tell the market exactly how much oil they expect to produce.

This is exactly the type of contract that Iraqis in the oil industry are opposed to. They argue oil companies should be awarded Technical Service Agreements, meaning they will be paid solely to develop Iraq's oil fields.

Fayad al-Nema, general manager of Iraq's South Oil Company, has written to Hussein al-Shahristani, the Iraqi oil minister, outlining his company's objections.

Iraqi objections

"We in the South Oil Company, that is all of its leadership, reject the first bidding round because it is against the interests of Iraq's oil industry."

Al-Nema, and others, argue that it would serve the national interest better if foreign companies were brought in on a short-term basis only, until Iraqi firms are capable of managing and developing the oil fields themselves.

Oil workers' unions in Iraq have also spoken out against the contracts.

Hassan Joumah, president of the Federation of Iraqi Oil Workers Union, says: "Unfortunately, there are many problems with the first round of the allocation of Iraq's oil contracts, which have given huge advantages to the foreign companies to invest in Iraq's oil.

"Giving such returns to foreign companies will put Iraq's economy in the hands of foreign companies."

The Iraqi oil workers gained some concessions including establishing joint operating companies.

Under this arrangement, international oil firms will not receive a share of Iraq's oil but they will be working in the country for the next 20 years with a 75 per cent stake in the operation.

Over the last two weeks, al-Shahristani has been forced to defend the terms of the contracts before parliament.

He argues that without outside help Iraq can not boost its oil production levels, warning lawmakers: "We will not achieve our desired goals and our country will fall behind."

However, the contracts on offer are not the only controversy surrounding the exploitation of Iraqi oil.

KRG dispute

Iraq's newest oil field is not in the desert of western Iraq or the barren landscape of the south near Basra. It is in the semi-autonomous region of northern Iraq which is controlled by the Kurdistan Regional Government (KRG).

The Norwegian company DNO has already excavated the Tawke oil field in this region.

Its owners proudly show off their new field and their enthusiasm is contagious; they have discovered the type of oil Iraq is renowned for - what oil experts here call "sweet oil".

It is easy to produce and costs less than $2 to get out of the ground. Within a couple of years they hope to be exporting 200,000 barrels per day from here.

But Iraq's federal government says contracts signed by the KRG are illegal and refuses to recognise them.

The main bone of contention is who controls Iraq's oil and gas reserves.


The world's biggest oil companies have avoided signing contracts with the KRG [AFP]

The Iraqi constitution should provide the answer, but conflicting articles in the document have exacerbated the power struggle between Baghdad and the KRG over the management of these resources.

Both sides have teams of lawyers and consultants arguing that the constitution gives them the right to sign contracts and manage the resources.

Falah Kadhim Al-Khawaja, an Iraqi oil expert in Amman, says the central government in Baghdad is right.

"Based on the constitution, there is a clause that says oil and gas is the property of the Iraqi people and the central government is responsible for the budget. So the Iraqi budget is based on oil and gas revenues. How can the central government plan without having control of oil and gas resources?"

Nevertheless, the KRG has pushed ahead and signed dozens of oil contracts with foreign companies.

Interestingly, the world's biggest oil companies, Exxon, Shell, BP and Chevron, have avoided signing contracts with the KRG.

They do not want to risk the wrath of the federal government, opting instead to wait for the most lucrative contracts for the super-giant fields in the rest of the country.

Until recently, the Tawke oil field was caught in the middle of the dispute.

Since early 2009, the oil field has been ready to begin exporting around 60,000 barrels a day. Instead, the KRG told DNO to delay exporting until it the conflict with Baghdad is resolved.

So DNO filled up its main exporting pipeline with water and waited.

Pipeline politics

At the end of May, the KRG gave DNO the go-ahead to begin pumping oil out of the country through the northern Iraq-Turkey pipeline.

However, the tension between Baghdad and the KRG is far from resolved.

Ashti Hawrami, the KRG's oil minister, accuses the federal government of being "afraid of good news".

"They are afraid [that] oil flowing from Kurdistan shows Baghdad in an even worse light. They failed and this will highlight their failure even more," she says.

This is the KRG's first foray into the oil-producing business and, as Hawrami likes to remind people, the regional authorities "do not want a single penny out of it".

The oil revenues will all go to the federal government and the KRG will receive its 17 per cent share of the national budget to manage its region.

Al-Shahristani, however, insists: "Any contracts for field development that is not approved by the federal government of Iraq has no standing with the Iraqi government and the oil companies have no right to work on Iraqi territory."

The pipeline politics are likely to continue unless a deal is reached between the two parties.