



Oil Minister Jabbar al-Luiebi leads a ceremony to mark the creation of the Dhi Qar Oil Company on March 30, 2017. (HUSSEIN AL-AMIL/Iraq Oil Report)

Iraq starts new oil contract review

The Oil Ministry plans to develop a new contract model for future projects and has contracted Iraqi-Norwegian consultant Farouk al-Kasim as it explores adjustments to existing TSCs.

Iraq is reviewing its oil contracts in an effort to better align the interests of the government and international oil companies.

Oil Minister Jabbar al-Luiebi said that, as the ministry solicits investment in new upstream projects, it is likely to move away from the technical service contracts (TSC) that have structured Iraq's relationship with oil companies since 2009.

"The future contracts, we will have different models," Luiebi told Iraq Oil Report.

The Oil Ministry is also working with a consultant – Farouk al-Kasim, an Iraqi geologist who helped Norway develop a strategy for its oil sector in the 1970s – to suggest changes to the existing TSCs, according to two senior Oil Ministry officials.

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Dhi Qar Oil Company hits political turbulence

Employees of Iraq's newest state oil firm say its creation was driven by political timetables and marred by insufficient planning.

When Iraq created a new state oil company in Dhi Qar, it was a sign that the province was proudly emerging from the shadow of its southern neighbor, the oil capital of Basra.

But progress has also unleashed problems. In its first weeks of existence after being spun off from South Oil Company (SOC), the Dhi Qar Oil Company (DQOC) has experienced growing pains caused by a range of political conflicts and bureaucratic dilemmas.

Some employees have criticized the Oil Ministry for naming Ali Khudair al-Abodi as DQOC's new director general, questioning his experience and suggesting he was elevated for political reasons.

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Q&A: Deputy Oil Minister Hamid Younis Salih

Iraq's top natural gas official outlines new plans, beyond the scope of Basra Gas Company, to capture associated gas and reduce flaring in southern Iraq.

You said there are three “gas hubs” being prioritized by the ministry. Specifically, where will they be located and technically how will they operate?

The first one will be in Basra, the second in Nassiriya, and the third will be in Missan. The first hub, in Basra, will be for gas investment at Nahr Bin Umar, West Qurna 2 and Ratawi.

Gas from those fields will be collected together.

Yes. This hub will deal with gas from the production phase. Separating from oil, degassing station, gathering and processing and transportation for use. Consumption will depend on the type of gas involved in the process.



Deputy Oil Minister for Gas Affairs Hamid Younis Salih (center right) stands with senior GE executive Rami Qasim (center left) and Deputy Oil Minister Fayadh Nema (center) at a signing ceremony in Baghdad on April 24, 2016.

First, there will be a gathering of gas, after that there will be processing of the gas, then after transportation of dry gas to power stations and after that the condensates, LPG and so on will be exported.

These fields, the national efforts - Nahr Bin Umar, West Qurna, Ratawi, Tuba, Luhais

and Suba - we agreed within the Ministry of Oil a strategy of putting in place one hub to do the processing of gas for those fields. This will be done in agreement with companies.

So for West Qurna 2 we will deal with Lukoil to set up one unified hub where the use of gas will be possible. This is the first hub.

The second hub is in Nassiriya. There will be processing of Nassiriya and Garraf oil fields. We know that Garraf is developed by Petronas, but there will be processing of gas at this hub because setting up the hub processing is the responsibility of the companies that are developing the fields. But the delays that have been registered prompt us to have some centralized hubs

to speed up the process. So Nassiriya and Garraf will deal with the gas at the national network level.

Likewise, for the third hub, located in Missan, the same thing - with one hub for everything in the province. This is a priority.

What is the capacity of those hubs?

The capacity is 500 million cubic meters per hub. Altogether, 1.5 billion cubic meters.

You want investors to make a proposal and include in their investment proposal how they will be compensated.

Yes. We will ask for management of the project for a specific period of time, providing among other things free dry gas and exporting the condensates with the specific rate that will be suitable for the Iraqi government.

The Iraqi side is looking forward to participating and contributing with foreign companies in this regard. And, to reassure you, even the World Bank is promoting and is keen on providing cash in order to reduce the amount of flared gas.

What is the deadline for companies to make a proposal and when will you make a decision on these projects?

The funding mechanisms and timeframes are the two specific components that should be included and abided by in the proposals. The timeframe is extremely important. The shorter the timeframe is, the better it is.

So what do you do if a company has worked in Kurdistan, without approval of the central government, and it asks to invest in one of your gas projects?

There is a law for investment of the oil wealth in Iraq. There are rules. They are set in place and they are clear. We just want companies to be in compliance with the constitution and that law. We are not against any company, we just don't want any violation of that law. ♦

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Iraq starts new oil contract review

CONTRACT REVIEW, cont'd from **page 1**

"There will be no drastic change in the model" for existing contracts, Luiebi said. "Some modifications... to look at some clauses of the contracts, not all of them."

Luiebi said that specific recommendations have not been made, and predicted that the ministry's proposed changes would be the starting point for negotiations with IOCs.

In early March, Luiebi told Iraq Oil Report that Iraq intends to raise oil production capacity to 5 million barrels per day (bpd) by the end of the year. It's a target he has reiterated numerous times since then, including in public remarks at the Iraq Energy Forum in April.

The ministry will achieve a production target of 5 million barrels per day (bpd), Luiebi said, through both "local efforts" of state-operated oil fields and by working with the ministry's current IOC partners to create "a suitable and appropriate environment to work in extraction and production at the least possible cost."

Jump-starting a stalled process

The Oil Ministry first floated the idea of amending the TSCs in 2015, under the leadership of Luiebi's predecessor, Adil Abd al-Mahdi.

Because of the way the contracts are structured, the government bears the vast majority of the financial hardship when oil prices fall. In response to the crash of global oil prices that began in late 2014, the ministry asked IOCs to recommend ways to adjust the contract so that the parties would more equally share the risks of a volatile market.

Executives from several IOCs confirmed that they submitted recommendations nearly two years ago, but the process appeared to stall, and the ministry has not yet responded with any proposals of its own.

"Every time we submit a work plan, our headquarters asks us about this," said one IOC official working in Iraq. "In order

to invest, they want to know where the ministry is headed."

Another senior IOC official working in Iraq said their company is attempting to schedule meetings with ministry officials and their consultants to determine "what terms might be acceptable to Iraq," though no formal negotiations have been slated. "[Iraq] will want to find a way to have a less immediate payment burden," the official said, adding that no specific terms have been proposed.

To jump-start the process of renegotiating the existing contracts, the ministry's Petroleum Contracts and Licensing Directorate (PCLD) has now contracted with Kasim to provide new recommendations, according to the two senior ministry officials.

Kasim was born in Basra and moved to Norway in the late 1960s, just as the country was making its first commercial oil discoveries. He played a central role in designing its oil strategy and helped Norway avoid the so-called "resource curse" - a common phenomenon in which an influx of oil revenue distorts the economic and political structures of a country and results in dysfunction.

Kasim enjoys credibility both in the international oil industry and within Iraq - a reputation that could give his recommendations weight.

He has consulted for international organizations and countries on best practices for natural resources management. And, in 2005, at the behest of the Iraqi government, he was a co-author - along with former Oil Minister Thamir Ghadhban and Tariq Shafiq, a founding senior executive of the Iraq National Oil Company - of draft oil legislation that was never passed but could have provided badly needed structure to Iraq's oil sector. Kasim declined to comment for this story.

Before hiring Kasim, the ministry relied on a different consultancy, Gaffney, Cline & Associates, both to draft the original TSCs and to review the recommendations

solicited from IOCs in 2015. One of the senior Oil Ministry officials said the ministry still retains a relationship with Gaffney, Cline, though it is not clear what role, if any, they are playing in the new contract review.

Structural flaws

Gati al-Jebouri, Vice President of Lukoil, put much of the blame on the way the contracts were written. Because the Oil Ministry required oil companies to accept a relatively low per-barrel fee for their services, he said, IOCs needed contract provisions that guarantee immediate repayment of their costs, in order for the projects to be economically viable.

"The structure of the contract means that Iraq is paying the capital expenditure in three months' time," Jebouri said, "which raises the pressure on the [Iraqi] budget, and on the funding for these investments."

Other industry observers said that any effort to renegotiate within the TSC framework is unlikely to succeed, because the problems with Iraq's oil contracts are endemic to the structure of the TSCs themselves.

"I would describe the service contract as a lose-lose contract," said Pedro van Meurs, a consultant who has studied fiscal regimes in 90 oil-producing countries.

When companies are guaranteed cost recovery and profit, they have little financial incentive to control their spending. In some scenarios, van Meurs said, Iraq's TSCs actually reward contractors with higher profit margins when their costs go up.

"In Iraq," he said, "if you're less efficient, you get more profits."

Luiebi indicated he is willing to re-think the TSC structure for potential projects in the future, but for now the top priority appears to be amending the existing TSCs.

"By the end of 2017," Luiebi said, "I am determined that the cost per barrel must go down." ♦

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Dhi Qar Oil Company hits political turbulence

DHI QAR, cont'd from **page 1**

And the Oil Ministry has yet to decide which state company will manage the oil sector in Muthanna province, which is adjacent to both Basra and Dhi Qar. To date, Muthanna has been the responsibility of SOC, which was officially renamed Basra Oil Company (BOC) after the inauguration of DQOC.

For the time being, it appears that the DQOC will be relying on the BOC (which is still often referred to as SOC) for a variety of key technical and administrative functions. Numerous officials said there is a transition plan for a phased separation from BOC.

The stakes are significant for Dhi Qar and Iraq. The province's flagship oil assets are the Garraf oil field, operated by Malaysia's Petronas, currently producing about 100,000 barrels per day (bpd), and the Nassiriya field, now operated by DQOC, which has produced as much as 80,000 bpd.



Flares burn at the Nassiriya oil field in Dhi Qar province. (STAFF/Iraq Oil Report)

In his short tenure as oil minister, Jabbar al-Luiebi has shown a penchant for action, bucking a cautious bureaucratic culture that often slows the momentum of bold initiatives by subjecting them to excessive deliberation.

But several members of the DQOC Employees' Committee have suggested the creation of DQOC was driven by political

timetables, without adequate preparation.

"Why did you make haste?" the Employees' Committee wrote a joint letter to their superiors, which was posted to social media. "Did you ask those who are in charge of the preparations whether they were ready and able to carry out the duties of the company... or have you thought only of your interests?"

Patronage politics

DQOC was created under a government policy that grants a discrete state oil company to any province with at least 100,000 bpd of oil production. Dhi Qar hit that threshold years ago, and the Iraqi Cabinet notionally approved the creation of DQOC in January 2016.

Its formal inauguration only came recently, however, in March 2017. The timing coincided with the run-up to Iraq's provincial elections, which are scheduled for September.

must be promoted to department head, and then to the deputy director general level, before he or she can be considered for a DG position.

Abodi did not respond to several requests for comment on the circumstances behind his promotion. In a written statement, he said, "I am determined to improve the status of Dhi Qar Oil Company, and I have a clear vision for the oilfields of Dhi Qar."

His elevation can be explained in part by the country's patronage-based political system, in which a new state company creates an opportunity for political leaders to reward their allies with senior positions.

Abodi is a former parliamentary candidate for the Islamic Supreme Council of Iraq (ISCI) political party. Under a power-sharing agreement that dates back to the formation of Prime Minister Haider al-Abadi's government, ISCI has enjoyed significant influence over the Oil Ministry, including de facto authority to nominate the minister.

Luiebi was considering seven finalists for the new DG position, according to a senior DQOC official - five of them ISCI members and two members of the Sadrist trend. Those two parties constitute the majority bloc on the Dhi Qar Provincial Council.

Abodi displaced Karim Yassir al-Sadawi, who was the longtime head of the Dhi Qar Oilfields Authority, as it was known before being cleaved from SOC. Sadawi is associated with the Dawa party; his cousin, Tariq Najm al-Sadawi, is a senior party leader.

Sadawi's ouster reflects the competition among Iraq's Shia parties. In the multi-layered politics of Baghdad, ISCI and Dawa often work as allies within a broader Shia bloc, but they are also rivals, competing for votes among the same demographic - especially in the Shia-dominated southern provinces. In Dhi Qar, Dawa has just one seat on the provincial council.

Despite the political headwinds he faced, Sadawi had seemingly anticipated he would have a chance to lead DQOC. In

Some DQOC employees have been critical of the selection of Abodi as director general. While he has professional credentials - including a masters degree in engineering from Baghdad University - he also lacks senior management experience.

Abodi was previously the head of the rehabilitation section in the drilling department of SOC. Usually, a section head

January, he began holding meetings with section heads to plan for the transition.

“He submitted a list of nominees for the structure of Dhi Qar Oil Company,” a senior DQOC official said. “But the ministry turned it down.”



Karim Yassir, former head of the Dhi Qar Oil Authority. (STAFF/Iraq Oil Report)

Limited capacity

When Luieibi came to Nassiriya to inaugurate DQOC, he instructed the company’s leaders to draft a list of positions that would need to be created.

“He instructed us to come up with new, necessary positions for the structure of the company,” said a second senior DQOC official, who had been in meetings with Luieibi.

New positions are needed because, when it was part of SOC, the Dhi Qar Oilfields Authority depended on its parent company for many bureaucratic capacities.

“We have sections that can work totally independently of SOC, such as the engineering and projects section,” the senior DQOC official said. “But we still need SOC for administrative, financial, and legal functions.”

For the time being, DQOC remains functionally dependent on the newly renamed BOC. For example, the senior DQOC official said, the company does not have enough computers to perform basic

administrative work.

The official predicted it would take several months at least before DQOC is truly working on its own, citing the precedent of the Missan Oil Company (MOC), which was spun off from SOC in 2008.

“If you take a look at Missan Oil Company, you will see that it still needs SOC,” the official said. “They rely on SOC for many things, even consultations and designs.”

The Iraqi Cabinet has earmarked 50 billion Iraqi dinars (about \$42 million) to capitalize the company. That is expected to cover the operating budget, including salaries of existing staff, according to two senior DQOC officials, but not capital spending or new hiring.

In his late-March visit to Dhi Qar, Luieibi reportedly emphasized that even he would need to get authorization from the Finance Ministry before creating new positions, according to the two senior DQOC officials. So far, all DQOC staff have been drawn from the former SOC.

By 2018, the Oil Ministry expects DQOC to be self-funding, the two officials said.

Conflict with Muthanna

Much remains undefined about the new DQOC, including the scope of its geographic responsibility.

Leaders in Dhi Qar and Muthanna province have long wrangled for control over exploration Block 10, operated by Russia’s Lukoil, which spans their shared border. Lukoil believes the block holds more than 1 billion barrels in reserves, and a test well recently achieved flow rates of more than 6,000 bpd.

SOC had been the state partner in the project, delegating management to the erstwhile Dhi Qar Oilfields Authority. But Muthanna chafed at that arrangement, lobbying to establish its own subsidiary authority within SOC, according to a provincial government official in Muthanna.

“The Dhi Qar Oil Authority rejected the opening of a new section in [Muthanna] province,” the Muthanna government official said.

In retaliation, Muthanna provincial authorities banned Yassir, then the director of the Dhi Qar Oil Authority, from entering the province, according to a senior oil official working in the area. They also set up two modular office buildings near a pumping station to accommodate local staff - creating something of a de facto version of the Muthanna oil headquarters that Dhi Qar had opposed.

The two provinces even have different names for the test well that has been drilled in Block 10, according to an industry official involved in Dhi Qar oil operations.

With the formal creation of DQOC, those conflicts have intensified.

“We definitely refuse and reject that the oil sector facilities in Muthanna province would belong to Dhi Qar Oil Company,” said Faleh Abdulhassan, the governor of Muthanna.

“This issue is still under discussion,” Abdulhassan said, “but nothing will change in our position.”

BOC appears inclined to maintain control of Block 10 as well.

“The oil facilities in Muthanna province are unbreakable parts of BOC,” a senior BOC official said. ♦

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Q&A: Deputy Minister for National Security Affairs Akeel al-Saffar

A long-serving Iraq security official discusses the future of the al-Hashid al-Shabi program and outlines a proposal for providing security services to investors.



Deputy Minister for National Security Affairs Akeel al-Saffar. (BEN LANDO/Iraq Oil Report)

Our reporters have found that, since Daesh no longer has control over oil in Iraq, they are levying taxes in rural areas in Diyala and Salahaddin. What other ways do you see them earning money now in Iraq?

They do not have any opportunity to gain money or to produce some revenues to them, and they left it.

They are trying to take bribes from even the grocers or the people who are wearing something different from what they want to them to wear. That's one way.

Another way is they steal or attack places like jewelers, goldsmiths, and either they take a bribe from them or they get all of what they found in these shops or businesses.

What is the plan for the Hashid program and their members after Daesh?

Al-Hashid people, some of them will be back to their jobs - ministries, factories, wherever they came from.

The others, which started with al-Hashid,

there is a law issued by Iraqi Parliament, which established the al-Hashid establishment, and this establishment will organize where they will give them their missions or keep them upon to the needs of security, to secure the places liberated by al-Hashid.

The Hashid program falls within the National Security Service. The Oil Ministry has a Hashid support committee. In what ways do you see the Oil Ministry involved in the fight?

If they do not have the opportunity to help they think they did not support their country or listen to the Ayatollah's order. This is why a lot of ministries and establishments, they get some people who donate themselves who share al-Hashid in their mission. This is why not only the Ministry of Oil, but a lot of ministries, they established communities to register their names or give donations to al-Hashid. In this way, the ministries share al-Hashid in their mission.

You have referred to the NSS as the "unknown soldier." What do you mean?

I talk about the National Security Service as what we do and what we are willing to do. When I talk about the unknown soldier, it means we will be behind the investors - companies, or banks, or any investor that comes to Iraq - to secure them personally, and to secure their assets or their projects, their movement at the same time.

Which means that this service will be free and we are donating this service as the investors are our guests, number one. And number two, they are partners in our country. And number three, we want them to stay and attract other companies and investors to come when they see that we are servicing them.

We are supporting them. We are protecting them, without any cost to them, and we are partners for their security, but we are not gaining from them anything. This is the idea of the unknown soldier, who sacrifices himself for the benefit of others to survive and be protected.

How is this different from the Oil Ministry's Facilities Protection Force, or Ministry of Interior's Energy Police, or the private security companies?

Those police and army, maybe as well, they are armed powers. They are soldiers, they are police. But we at the National Security Service, we are civilians in our hours of work, in our offices, in our appearance. So when we are doing our job to protect the investors, you will see us as we are part of them, as we accompany them. We are not holding the arms or guns and sending them in the doors behind them. Just we are watching them from a reasonable distance. ♦

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Q&A: Ihsan Ismaael, DG of South Gas Company

Iraq is set to increase gas product exports and reach gas-related agreements with IOCs operating southern oil fields.

What do you expect the processing capacity of Basra Gas Company (BGC) to be over the next year or two?

The opportunity now is to develop the capacity of the NGL [natural gas liquids] to 970 million scf/d by the end of this year, end of 2017. This will be achieved by completing the rehabilitation of the current facility at Khor al-Zubair.

Earlier this year, we completed the maintenance of one train at Khor al-Zubair and we hope that before the end of this year another plant will be rehabilitated.

There is more work to secure gas by completing some projects in gas gathering in north Rumaila, south Rumaila and Zubair fields.

For the year 2018, our target is to reach 1.2 billion scf/d. That will mean we will be able to produce around 6,000 tons of LPG and more than 20,000 bpd of C5-Plus.

Our target will be achieved at the end of 2019: we will achieve 1.4 billion scf/d, which will be achieved by adding an NGL train in Ratawi and we will reach around 9,000 tons of LPG per day. We will secure around 1.1 billion scf/d of dry gas.

By 2020 you will achieve 80 percent and by 2021 you will achieve 100 percent?

By 2021 we will achieve all targets, which is 2 billion scf/d processing raw gas.

What about exports? Last year you began exporting naphtha, C5-plus condensates.

By end of 2017, our target is to reach export of 400 tons of C5-plus and 100 tons of LPG (for the year).

These exports are enabling the BGC to get on the road to be self-sustaining as an independent joint-venture company, where you don't need government support.

We hope that by 2020 the BGC will be a purely independent company. No need for any support from the government. And we

will start to refund the government.

What about the export of LNG, a key component when Shell initially signed the contract and BGC was formed. What about exports of LNG?

All of our production of dry gas will be 90 percent utilized inside Iraq because of power generation and our commitment to supply the gas to the Nibras project and to any new fertilizer project. So I think the local consumption and national industry inside Iraq will be the high priority. ♦

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Ihsan Ismaael, director general of the South Gas Company, in his Basra office on Jan. 29, 2017. (ALI AL-AQILY/Iraq Oil Report)

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