# Country Report: **Iraq**
# Subject: **Energy Sector**


### (1) Iraq's Energy Sector in Context

Iraq, along with Iran, Kuwait, Saudi Arabia, Qatar and the UAE , sits atop the world's most prolific collection of geologic hydrocarbon deposits – home to some 60% of the world's known reserves. Yet as Iraq has had the fortune of its borders falling atop a large share of these reserves it would seem its borders also house the requirements for instability which has maligned the countries development for more than 30 years. The orderly production schemes of some of its neighbors notably that of Kuwait, Saudi Arabia, Qatar and the UAE have seemingly perpetually eluded the state of Iraq. Indeed, it has been a volatile and extremely reserves rich Iraq which has been at the center of three shocks to the global crude oil markets; whose underlying causes do much to explain the state of Iraq's energy sector at present.

Security Related Shock 1: 1980

The country's oil wealth, paradoxically, enabled its long time ruler to fund a military campaign to usurp Iran's Southwestern oil fields in wake of the Iranian Revolution when much of the country was in disarray. Then ensuing 1980 Iran-Iraq war was a tragedy of vast proportions and the losses sustained were not only that of lives and treasure, but seriously harmed both Iraqi and Iranian oil production installations.

Security Related Shock 1: 1992

Again in 1992, the regime of Saddam Hussein sought to overwhelm the oil fields of a neighboring state – in this instance those of Kuwait. The event alarmed oil consumers beyond the Gulf culminating in the mobilization of the United States military. Saddam's army was quickly repelled and fears that Saddam's military machine might continue further than Kuwait and into the oil fields of Saudi Arabia were averted. This however marked the start of a large American troop presence in the heart of the Arab world. In both instances (the Iran-Iraq war and the 1st Gulf war) production levels severely contracted in the aggressor state as well as in the state of the victim. The consequences for the oil and gas sector have resulted in damage to oilfields, constrained future oilfield investment, and export restrictions. Indeed, it has been a turnaround following these years of violence that has seemed to elude Iraq with more than 30 years passing before it was again able to reach production heights achieved just before the Iran-Iraq war (more on this in section 2).

Security Related Shock: 2003

The overthrow of the Baathist regime of Saddam Hussein, while effectively curtailing Iraq from engaging in military offenses towards its oil rich neighbors has brought with it its own set of challenges. Belligerence outward has perhaps distracted world opinion from the fault lines present within the country. In the face of removing the monopoly on force, the internal divisions within the country were exacerbated bringing the security challenge to the fore and severely compromising the notion of an Iraqi state (the present state of affairs is discussed extensively in section 4).


*Figure 1: Iraqi Oil Production since 1965*

The energy sector of any country, be it upstream oil and gas exploration activities, producing, transport, refining and electricity generation require high levels of investment, invested over long time horizons. The health of this sector directly tracks the countries development. Iraq's population currently stands at 34.8 million persons and the stabilization of the oil and gas production in the country, which will enable a production ramp up, is key to improving both global energy market stability but also the standard of living of Iraqis. Iraq is highly dependent on export revenues from its oil and gas exports. In 2011 for example, oil revenue accounted for around 95% of government income and was equivalent to more than 70% of Iraq's GDP. These figures are high even by the standards of other resource-rich countries in the Middle East (see figure 2). These figures, while problematic in themselves, demonstrate the importance of the hydrocarbon sector to Iraq and at least the initial phase of its development if it is to move in the direction of some of its affluent neighbors.

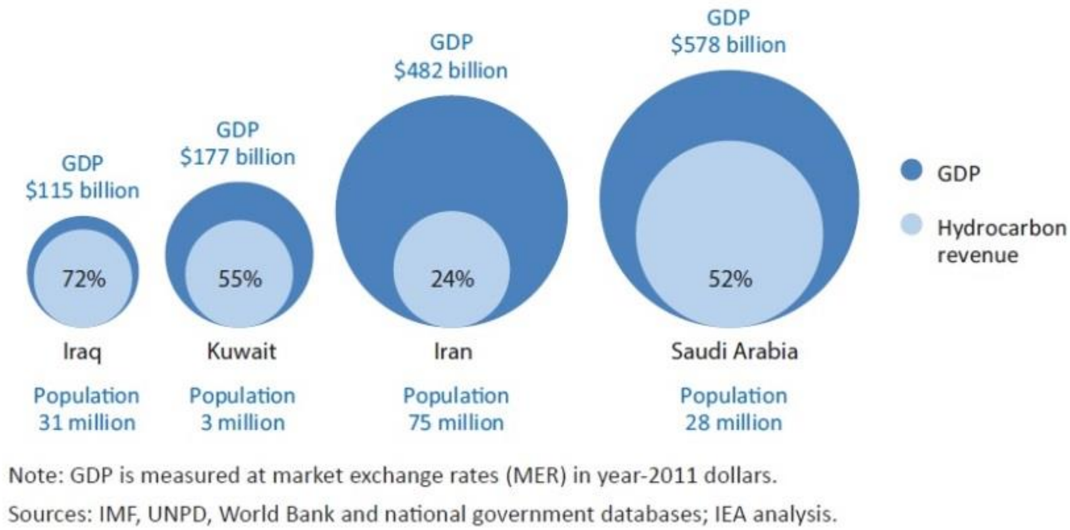



*Figure 2: Oil Revenue as % of GDP in 4 Gulf Countries.*

**(2) Oil and Gas**

The successive episodes of violence and instability which have stunted the growth of Iraq's oil production mean that the country remains a frontier space in the global oil supply picture – both in terms of rehabilitation and extension of existing production infrastructure, and the potential for new finds when exploration resumes in earnest. The degree to which Iraq has been absent from modern production capability is illustrated by the fact that it has only in March 2014 achieved its historical peak of production previously achieved in 1979 – an average of 3.5 mb/d.

Iraq's hydrocarbon reserves are truly enormous and its historical production in no way reflects its actual production potential (more on this is section 2). It is the combination of its great geologic potential and persistent suppression of exploitation which has prompted the IEA in 2012 to focus a major portion of their flagship publication, the World Energy Outlook, on Iraq in particular (see Iraq Energy Outlook 2012). Thinking in 2012 may have been that the influx of foreign capital and expertise evident in a string of ambitious contracts proved the ability of the new Iraqi state to accommodate intensive production plans, a circumstance which eluded Iraq for many years.

On the basis of an examination of 46 major Iraqi fields, the IEA concludes that – if all proceeds according to the current envisaged schedules as dictated in existing contracts – oil production capacity in Iraq could technically reach 14.6 million barrels per day (mb/d) by 2020. The IEA's central scenario however posits that oil production would more likely increase by approximately 6 mb/d in 2020 and 8.3 mb/d by 2035. These anticipated production increases are expected to be driven mainly by super-giant fields in the south (discussed in section 2.2). These estimates formulated in 2012 have since been revised due to a range of explanatory factors elaborated upon in this country report. These may further be revised in the advent of the present security situation prevailing in the country (see section 4).

Iraq is also a major gas reserve holder despite its gas production distinctly lagging behind its oil production levels. According to estimates of both Oil & Gas Journal and BP, Iraq's proven dry natural gas reserves as of 2010 were 3.17 trillion cubic meters. Although, compared to neighbors such as Iran and Qatar, and even Saudi Arabia, Iraq's reserves are relatively small. However, these reserves are still enormous by global standards as they are the tenth-largest reserves in the world, larger than those of Norway and the United Kingdom combined. Most proven reserves are in the well-explored Southern region, which is where most of Iraq's gas is produced from associated fields[1] that are mainly exploited for their oil. Another 9% is dome gas mainly in the northern oil field of Jambur and the remaining 20% is free gas contained in nine gas fields located mainly in northeastern Iraq. Among non-associated fields, only one is currently producing: the al-Anfal field at about 5.7 million cubic meters per day. After an earlier gas bidding round for three large non-associated fields that was unsuccessful in the end, a new round commenced in October 2010 (Oil and Gas bidding rounds are discussed in detail in section 2.2.A).

Natural gas production is important for electric power generation and industry, but much of the gas produced in associated fields is simply flared in the process of oil production. Flared gas in Iraq averaged at least 20 million cubic meters per day in 2010. This represents about 32% of total daily gas production. According to a report issued by the U.S. National Oceanic and Atmospheric Administration (NOAA), Iraq was the fourth largest natural gas flaring country in 2010. This is an economic waste as natural gas could do much to improve the efficiency of electrical generation and increase oil revenues to the state, as Iraq like many other Middle Eastern countries produces electricity from oil effectively paying a premium for electricity as those oil revenues are foregone.

In summary, Iraq's ambition to expand its oil and gas output over the coming decades is not limited by the size of its hydrocarbon resources nor by the costs of producing them, which are among the lowest in the world. Rather it is the ability of the state to cooperate with industry to see scheduled investments through to completion – with all the security and political confidence that requires. Contracts and field development plans to date (see section 2.2.A.) certainly imply an extraordinary increase in production. But how these plans evolve in practice is determined by the speed at which impediments to investment and other production constraints are removed, clarity on the legal arrangements between Baghdad and the KRG are reached and security

[1] An associated field is one where oil and natural gas both exist in separate layers. Extracting gas for use from such fields can be more complicated and expensive than extracting gas from non-associated fields, yet in order to get at the oil, the gas must be removed, and this is often done by means of flaring it. Note that although most associated fields are in the south, there are a few in the north, such as the Kirkuk field.

requirements are met -- requirements which so far have only been partially met and whose permanence is in doubt.

**(2.1) Present Iraqi Legal Environment and role in OPEC: Political-Economic Nexus**

The nexus between politics and hydrocarbon production in Iraq is apparent primarily in the interaction of oil production with the vagaries of the Iraqi state and secondly in regard to its position within the OPEC cartel. Iraq has however been outside of the OPEC quota system[2] for many years, given that the sanctions regime, war, and insurgency meant that Iraq was not able to achieve production in line with its reserves like the other OPEC member countries.

From the historical point of view, Iraq is one of the first countries in the region to nationalize its oil and gas producing infrastructure in 1972 inaugurating the INOC (Iraq National Oil Company). From that point until the fall of Iraqi dictator Saddam Hussein in 2003, Iraq has had very little foreign company involvement. With the overthrowing of the Baathist regime, ownership changes and operating practices ensued in line with the political reorganization in the country.

The current legal framework for the energy sector operates within the overall boundaries established by the 2005 constitution, which establishes a federal democratic system of governance, with the Kurdish Regional Government (KRG) area accorded the status of a federal region. The key institutions for the energy sector in Iraq are the Ministry of Oil (for the hydrocarbons sector) and the Ministry of Electricity (for the power sector), which both report to the Deputy Prime Minister for Energy. These ministries combine policy making, regulatory and operational functions, including – in the case of the Ministry of Oil – direction and supervision of regional state-owned oil production companies (the South Oil Company in Basrah, the North Oil Company in Kirkuk, the Missan Oil Company in Missan, the Midland Oil Company in Baghdad), the State Oil Marketing Organization (SOMO), which manages the exports and imports of crude oil and oil products, and the South and North Gas Companies, which process gas.

The delay in passing comprehensive hydrocarbon laws spanning Iraq more broadly (concerning especially the KRG) means that for the moment a federal system of resource development (based on technical service contracts) co-exists uneasily with the approach followed by the KRG (based on production-sharing contracts consistent with its own legislation from 2007), whose legitimacy has on multiple occasion been contested by the federal government. The proposal of the so called 'Hydrocarbon Law', which would govern contracting and regulation, has been under review in the Council of Ministers since October 26, 2008, but has not received final passage. Despite the

[2] OPEC has a system of production quotas, different for each country in line with its reserves and level of petroleum development, which member countries are not supposed to exceed in order to restrain global supply and maintain crude oil prices. When countries exceed their production quotas, but do not admit doing so, this is called "cheating."

absence of the Hydrocarbons Law however, the Iraqi Ministry of Oil signed long-term contracts beginning in 2008 with international oil companies (discussed in section 2.2.A). Indeed, it has been basic progress in this space that has realized production gains in Iraq previously eluded under the Baathist regime.

As a ramp up in Iraqi production ensues, concerns over its future role within OPEC can be entertained. If Iraq were to rejoin OPEC's quota system at some time in the future, then-Oil Minister al-Sharistani has commented that that would not occur until Iraqi crude oil production reached at least 4 million barrels per day (mbbl/d). As stated by the then oil minister in October 2010, "[We] think Iraq has been deprived of its fair share of the world energy market, oil market, for many years, and has to be compensated in addition to its reserves and production capacity."

**(2.2) Upstream (Production, Reserves and Exploration)**

Iraq revised its estimate of proven oil reserves from 115 billion barrels in 2011 to 141 billion barrels as of January 1, 2013, according to the Oil and Gas Journal. The new reserve estimate gives Iraq the fifth-largest proven oil reserves in the world and the third-largest conventional[3]

[3] Conventional here meaning excluding what are commonly referred to as "tar sands" or "oil sands" – bitumen mixed with earth that can be extracted with unconventional techniques and turned into synthetic crude oil with special processes. Canada and Venezuela have enormous reserves of these tar sands, and so, including these with their conventional reserves, will also be among the largest oil reserve holders in the world.

proven oil reserves after Saudi Arabia and Iran. According to data from the Ministry of Oil, Iraq's proven reserves are spread across 66 fields, with total oil-in-place at these fields exceeding 500 billion barrels.

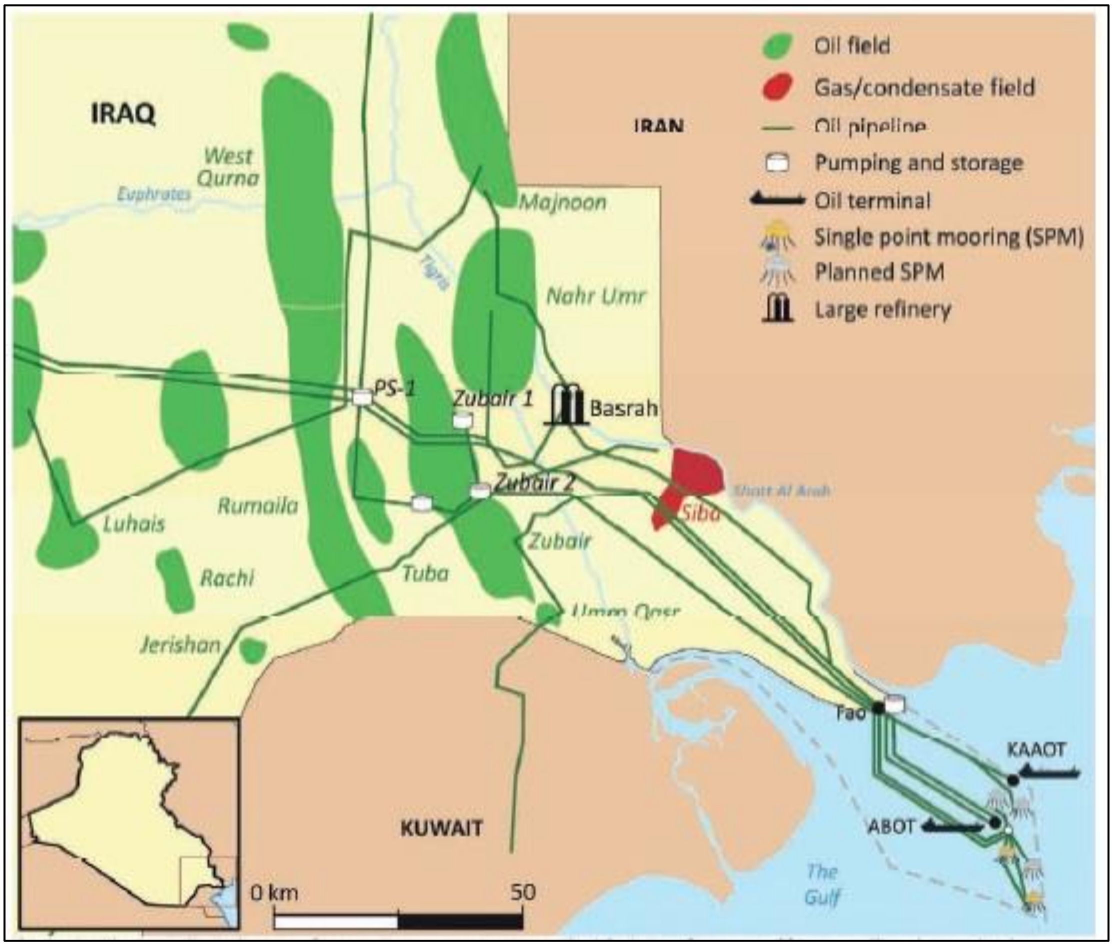

*Map1: Major Fields and Infrastructure in Iraq*

Among the 66 known oil fields, only 20 fields are currently producing. Included in these fields are several – exceptionally rare -- supergiant (more than 5 billion barrels reserves) fields:

- West Qurna (43 bln bbls reserves, South)
- Rumaila (17.3 bln bbls reserves, South)
- Majnoon (12 bln bbls reserves, South)
- Kirkuk (9 bln bbls reserves, North)
- East Baghdad (8 bln bbls reserves, Central)
- Nahr Umr (6 bln bbls reserves, South)
- Halfaya (close to supergiant with 4.1bln bbl reserves, South)

- Zubair (close to supergiant, with 4 bln bbl reserves, South)

The Rumaila field, located in the South East of the country (Basrah Governorate), is the largest contributing field in the country producing some 1.3 mbbl/d in 2012.West Qurna, Zubair and Kirkuk (located in the North of the country) are also significant contributors. Incidentally, Rumaila, West Qurna, Zubair, Majnoon and Nahr Umr -- all concentrated in the Shia majority South East of the country account for 60% of the total proven reserves for the territory of Iraq.

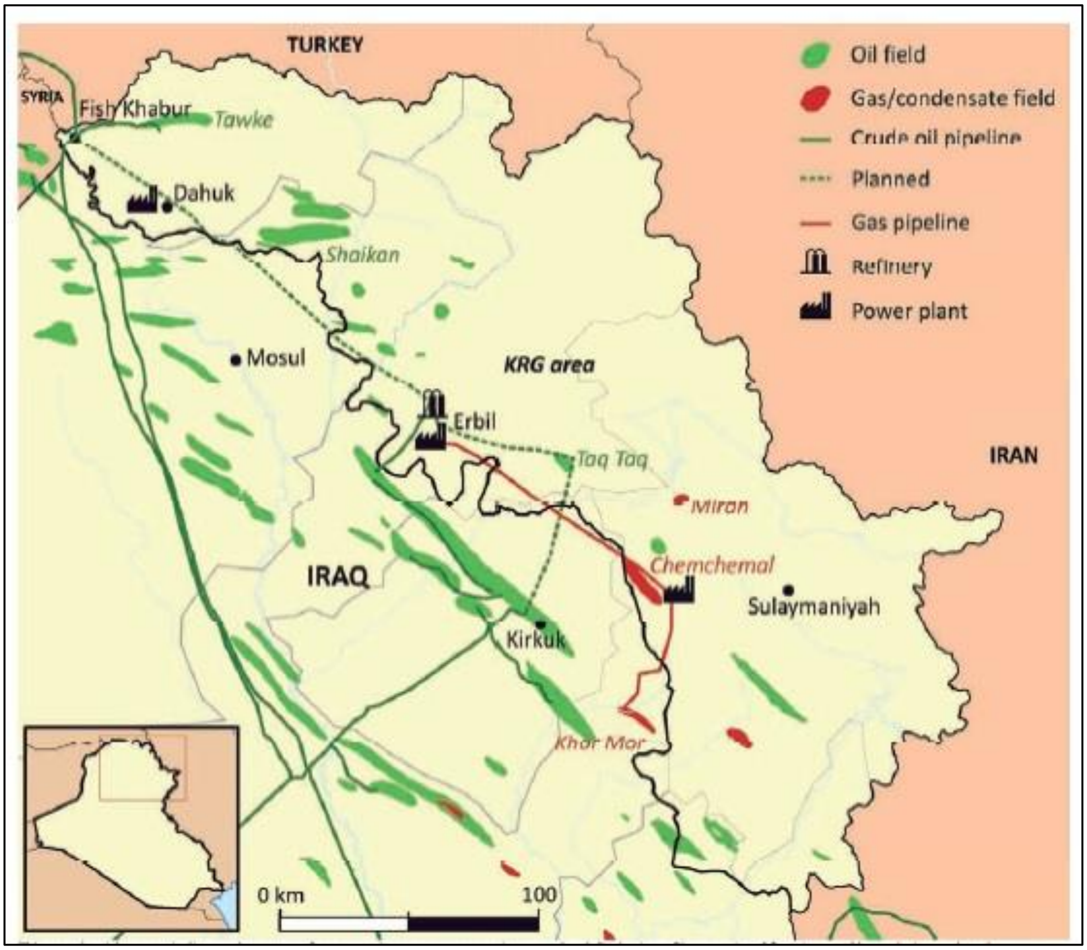



*Map2: Major Fields and Infrastructure in the South of Iraq*

The southern fields are all located within easy reach of coastal export facilities, keeping the primary export pipelines relatively short (See map 2). Such proximity to an international port is an important consideration not only for getting the crude to market, but also for bringing in equipment, in this case via the Shatt Al-Arab waterway that extends up from the Gulf to beyond Basrah. This ease of access is in marked contrast to the logistical difficulty of bringing heavy equipment to many other parts of the world, for example to the Caspian region or to fields in northern Russia.

The supergiant fields being developed in the south are some of the largest in the world, bringing large economies of scale to their exploitation. Moreover, the geology is relatively uncomplicated when compared with major ongoing projects elsewhere in the world, for example the Kashagan field in Kazakhstan, where the reservoir is deep and at very high pressure, or deepwater pre-salt developments in offshore Brazil. Iraq's fields are all onshore and, as in the case of the fields around Basrah, are often located in relatively unpopulated and flat terrain, reducing the costs of wells, pipelines and other facilities.

The north of Iraq is highlighted by the supergiant Kirkuk field and those fields falling within the jurisdiction of the KRG. The KRG has stated that oil resources in the region amount to 45 billion barrels and due to favorable contract terms is a subject of interest for many foreign operators.




*Map3: Major Fields and Infrastructure in North (including KRG) Iraq*

There are currently five fields that are producing under contracts awarded by the KRG: Tawke, Taq Taq, the Khurmala dome of the Kirkuk field, Shaikan (early production) and condensates from the Khor Mor gas field (Map 3).

Iraq's largest reserves are located in the south of the country near the Persian Gulf, and in the north near the city of Kirkuk, however, there are smaller fields in parts of the country, the sole exception being the west of the country (Anbar). Given that the largest production commitments were volunteered by international companies during the licensing rounds and subsequently incorporated in binding technical service contracts, the Ministry of Oil has solid grounds to expect large increase in production capacity from fields covered by technical services contracts alone. This, and progress to date, is addressed in the next section.

### (2.2.A) Foreign Oil and Gas Company Activity

There is no definitive answer as to what role the nation's oil wealth played in the U.S.-led invasion of Iraq in March 2003 and the subsequent overthrow of the Ba'athist regime of Saddam Hussein. However, it was hard not to expect an increased amount of Iraq's oil being developed by foreign oil companies when Iraq's oil fields were no longer under the control of Saddam's regime. As such, it is difficult to imagine that is was not at least a motivating factor given global economic interest in increased oil and gas production and the frustration with Saddam's regime in this respect.

With preliminary outlines of government having been established in 2005, the planned pull out of American forces and decreased security risk with respect to the insurgency, field development contracts were put up for auction. Under the first phase, companies bid to further develop giant oil fields that were already producing. Phase two contracts were signed to develop oil fields that were already explored but not fully developed or producing commercially. Together, contracts for both phases cover oil fields with proven reserves of over 60 billion barrels. If these fields were developed as initially planned, they would increase total Iraqi production capacity to almost12 million bbl/d, or about 9 million bbl/d above 2012 production levels. However, as has become clear, contract implementation has had its share of challenges. Iraq has since held a third bidding round for natural gas fields, and a fourth round for fields that contain predominantly crude oil. Nineteen technical service contracts have been awarded by the federal government to date, each to consortium led by an international operating company. One of Iraq's state-owned operating companies is present with a 25% stake in each of these consortia. The results of the rounds are detailed below:

**Licensing Round 1 (Brownfield: June, 2009)**

| Field/Licensing Block | Operator(s) | Initial Target[4] Production | June 2012 Production | Plateau Target Production |
|---|---|---|---|---|

[4] Key parameters of the technical service contracts are the initial target production and the plateau production commitment ("plateau target"). Technical service contracts and production-sharing contracts are among the instruments used by major resource holders to develop their oil and gas with foreign assistance. At their core, the difference is that technical service contracts provide a fee per barrel of oil produced to the contractor as remuneration for work done (although the timing and nature of this remuneration can vary considerably), while production-sharing contracts provide returns based on the value of the oil/gas found or produced.

| | | | | |
|---|---|---|---|---|
| Rumaila | BP, CNPC | 1173 kbbl/d | 1279 kbbl/d | 2850 kbbl/d |
| West Qurna I[5] | ExxonMobil, Shell | 268 kbbl/d | 417 kbbl/d | 2825 kbbl/d |
| Zubair | Eni, Occidental | 201 kbbl/d | 225 kbbl/d | 1200 kbbl/d |
| Missan Group | CNOOC, TPAO | 97 kbbl/d | 91 kbbl/d | 450 kbbl/d |

Production in 2010 averaged around 2.36 mbbl/d. Production has since increased on the back of these contracts. In fact, four projects (Ahdab, Rumaila, West Qurna Phase I and Zubair) have already reached the initial threshold production collectively producing 2.05 mbbl/d – the lion's share of daily production. The Ahdab was separately awarded to Petrochina in 2008 with initial target production set at 25 kbbl/d, June 2012 production achieving 129 kbbl/d with plateau target set at 140 kbbl/d.

**Licensing Round 2 (Greenfield: Dec, 2009)**

| Field/Licensing Block | Operator(s) | Initial Target Production | June 2012 Production | Plateau Target Production |
|---|---|---|---|---|
| West Qurna II | Lukoil, Statoil[6] | 120 kbbl/d | - | 1800 kbbl/d |
| Majnoon | Shell, Petronas | 175 kbbl/d | 21 kbbl/d | 1800 kbbl/d |
| Halfaya | CNPC, Petronas, Total | 70 kbbl/d | 34 kbbl/d | 535 kbbl/d |
| Garaff | Petronas, JAPEX | 35 kbbl/d | - | 230 kbbl/d |
| Badra | Gazprom, KOGA, Petronas, TPAO | 15 kbbl/d | - | 170 kbbl/d |
| Qairayah | Sonangol | 30 kbbl/d | 2 kbbl/d | 120 kbbl/d |
| Najmah | Sonangol | 20 kbbl/d | - | 110 kbbl/d |

In most cases, the bidding process and hard bargaining has been followed by contract implementation, but some companies have explicitly or implicitly reviewed their positions in the south. Statoil has sold its stake in the West Qurna Phase II project. ExxonMobil, operator of the West Qurna Phase I project, has engaged to pursue exploration opportunities in the KRG area, as have Total (part of the consortium for the Halfaya field with Petrochina) and GazpromNeft. Exxon's decision to invest came just weeks before an end-of- December deadline for the US to withdraw its troops from Iraq. The federal government has made it clear that no company with activities in the KRG area is allowed to bid in the national licensing rounds for projects in the rest of Iraq, but the implications for companies with existing contracts are not clear. Regardless, later rounds have demonstrated strong interest for production sharing agreements in the KRG.[7] The KRG has effectively challenged the authority of the national government when it signed oil

[5] Exxon Mobil was asked by Baghdad to choose between this project and its projects in the KRG prompting Exxon's decision to try and leave the project in 2011.
[6] Statoil exited this project in March 2012.
[7] 'Iraq's Appeal Wanes for Oil Majors' (March, 2013): http://www.ft.com/intl/cms/s/0/c51d29fc-85c4-11e2-9ee3-00144feabdc0.html#axzz3INThVez2

production sharing agreements with ExxonMobil to develop 6 blocks in northern Iraq, some of which are in disputed border areas. Exxon's move is especially poignant in that ExxonMobil is the company that led the first US consortium to re-enter Iraq's oil industry in more than 30 years in 2009 by agreeing to develop the giant West Qurna I field. Other supermajors such as BP and Royal Dutch Shell have held back from signing contracts for fear of antagonizing Baghdad, which has said it believes the contracts to be illegitimate.

Indeed, Exxon's (announced) intention to pull out of the massive West Qurna I project[8] underscores the tensions in dealing with Baghdad and the displeasure with contract terms of some prominent supermajors compared with those offered in the KRG. The KRG has awarded around 50 contracts for hydrocarbon exploration and development, mostly to medium-size international companies. Since 2010, some large international oil companies have started to acquire licenses in KRG including Murphy Oil and Marathon in 2010, followed by Hess, Repsol and ExxonMobil in 2011, and stakes in existing licenses acquired by Chevron, Total and GazpromNeft in 2012. Most recently Genel has seriously entered talks with the KRG.

**Licensing Round 3 (Gas Fields: 2010)**

| Field/Licensing Block | Operator(s) | Initial Target Production | June 2012 Production | Plateau Target Production |
|---|---|---|---|---|
| Akkas | KOGAS, KazMunaiGas | 1.03 bcm | - | 4.1 bcm |
| Mansuriyah | Kuwait Energy, KOGAS, TPAO | .78 bcm | - | 3.1 bcm |
| Siba | Kuwait Energy, TPAO | .26 bcm | - | 1.0 bcm |

**Licensing Round 4 (May, 2012)**

| Field/Licensing Block | Operator(s) | Initial Target Production | June 2012 Production | Plateau Target Production |
|---|---|---|---|---|
| Block 8 | Pakistan Petroleum | n/a | - | n/a |
| Block 9 | Kuwait Energy, Dragon Oil, TPAO | n/a | - | n/a |
| Block 10 | Lukoil, Inpex | n/a | - | n/a |
| Block 12 | Bashneft, Premier | n/a | - | n/a |

[8] 'Exxon looks to quit Iraq Oilfield' (Nov, 2012): http://www.ft.com/intl/cms/s/0/aba9f240-2906-11e2-86d7-00144feabdc0.html#axzz3INThVez2

Previous to the latest security problems (see section 4), Iraq as a whole faced steep challenges in meeting its ambitious production targets set forth in the above contracts due to the infrastructural requirements to realize the massive increases in production. This has resulted in Baghdad reducing its 2020 production target to 8.5-9 mbbl/d. The central government initially expected production to reach 12 mbbl/d from its giant fields alone, slated to be developed in licensing rounds 1 and 2. These estimates however have been written down as of June 2014 given revisions to contract terms. A final agreement has been reached with Eni to lower the production target for Zubair field to .85 mbbl/d by 2020 versus the 1.1mbbl/d target by 2017. Lukoil has reduced its terms for West Qurna II to 1.2 mbbl/d from 1.8 mbbl/d. BP and CNPC have in principle agreed to cut the production target for the giant Rumaila field to 2.1 mbbl/d from the original 2.8 mbbl/d by 2020. Revisionary negotiations for West Qurna I and Majnoon are currently underway. The contracts for the smaller fields are not expected to change barring those facing security challenges. Angolan state oil company Songangol has exited its contracts for the Najmah and Qayara fields in Nineveh, which borders Anbar province citing security risks.

**(2.3) Mid-Downstream (Refining, Transport and Export Capacity)**

Oil and gas available at the well head says little about 1) takeaway capacity and 2) refinery capacity, which effectively covers the ability to bring crude oil to market and the ability to transform crude into usable products. The range of oil products produced by Iraq’s refineries falls well short of its domestic needs and of the possibilities afforded by modern, more complex refineries.

**(2.3.A) Iraqi Refinery Capacity**

Iraq has four major refineries, as well as a number of very small refineries that are only capable of simple operations. The main refineries, from largest to smallest processing capacity are:

(i) Baiji – 310,000 bbl/d
(ii) Basrah – 150,000 bbl/d
(iii) Daura – 110,000 bbl/d
(iv) Erbil – 40,000 bbl/d

This makes for a total capacity of 610,000 bbl/d from these four, plus probably less than 100,000 from the other seven low-complexity refineries[9].

**(2.3.B) Main Pipeline Infrastructure**

Iraq has one major operational crude oil export pipeline, the Kirkuk-Ceyhan (Iraq-Turkey) pipeline, which transports oil from the north of Iraq into Turkey's Mediterranean port of Ceyhan.

[9] The Iraqi government has stated that total refining capacity, under optimal (“nameplate”) conditions is 750,000 bbl/d, though most analysts peg it at somewhat lower.

This pipeline route consists of two parallel pipelines with a combined nameplate capacity of 1.65 m bbl/d. However, only one of the twin pipelines is operational. The maximum available capacity along this route, according to the Ministry of Oil, is 600 kb/d, much less than the nameplate capacity of 1.65 mb/d. Assuming full capacity, in order for it to be reached Iraq would need to receive oil from the south via the Strategic Pipeline or ramp up production northern production 3 fold. The strategic pipeline has been offline as it is also in need of repairs and is currently subject to significant sabotage risk. Iraq and Turkey have held discussions on increasing pipeline capacity along this route but implementation timelines are unknown and the current risks are yet to be addressed.

The Kirkuk-Banias Pipeline, with a design capacity of 700,000 bbl/d, has been closed and the Iraqi portion has been unusable since the 2003 war in Iraq. Discussions were held between Iraqi and Syrian government officials about re-opening the pipeline. The Russian company Stroytransgaz expressed interest in repairing the pipeline, but this plan has not moved forward. Furthermore, given the civil war in Syria (see country report Syria) it does not appear such a plan is feasible in the medium term. The 1.65-million bbl/d Iraq Pipeline to Saudi Arabia (IPSA) has been closed since 1991 following the first Gulf War and there are no plans to reopen this line.

There have also been several other notable proposals to increase flows from northern oil fields and to diversify away from reliance on the Basrah port. The Kurdistan Iraq Crude Export (KICE) pipeline has been proposed to transport 420,000 bbl/d of crude oil from fields in the KRG to the border with Turkey, where it may subsequently link up with the Kirkuk-Ceyhan pipeline. The southern pipeline proposal is in two phases. The first phase consists of building a 2.25-million bbl/d pipeline from Basrah in the south of Iraq northward to Haditha in Iraq's Anbar province. From there, Iraq has proposed building a 1-million bbl/d crude oil pipeline from Haditha to Jordan's port of Aqaba on the Red Sea. Given the security situation in the country and in neighboring Syria, this pipeline no longer seems feasible in the medium term.

### (3) Electricity

Iraq’s power supply is only able to meet about 60% of the country’s needs (with some 20% of the population having no access to electricity), though the availability of supply varies somewhat by area and by season. The Kurdish region now has 1,250 MW of power, but the rest of the country has about 4,800 MW when plants are functioning properly. Up to 1,000 MW is imported from Syria and Iran, with Syrian imports down given the civil war raging in that country.

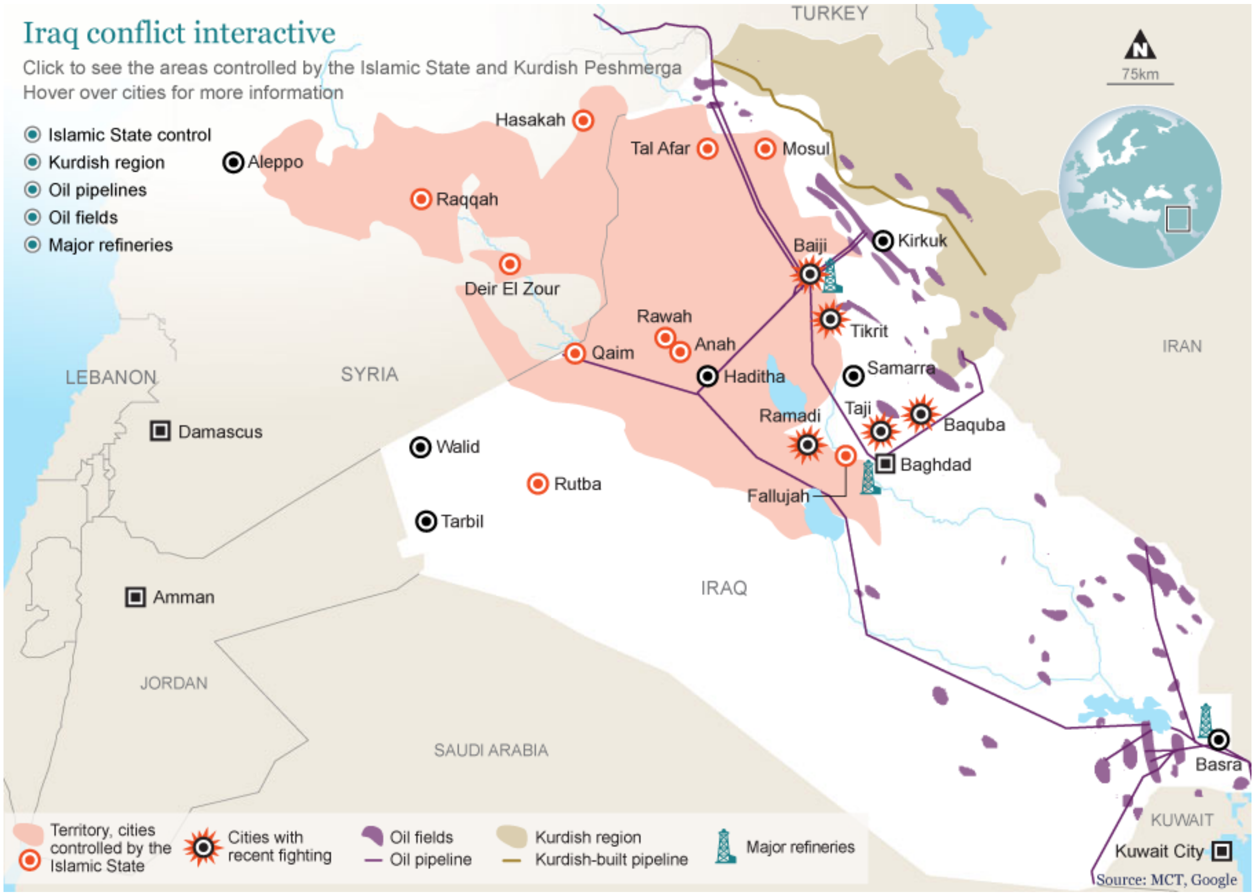
With the outlines of Iraqi production infrastructure, production plans and state organs responsible for production in place, we can move onto the current issues pressing on production forecasts. These are addressed in the next and final section.

### (4) Security Issues and the Threat to Iraq’s Energy Sector

Since ISIS (Islamic State of Iraq and al Sham) militants crossed into Iraq initiating a campaign to seize Iraqi territory from their base in Raqqa, Syria on June 9th, questions have arisen over the nature of yet another incarnation of Iraqi insurgency and the threat it poses to Iraq's development and its oil fields. The present situation however differs in several important respects from the previous insurgency that took off following the toppling of the Iraqi dictator in 2003. For a start, the present insurgency does not simply have its roots in domestic unrest with the stated aim of ousting an occupying force. Rather the source of this insurgency stems from (i) the power vacuum in Syria with whom Iraq shares a large border to the west (for more information, see country report Syria), (ii) general terrorist movements that thrive in the chaos of war zones and (iii) divisive politics on the part of a non-equitable central government in Baghdad. To be sure, removal of the Baathist regime alone exposed the gapping fissures hidden under the surface of Saddam's tight security apparatus. The ensuing sectarian violence was in some sense a predictable outcome had the sectarian divisions in Iraq been properly understood, as well as how they might have been severely exacerbated in light of the collapse of rule of law that the invasion brought. In this sense, the Al Qaeda in Iraq (AQI) movement can be viewed as a consequence of the invasion as its existence could hardly have materialized otherwise.

However, the years following the pull out of American troops have quelled the uprising of Shia militias ardently opposed to a non-Muslim military presence in the country. But the Sunni rooted movement on the other hand has persisted and even grown. This can be attributed to the terrorist inclinations of the hardcore AQI group but also to the de facto statelessness persisting in western Iraq and then later Syria. For the terrorist cell, one state collapse (Iraq) was followed by another (the Syrian civil war, beginning in 2011 and raging to the present day) among a beleaguered and in some instances repressed population. In the apocalyptic environment of years of war AQI has shifted from an insurgent group battling American military patrols into a cross border entity approximating a state; a state purporting to represent the interests of an oppressed Sunni Arab population while simultaneously upholding a pure form of Islamic government. The ISIS media stunt of bulldozing a stretch the Syria-Iraq border declaring an "end to the Sykes-Picot agreement" and the advent of a new Caliphate after seizing Mosul (Iraq's second most populous city), Tikrit and the Baiji oil refinery (Iraq's largest, see section 2.3.A) marked a new chapter in the history of the region.

The present situation thus reflects a much deeper issue than insurgency. It questions the future of Iraq as a state – but also that of Syria and how the world may deal with elevated terror threats from the world's first ever Islamic terrorist state. The map below shows the presence of ISIS forces just prior to the beginning of US led coalition airstrikes in which approximately one third of Iraqi territory is under direct or indirect ISIS control.

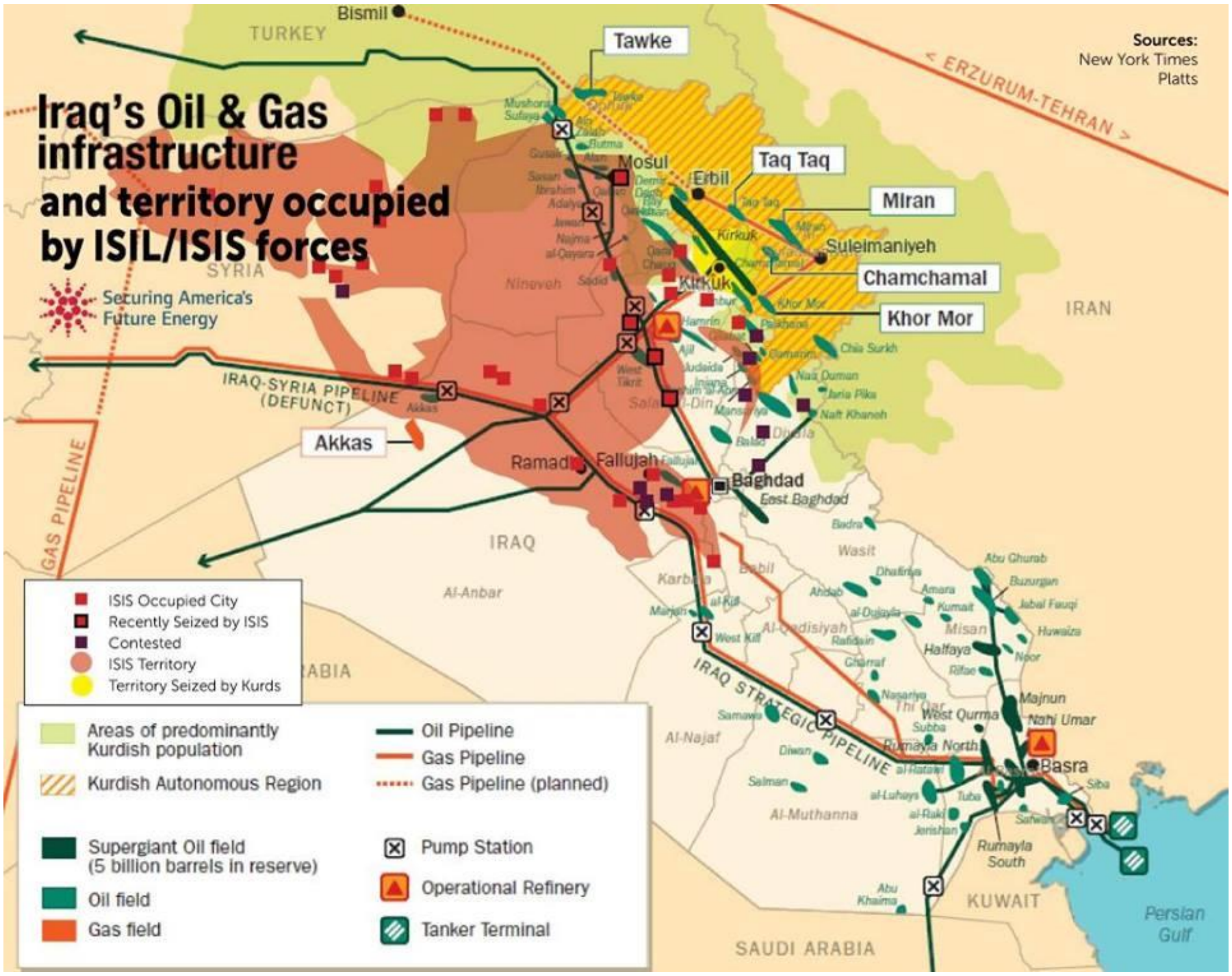



*Map 4: Direct and Indirect ISIS Control with Present Conflict Zones Highlighted*

### (4.1) Oil and Trends Toward de facto Statehood in the Levant

The future of the Iraqi state is intricately wrapped up in the question of its oil wealth. With a war being fought against ISIS on what is effectively two oil rich fronts -- controlled on the one hand by a semi-autonomous Kurdish population in the north  and on the other by a largely Shia population in the south -- the former business as usual situation of bickering over oil revenues is rendered as a secondary consideration. Much more pressing is solving the situation on the ground, which is a matter of (1) immediately addressing the fight against ISIS and (2) financially sustaining the military resistance but also the fiscal plans of the respective regions. In the case of Baghdad's fiscal situation, this also means addressing the grievances of the marginalized Sunni population currently exposed to ISIS in Iraq's western province or risking losing it. The manner in which these two challenges are addressed will effectively seal the fate of the Iraqi state. That is, what hangs in the balance is whether Iraq will continue the de facto trend of fracturing into a Kurdish northern state (incorporating Syrian Kurds on Iraq's northwest border as Syria fragments; see Country Report Syria) and a predominantly Shia state with the ISF (Iraqi Security Forces) as a sectarian instrument alongside the militias or will the unity government elected in April bring entire Iraq together around the fight against ISIS.

As the Kurds fight ISIS in the north the incentive to break away from Baghdad is not trivial. With a limited ISF presence in the north the Peshmerga (Kurdish military) have seized Kirkuk and hence the supergiant Kirkuk oil field (see map, particularly territory seized by Kurds).




*Map 5: ISIS and KRG control with the Kirkuk Field Seizure Highlighted*

Its truck export route to Jordan through Anbar (typically moving 10,000 bbl/d) has been cut due to the ISIS presence but some 15,000 bbl/d of condensate and 20,000 bbl/d of crude oil are being exported to Turkey by truck. Furthermore, the KRG is also looking at building its own pipelines to export crude oil directly via Turkey, bypassing the national export pipeline system. Although Turkey has not officially agreed to this plan, Genel Energy plans to build the 420,000 bbl/d Kurdistan Iraq Crude Export (KICE) pipeline (discussed in section 2.3.B) that will connect its fields in the Kurdish regions in northern Iraq to the border with Turkey. In addition, the KRG has explored supplying natural gas to Turkey.

In recent weeks however, the heated environment spurring the Kurds towards an exit from Iraq has been tempered. Simply because the Kurds face a hard choice: leaving Iraq means losing revenues from the central government which would be disastrous in the near term. That's because an independent Kurdistan would make less than $7 billion per year — almost a third less than they received when given just 12 percent of Iraq's total oil revenues. This is not economically sustainable, especially at a time when Mr. Barzani's government faces the added financial strain of aiding beleaguered Syrian Kurds while the Kurdistan region becomes a dumping ground for the rest of Iraq's problems. With nearly two million internally displaced persons now in Iraq — the majority in Kurdish territories — the KRG is facing a fiscal burden of almost $300 million per month alone. To make matters worse, the recent decline in oil prices means the Kurds will now need to produce up to twice as many barrels per day to break even and sell them at market prices. (Until now, the KRG has sold oil at heavy discounts mainly because traders views buying KRG oil as a risk in the face of legal objections from Baghdad.) In Erbil, the lack of petrodollars coming from Baghdad — and too little coming from the sale of Kurdish oil — has left a phalanx of civil servants, including 180,000 Peshmerga fighters, without salaries for months.

Perhaps spurred by the situation, last week the government of Iraq and KRG inked a deal to ease tensions over Kurdish oil exports and civil service payments from Baghdad. Hoshiyar Zebari said the central government had agreed for the time being to resume payments from the federal budget for Kurdish civil servants' salaries. Zebari, who is a Kurd, described the step as a "major breakthrough" that would reduce friction between the KRG and Baghdad. He said the payments would cover October (previously outstanding and a major source of contention) and then November. The deal was reached after talks between Iraqi Oil Minister Adel Abdel Mehdi and Kurdish Prime Minister Nechirvan Barzani in the Kurdistan region on Thursday. Under the agreement, Iraqi Kurdistan will give 150,000 barrels per day of oil exports - equal to around half its overall shipments - to the federal budget. What appears to be happening is that the KRG is taking advantage of Iraq's new unity cabinet that includes Shiites, Sunnis and Kurds. Perhaps the legacy of Iraq's former oil Minister, Hussain Al-Shahrastani, who pursued an aggressive centralized oil policy that the Kurds perceived as negative, is fading. The appointment of Adil Abdul Mehdi as the new oil minister has helped sway the Kuds as he enjoys close relations with Barzani's party. Finally, 17 percent of Iraq's oil and gas revenues are slated to be sent to Erbil if a longer term agreement can be reached, which in light of the development plans for the fields in Basra, is a share of a large pie.

Unsurprisingly energy also figures prominently in the activities of the so called Islamic State (IS) or ISIS. Territory currently controlled by ISIS in Iraq is predominantly in Anbar province in the west of Iraq, which in terms of reserves, pales in comparison to the Kurdish controlled north and predominantly Shia controlled south in terms of oil and gas reserves. Nevertheless, oil is to be found in territories controlled by ISIS in both Iraq and Syria. Maplecroft, the risk management firm, estimates that ISIS now controls six out of 10 of Syria's oilfields, including the big Omar facility, and at least four small fields in Iraq, including those at Ajeel and Hamreen. Revenue streams associated with illicit production are aided by the long standing networks of black market oil sales in the leant. Oil smuggling has deep roots in the region. Historically, the imposition of UN energy sanctions on Iraq in the 1990s resulted in a robust network of smugglers, traders and bootleg refineries. “The fact that Iraq was under sanctions for so long led Kurdish and Iraqi businessmen to fill a vacuum and create smuggling networks for Iraqi oil,” says Valerie Marcel, a Middle East and Africa energy specialist at Chatham House. “Turkish, Iranian, Syrian, Iraqi networks have grown because of decades of bans on exports.”


*Map 6: Oil Fields under ISIS Control*

Production figures according to the EIA and the Iraq Energy Institute have estimated ISIS production at 50 kbbl/d in Iraq and 30 kbbl/d Syria, implying earnings of 3.2 million USD per day when sold at the black market price of $40 per barrel. As such, these oil installations have been prime targets for the US led airstrikes initiated in August 2014. So far the coalition has launched 50 strikes against 29 ISIS oil assets (19 refineries[10]; 9 storage sites; 1 pump generator).

### (4.2) Implications for Foreign Operators

Militarily it is unlikely that the ISIS militants will be able to overwhelm key Shia territories or the Kurdish federal region, especially with the initiation of coalition air strikes against the Islamic State. However, this is apart from the risks of one-off acts of terror which may include acts of sabotage, kidnapping or other threats to Iraqi energy installations and personnel. This doesn’t diminish the fact that, from a technical perspective, oil projects in Iraq are among the more straightforward and least-cost in the world, both in terms of the capital cost per unit of new

[10] This definition of refinery does not necessarily mean a modern refinery but also makeshift refining facilities.

production capacity and the operating expense. And many companies will remain interested in the prospect of high volumes, the knowledge that the fields of Iraq are of such size and quality that there is little technical risk and the consideration that companies are not taking on price risk or exploration risk.

However, it is likely that capital which would otherwise have been allocated to investment may now be diverted towards combatting the Islamic State. Furthermore, adding security to operations which is likely to be necessary will raise the costs of operating in Iraq and hence the profitability for the operators, and hence the people of Iraq.

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Report drafted by Hendrik Blommestein: H.Blommestein@gmail.com


**(4.2) Potential Evolution**

As of November 2014 the Haditha dam and the  city of Baiji refinery were retaken by the Iraqi Security Forces (ISF).

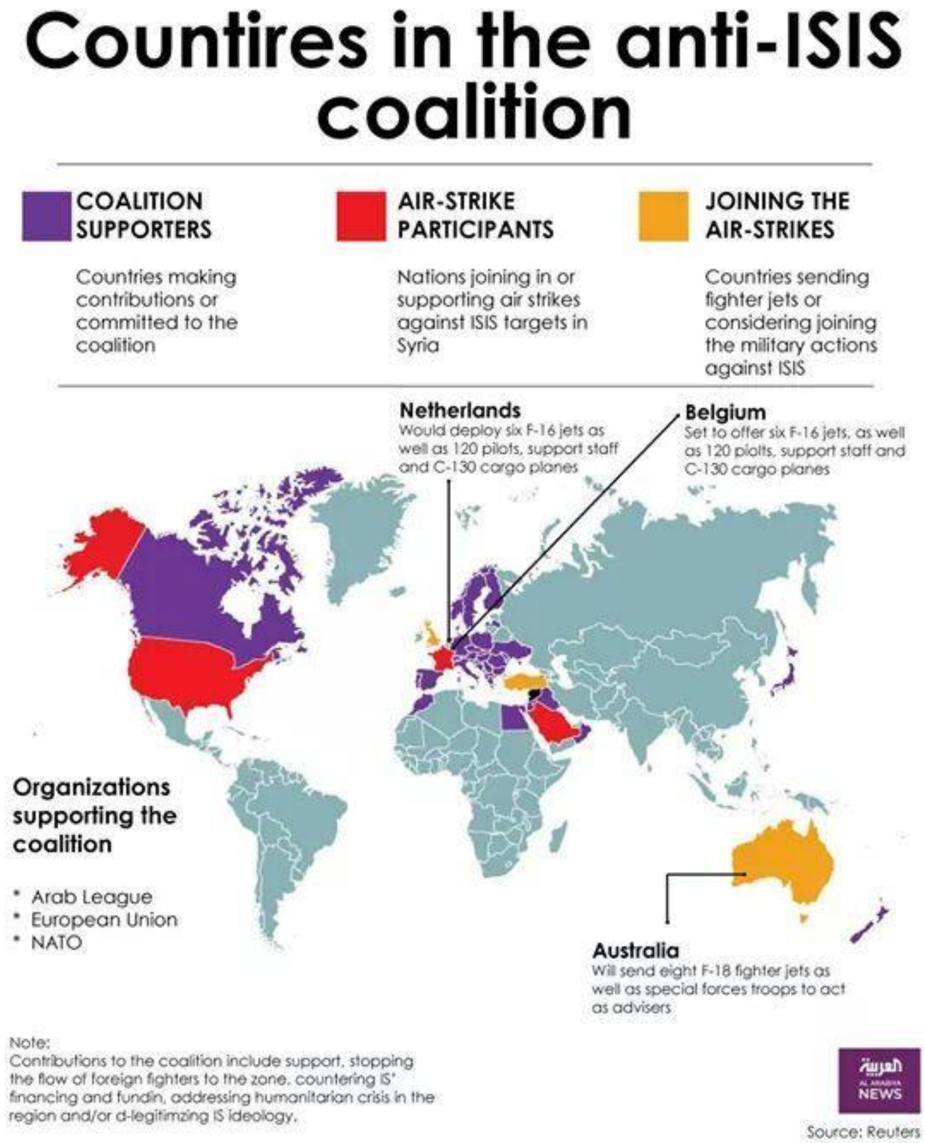


*Figure 3: Countries in the Anti-ISIS Coalition*[11]

It is unclear how successful the airstrikes have been

# U.S. forces already advising Iraqi forces in Anbar province

BY **PHIL STEWART**

**INCIRLIK AIR BASE Turkey** Sun Nov 16, 2014 8:38am EST

[11] Canada has since begun running bombing sorties.

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1 OF 3. General Martin Dempsey (R), chairman of the Joint Chiefs of Staff, speaks to U.S. troops at Baghdad International Airport in Iraq November 15, 2014.

CREDIT: REUTERS/PHIL STEWART

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(Reuters) - American forces have begun advising Iraqi troops in the western Anbar province, the top U.S. general told Reuters, in a faster-than-expected expansion of an operation that is central to its campaign against Islamic State.

General Martin Dempsey, chairman of the Joint Chiefs of Staff, said a small group of advisers had already established themselves in a preliminary fashion at Ain al-Asad air base in the province, much of which is controlled by the militant Islamist group.

They would also eventually start training the Iraqi army's seventh division, which suffered major setbacks during the Islamic State's advances across the country this summer.

"We have a train, advise and assist team in al-Asad air base," Dempsey said in an interview conducted on Saturday. "There's enough there that are already working with the seventh division to help them plan and help them understand the threat, to advise them on how to consolidate their forces."

President Barack Obama's administration announced on Nov. 7 it would send up to 1,500 more U.S. troops to Iraq, widening its advising mission and initiating training of Baghdad's forces. At the time, officials suggested the expansion would take weeks to get underway.

The seventh division's ability and willingness to engage Sunni militant forces in Anbar could be vital to any sustained offensive to reverse Islamic State's gains. The jihadist group took Anbar's two main cities, Falluja and Ramadi, several months before it overran much of the rest of the country, often facing little resistance from Iraqi government forces.

TIES WITH SUNNI TRIBES CRITICAL

An aide to Dempsey said the U.S. troops, who numbered just under 50, were also already helping the seventh division as Iraq starts to build ties with Sunni Muslim tribes in the region.

The goal is to create a bridging force of thousands of Sunni tribesmen before Iraq's Shi'ite-led government creates a "National Guard", decentralizing power from Baghdad.

The official said the U.S. training operation at al-Asad was expected to get underway this year.

Iraq's army has been burdened by a legacy of sectarianism in Anbar, whose dominant Sunni population resented former Prime Minister Nuri al-Maliki's Shi'ite majority government and were incensed when he ordered troops to clear a protest camp in Ramadi in late December 2013.

The ensuing Sunni tribal revolt prompted the entrance of Islamic State into Falluja and Ramadi, where U.S. troops had met fierce resistance from Sunni insurgents including al Qaeda during their occupation of Iraq after the 2003 invasion that overthrew Saddam Hussein.

Dempsey described the American troops at the base as the preliminary group that would establish the training site at al Asad. "There's an adequate contingent there that can both protect itself and advise but it will need to be expanded slightly ... in order to establish the training base," he said.

(Editing by Michael Georgy and David Stamp)

# Iraq needs 80,000 good troops to retake lost territory: U.S. general

**WASHINGTON** Thu Nov 13, 2014 9:47pm EST

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Iraqi security forces take part in an intensive security deployment against Islamic State militants in Adhaim, a village in Diyala province north of Baghdad November 13, 2014.

CREDIT: REUTERS/STRINGER

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(Reuters) - Iraq will need about 80,000 effective military troops to retake the terrain it lost to Islamic State militants and restore its border with Syria, the top U.S. general said on Thursday.

"We're going to need about 80,000 competent Iraqi security forces to recapture territory lost, and eventually the city of Mosul, to restore the border," Army General Martin Dempsey, the chairman of the Joint Chiefs of staff, told a congressional hearing.

Dempsey said the request for more U.S. forces in Iraq would create centers to help train the additional troops needed.

(Reporting by David Alexander and Phil Stewart; Editing byDoina Chiacu)

# Islamic state militants withdraw from area around Iraq refinery

**BAGHDAD** Sat Nov 15, 2014 5:52am EST

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Smoke rises from an oil refinery in Baiji, north of Baghdad June 19, 2014.

CREDIT: REUTERS/STRINGER

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(Reuters) - Islamic State militants withdrew on Saturday from the perimeter of Iraq's biggest oil refinery after months fending off government troops seeking to retake the strategic complex, said an army officer and Al-Hadath television station.

The officer, speaking to Reuters from the Baiji refinery, said the Sunni insurgents removed roadside bombs they had planted and fled. Al-Hadath said security forces had entered the compound.

It was not immediately possible to confirm either account.

(Writing by Michael Georgy; Editing by Sonya Hepinstall)

# Kurdistan region, Baghdad reach deal on oil exports and payments

BY MICHAEL GEORGY AND ISABEL COLES

**BAGHDAD/ARBIL** Thu Nov 13, 2014 2:53pm EST

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A member of the Kurdish security forces takes up position with his weapon as he guards a section of an oil refinery, which is being brought on a truck to Kalak refinery in the outskirts of Arbil, in Iraq's Kurdistan region, July 14, 2014.

CREDIT: REUTERS/STRINGER

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(Reuters) - The government of Iraq and the semi-autonomous region of Kurdistan have reached a deal to ease tensions over Kurdish oil exports and civil service payments from Baghdad, Iraq's finance minister told Reuters on Thursday.

Hoshiyar Zebari said the central government had agreed for the time being to resume payments from the federal budget for Kurdish civil servants' salaries.

Zebari, who is a Kurd, described the step as a "major breakthrough" that would reduce friction between the KRG and Baghdad. He said the payments would cover October and then November.

The deal was reached after talks between Iraqi Oil Minister Adel Abdel Mehdi and Kurdish Prime Minister Nechirvan Barzani in the Kurdistan region on Thursday.

Baghdad stopped paying for KRG civil servant salaries in protest against the Kurds' exporting oil to Turkey independently.

Under the agreement, Iraqi Kurdistan will give 150,000 barrels per day of oil exports - equal to around half its overall shipments - to the federal budget.

In Arbil, the Kurdistan Regional Government (KRG) confirmed the agreement.

"What they have agreed is that Baghdad will release some funds - $500 million - and the KRG will give 150,000 barrels per day of oil to Baghdad," KRG spokesman Safeen Dizayee told Reuters.

EXPORTS STILL UNDER CONTROL OF KURDS

He said a KRG delegation headed by the prime minister would travel to Baghdad soon to hammer out a more comprehensive deal and the regional government would not hand over control of exports to Baghdad.

A similar agreement was proposed in April but never advanced to a deal.

In July, then Iraqi foreign minister Zebari said the Kurdish political bloc withdrew from the national government in protest against Prime Minister Nuri al-Maliki's accusation that Kurds were harbouring Islamist insurgents in their capital.

The Kurds later rejoined the administration. But tensions persisted.

Maliki, one of the most divisive figures to emerge from the U.S. occupation of Iraq, was later replaced by Haider al-Abadi.

He is seen as a moderate Shi'ite capable of cooperating with Sunni Muslims, Kurds and other sects.

Iraqi leaders are under pressure to bury differences in order to counter Islamic State militants who have seized chunks of the country in the north and west.

There are about 5 million Kurds in majority Arab Iraq, which has a population of more than 30 million. Most live in the north, where they run their own affairs, but remain reliant on Baghdad for a share of the national budget.

(Writing by Michael Georgy; Editing by Keiron Henderson)

PROGRAM NOTE

# Iraq

Last Updated: April 18, 2013

PDF Version

**Current Program Status:**

The Stand-By Arrangement (SBA) in the amount of SDR 2.38 billion (about US$3.7 billion) was approved by the IMF's Executive Board on February 24, 2010, and expired on February, 23 2013 after two extensions. The Board completed the first program review on October 1, 2010 and the second review on March 18, 2011, bringing the total resources currently available to Iraq under the arrangement to SDR 1069.56 million (about $1.7 billion). However, completing other reviews under the arrangement was not possible due to delays in structural reform, restrictions introduced by the CBI in the foreign exchange market, and lack of agreement on potential fiscal liabilities in 2013.

## Background

Iraq is estimated to have the world's second-largest oil reserves, with reserves of 143 billion barrels. By the 1970s, Iraq's oil resources had enabled the country to reach middle-income status, with a modern infrastructure, and good education and healthcare systems. Since then, however, the country has suffered through three devastating wars, a long period of economic and financial mismanagement, and international sanctions imposed during the 1990s. These events severely damaged political and economic institutions and undid earlier economic and social gains. By 2004, per capita GDP had fallen to about US$900 from US$3400 in 1980, and the country suffered from a crippling debt burden.

The task of rebuilding the country after 2003 remains immense and is made harder by sectarian politics and prolonged violence. Iraq's reconstruction requires not only the rebuilding of its infrastructure, but also of its economic and social institutions and the creation of a business environment that attracts capital and brings with it new technology and skills to modernize the economy. Iraq's huge oil reserves could, in principle, provide the revenues needed to finance the reconstruction, but strong institutions and favorable business environment are needed to use these resources effectively. The longer-term outlook is strong as domestic and foreign investment in the hydrocarbon sector is bearing fruit. According to the Ministry of Oil, oil production averaged 3.1 million barrels per day (mbpd) in 2012 , of which 2.3 mbpd are exported, and extraction and exports are projected to increase considerably in the years ahead. Nevertheless, Iraq's economic prospects continue to be subject to significant risks, deriving mainly from institutional and capacity constraints, oil prices volatility, delays in the development of oil infrastructure, and an extremely fragile political and security situation.

# Role of the IMF

The IMF commitment to Iraq relies on two main pillars. First, the IMF is helping the authorities in their efforts to maintain macroeconomic stability as a key condition for economic growth and the generation of sustainable employment opportunities for Iraq's large labor force. Second, the IMF assists the Iraqi authorities in rebuilding essential economic institutions with its policy advice and technical expertise.

- *Macroeconomic stability is at the heart of the IMF programs and economic policy advice*. With the support of four IMF programs, the macroeconomic situation of Iraq has improved substantially since 2003, despite extremely difficult security circumstances and periods of political uncertainty. After experiencing inflation rates of 70 percent in 2007, the Central Bank of Iraq was successful in reducing inflation to the single digits, where it has remained since. The economy is growing with the revival of the oil sector and the improvement in the security situation. And with the support of the international community, debt levels have been brought down to sustainable levels.
- *Policy advice focuses on the fiscal, monetary and financial policy areas*. In the fiscal area, major emphasis has been put on the adoption of policies that support the reconstruction of Iraq and preserve social spending, while maintaining medium-term fiscal sustainability. In the monetary and financial areas, IMF advice has centered on keeping inflation under control, maintaining a broadly stable and liberal exchange rate regime, and modernizing the financial sector to enable the private sector to develop. IMF technical assistance has proven essential in helping the Iraqi authorities develop their institutional capacity and governance infrastructure.

# The 2010 SBA

*The program aimed to support the reconstruction of Iraq.* Following the successful conclusion of Iraq's second SBA program, the IMF's Executive Board approved a new two-year SBA program on February 24, 2010 with an access of US$3.7 billion (SDR 2,376.8 million, or 200 percent of quota). The program provided a macroeconomic framework supporting the reconstruction efforts during the political transition following the March 2010 parliamentary elections.

*The key objectives of the SBA were the preservation of macroeconomic stability and the adoption of policies and measures to promote sustainable growth and poverty reduction.* The financial resources envisaged in the context of the program were meant to be made available to respond to the drop in oil prices from their peak levels in mid-2008, which translated into a substantial deterioration of Iraq's external position in 2009 and to a financing gap in the government finances.

*Besides preserving macro-stability and providing budgetary support, the programalso supported the authorities' medium-term structural reform agenda*. This agenda relies on three key pillars:

- *Modernizing Iraq's public financial management system*. This encompasses improvements in the allocation, execution, transparency, and accountability of the mobilization and use of public resources. Priority areas include improving budget preparation, reporting and cash management, public procurement, internal audit and control systems, and the accounting framework.
- *Developing the financial sector*. This pillar relies on enhancing Central Bank of Iraq (CBI) operations and promoting a banking sector that can provide basic financial services, including, crucially, to the private sector. Reinforcing central banking operations includes rebuilding the capacity of the central bank to conduct monetary and

exchange rate policies, supervise banks, and manage the country's foreign exchange reserves. The financial restructuring of the two main state-owned banks is an important step to help establish the conditions for the banking system to extend credit to the private sector.

- *Strengthening governance in the oil sector.* As part of the authorities' efforts to increase transparency and accountability in the oil sector, Iraq became a candidate member to the Extractive Industries Transparency Initiative (EITI) in February 2010, and produced its first EITI report in December 2011. Efforts in this area are also directed at completing the installation of oil metering systems, which will help reconcile oil production and export data with budget revenues from the oil sector, and at maintaining a single account for all oil export proceeds.

*During 2012, the authorities succeeded in maintaining macroeconomic stability, but progress on the program slowed down.* The combined third and fourth reviews were not completed owing to limited progress in restructuring the state-owned banks and the emergence of distortions in the foreign currency markets that led to the widening of the spread between the official and market exchange rates. IMF staff will continue to support Iraq through surveillance and technical assistance.

Baghdad and Kurds reach 'win-win' accord over oil revenue



By Brian Murphy December 2 at 10:32 AM

In a pact that seeks to close one of Iraq's most difficult political rifts, envoys from Baghdad and the semiautonomous Kurdish region agreed Tuesday on a plan to divide the nation's oil wealth and possibly bolster the fight against the Islamic State.

The multi-faceted deal could help boost unity and military coordination between Iraqi troops and the Kurdish militiamen, known as peshmerga. It also may quiet — at least for the moment — Kurdish factions calling for independence from Baghdad.

Such breakaway ambitions — fueled by growing oil wealth in the northern Kurdish region — raise alarms across the region and among the Kurds' Western allies. Any move toward splintering Iraq could become a serious distraction from the fight against the Islamic State and stir strong backlash in countries with their own large Kurdish minorities such as Syria and Turkey.

Under the accord, Kurds will release up to 500,000 barrels of oil a day to Iraq's central authorities — representing about a fifth of the country's current export levels. In exchange, the Kurds will receive a 17 percent cut from the national budget, which has been strained by falling oil prices.

It also opens the way for Kurds to export oil along a pipeline to the Turkish port of Ceyhan on the Mediterranean. The exports represent another step in the Kurds expanding independence in making oil and gas deals.

On Monday, French oil giant Total and Houston-based Marathon Oil said they struck oil and gas near the Kurds main city of Irbil in the second such discovery in two years in the area. Last month, London-based Genel Energy, which already operates in the Kurdish region, said it reached an agreement with the Kurdish government to develop two natural gas fields.

The Kurds also now control the critical oil fields around the city of Kirkuk, which lies outside the Kurdish region. The Kurdish peshmerga fighters moved into the area during the summer to block advances by the Islamic State, which has seized other oil sites in Iraq and Syria.

“This deal is a win-win deal for both sides,” Iraqi Finance Minister Hoshyar Zebari, a Kurd, told the Associated Press. “The (Kurdish government) needed more stability in its relations with Baghdad and the Iraqi government is going through very serious financial difficulties because of the drop in oil prices.”

In addition to the share of the national budget, the Kurds also will receive payments of up to $1 billion to bolster the peshmerga fighters.

Baghdad and the Kurdish region have been at odds for years over a variety of disputes, including oil resources and political influence in Kirkuk, which many Kurds consider part of their traditional territory. During the rule of Saddam Hussein, thousands of Arabs were resettled in Kirkuk as a way to blunt Kurdish sway.

“For a long time, both sides have gone along with the formula that oil is money and money is power,” said Raad Alkadiri, managing director of Energy Insight IHS, a Washington-based analyst group. ``And neither side was willing to budge much.”

The change, he said, was pushed along by the “altered situation” of the Islamic State gains and slumping oil prices.

“If it holds, and provides a basis for closer cooperation, this deal could be the most significant political agreement between Baghdad and Irbil since the fall of the Saddam regime,” said Alkadiri. “It is arguably the first time the two sides have agreed on something that brings them closer together rather than farther apart since 2003.”

Negotiating an oil sharing pact — and seeking to address wider issues with the Kurds — was seen as an important test for Iraqi Prime Minister Haider al-Abadi.

Abadi took office in September amid appeals by the United States and allies to confront the country’s sectarian divides and unite against the Islamic State as part of a U.S.-led coalition conducting airstrikes and coordinating ground attacks from local forces.

Last month, Iraqi forces reclaimed territory from the Islamic State around the key oil refinery center of Baiji, about 140 miles north of Baghdad.

## Iraq’s SOMO to resume oil exports from Ceyhan: sources

Turkey's Ceyhan port, where tankers have been lifting Kurdish crude. (File photo: AFP)

By Julia Payne Reuters | London

Thursday, 27 November 2014

Iraq’s state oil marketer SOMO will sell its first cargoes out of the Turkish port of Ceyhan since March at the end of November after reaching a deal with the Kurdistan Regional Government last week, market sources said on Wednesday.

The oil will be a blend of Kurdish crudes, the sources said.

Italy’s Eni will load a cargo of about 600,000 barrels loading on Nov. 29 with Lukoil’s trading arm Litasco expected to pick up another, a regional shipping source and a trader said.

SOMO approached its clients following the deal with the KRG to see if they would be interested in buying the crude, traders said, at the official selling price for Iraq’s usual grade out of Ceyhan, Kirkuk.

Last Update: Thursday, 27 November 2014 KSA 06:45 - GMT 03:45